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# ***LAND BANK OF TAIWAN***

## ***Annual Report 2017***

Website : <http://newmaps.twse.com.tw>

The Bank Website : <http://www.landbank.com.tw>

Time of Publication : July 2018

## Spokesman

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Name: He, Ying-Ming  
Title: Executive Vice President  
Tel: (02)2348-3366  
E-Mail: lbev2@landbank.com.tw

## First Substitute Spokesman

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Name: Chu, Yu-Feng  
Title: Executive Vice President  
Tel: (02) 2348-3686  
E-Mail: lbev4@landbank.com.tw

## Second Substitute Spokesman

---

Name: Huang, Cheng-Ching  
Title: Executive Vice President  
Tel: (02) 2348-3555  
E-Mail: lbev3@landbank.com.tw

Address & Tel of the bank's head office and Branches (please refer to "Directory of Head Office and Branches")

## Credit rating agencies

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Name: Moody's Investors Service  
Address: 24/F One Pacific Place 88 Queensway Admiralty, Hong Kong.  
Tel: (852)3758-1330 Fax: (852)3758-1631  
Web Site: <http://www.moodys.com>

Name: Standard & Poor's Corp.  
Address: Unit 6901, level 69, International Commerce Centre 1 Austin Road West Kowloon, Hong Kong  
Tel: (852)2841-1030 Fax: (852)2537-6005  
Web Site: <http://www.standardandpoors.com>

Name: Taiwan Ratings Corporation  
Address: 49F., No.7, Sec.5, Xinyi Rd., Xinyi Dist., Taipei City 11049, Taiwan (R.O.C)  
Tel: (886)2-8722-5800 Fax: (886)2-8722-5879  
Web Site: <http://www.taiwanratings.com>

## Stock transfer agency

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Name: Secretariat land bank of Taiwan Co., Ltd.  
Address: 3F, No.53, Huaining St. Zhongzheng Dist., Taipei City 10046, Taiwan (R.O.C)  
Tel: (886)2-2348-3456 Fax: (886)2-2375-7023  
Web Site: <http://www.landbank.com.tw>

## Certified Public Accountants of financial statements for the past year

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Name of attesting CPAs: Gau, Wey-Chuan, Mei, Ynan-Chen  
Name of Accounting Firm: KPMG  
Address: 68F., No.7, Sec.5, Xinyi Rd., Xinyi Dist., Taipei City 11049, Taiwan (R.O.C)  
Tel: (886)2-8101-6666 Fax: (886)2-8101-6667  
Web Site: <http://www.kpmg.com.tw>

The Bank's Website: <http://www.landbank.com.tw>

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# ***LAND BANK OF TAIWAN***

## ***Annual Report 2017***

# Mobile Finance & Far-reaching





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## Financial Highlights

Unit: NT\$ in millions; %

	2017		2016		2015		(2016/2015)	(2015/2014)
	NT\$	US\$	NT\$	US\$	NT\$	US\$	%	%
Assets	2,883,589	97,156	2,673,046	90,062	2,483,467	83,675	107.88	107.63
Deposits	2,400,010	80,863	2,247,152	75,713	2,098,647	70,709	106.80	107.08
Loans and Discounts	1,879,104	63,312	1,770,689	59,659	1,724,903	58,117	106.12	102.65
Investments	658,471	22,186	552,953	18,630	394,352	13,287	119.08	140.22
Net Worth	144,642	4,873	134,727	4,539	127,143	4,284	107.36	105.96
Interest Income	43,450	1,464	41,841	1,410	43,718	1,473	103.85	95.71
Interest Expenses	18,711	630	17,096	576	19,385	653	109.45	88.19
Net Income	9,634	325	10,417	351	9,982	336	92.48	104.36
ROA	0.35%		0.40%		0.40%			
ROE	6.90%		7.96%		8.19%			
NPL Ratio	0.19%		0.18%		0.19%			
Capital Adequacy Ratio	12.33%		11.58%		11.43%			

Remarks: 1. The adjusted figures in line with International Financial Reporting Standards from year 2015 to year 2016 which were certified by the certified public accountants and accredited by the National Audit Office. The numbers in year 2017 were audited and attested by the certified public accountants.

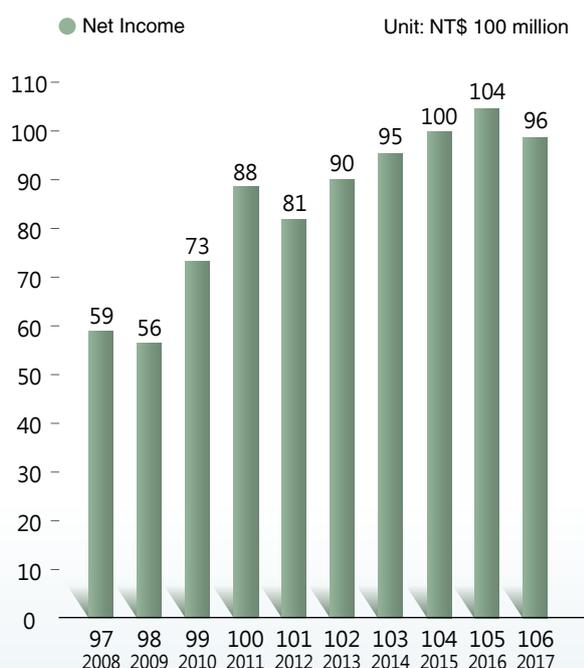
2. ROE = Net income / Average net worth

3. ROA = Net income / Average assets

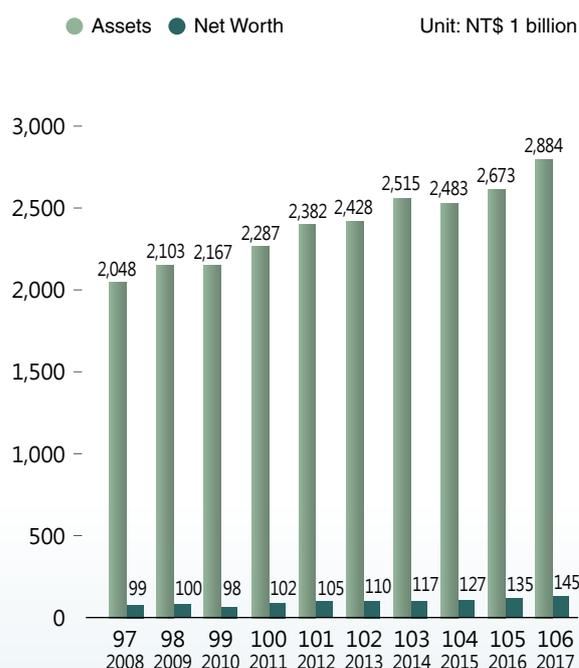
4. US dollar amounts are converted solely for convenience at NT\$29.68 = US\$1.00, the Central Bank's closing exchange rate as of December 31, 2017.

5. The data in this table following International Financial Reporting Standards is the combined figure, audited and attested by the certified public accountants

### Net Income 2008~2017



### Assets and Net Worth 2008~2017



Note: These figures are in accordance with the period from 2008 to 2011 version of the Domestic Financial Accounting Standards. The figures are in accordance with the period from 2012 to 2016 version of the International Financial Reporting Standards. The combined figures for the period of 2017 have been audited and certified by CPAs.

# *Convenient*

accessible financial  
trading and dealing

## 008 **Business Reports**

- 009 2017 Business Results
- 010 Brief Business plan for 2018
- 012 Future development strategies
- 012 Influences on the Environment of  
External Competition, Acts and  
Comprehensive Management
- 013 Credit Rating

土地銀行



帳戶服務



基金服務



申請服務



無卡提款



台灣Pay



台幣轉帳



繳費/稅



查詢服務



其他服務

台灣Pay  
土銀金融卡雲支付

## Business Reports

In the year 2017, the global economy continued the trend of steady improvement with synchronized recoveries from advanced, emerging and developing economies. A report issued by the International Monetary Fund, IMF, indicated that the world economy recovery would be more solid due to accelerating growth from China, Europe and Japan in the second half of the year. Nevertheless, non-economic factors, especially the rising geopolitical tensions, extreme weather incidents and worries for terrorism will add uncertainties to the future prospect and raise concerns.

According to the Directorate General of Budget, Accounting and Statistics, Executive Yuan, the economy momentum in Taiwan was better than expected, thanks to the sustained recovery of the global economy. Not only did the job market improved, the boom of the stock market also stirred financial activities and the overall consumption. Yet the investment growth in the private sector was sluggish and additional capital expenditures from semiconductor manufacturers were limited. Government, on the other hand, took the lead to put up investments and better the investment environment through capital injection to various public projects and to the 5+2 Industrial Innovation Plan. In the meantime, it is expected that the wage increase and the plan to increase pay for public servants will bring growth to the private consumption sector. Based on the estimates from the Directorate General of Budget, Accounting and Statistics, Executive Yuan, economy growth in 2017 was 2.86%, higher than 1.41% in 2016.

Under the management team and the joint efforts from all the staff, the Bank delivered a pre-tax earnings of NT\$ 11,881.53 million, over the NT\$10,000 million mark consecutive seven years in the row, with an earnings per share of NT\$1.90, a NPL ratio of 0.19% and a NPL coverage ratio of 787.12%. This shows that apart from achieving the profitability and other business goals, we are capable of keeping the assets at a high-quality level. Also upholding the concept of “take from society; give back to society,” we continued to sponsor various charity events, including in-kind donations to the socially-vulnerable groups, holding summer badminton and tennis camps for the youths as well as promoting other sports activities. As a result, we received awards, in 2017, for aiding sports activities from the Sports Administration under the promoting and supporting categories, and were granted three golden awards for our long-term supports. To collaborate with the government’s social welfare policies, we have been actively marketing reverse mortgage business for senior citizens and trust business related to the seniors and the disabled. Accordingly, we received the third title on July 17, 2017, from Financial Supervisory Commission (FSC), under the evaluation for the business category, which has demonstrated our dedication to fulfill the corporate social responsibility.

Chairperson

*Joanne Ling*



Below is the business summary for 2017 and business plan for 2018:

## I. 2017 Business Results

### (I) Bank organization and Change

1. As a requirement from FSC to all domestic banks, we have set a “data security section” in our Information Management Department, solely dedicated to effectively ensure information security plan and protection.
2. In accordance with the orders from FSC to detail and layer the job description to fight and detect illegal activities like money laundering and terrorism funding, we, hence, prepared itemized work lists about operations under the following 9 departments: international banking, risk management, consumer banking, treasury, securities, trusts, credit management, electronic banking, and business management departments. In addition, to cope with the business needs, we also amended and renewed a similar layered work list for the following departments: legal affairs and compliance, information management, secretariat, accounting, securities, and regional centers, etc.
3. A new branch, Renwu Branch, was established in 2017 to expand our business through new channel.

### (II) Business plan and operating strategies achievements

Unit: NT\$ in millions and US\$ in millions (Foreign Exchange Business) %

Year	2017	2016	Yearly comparison (%)
Major Operation Category			
Deposits	2,379,559	2,230,576	6.68
Loans	1,860,875	1,781,660	4.45
Foreign Exchange	85,074	81,883	3.90
Scale of Trust Property	377,137	378,430	-0.34
Guaranties	42,249	59,265	-28.71
Securities Brokerage	217,359	147,475	47.39
Before-tax net income	11,882	12,799	-7.16

Explanatory note: Figures above are the business volumes for the year

### (III) Status of Budget execution

Our deposit volume for the year reached NT\$2,379,558.9 million, or 112.78% of our budget. The lending volume was \$1,860,874.7 million, or 98.98% of our budget. The foreign exchange business volume amounted to US\$85,074.3 million, or 121.53% of our budget target. Net profit before tax was NT\$11.88 billion, or 131.79% of our budget.

#### (IV) Analysis of income, expense, and profitability

After audit and attestation by the CPAs, the main categories of increasing and decreasing in income, expense and profitability for the year 2017 as compared to final accounts for the preceding year (2016) restated by the CPAs, are analyzed below:

Unit: NT\$ in millions %

Category	2017	2016	Increase / decrease comparison (%)	
Net interest income	24,739	24,745	-0.02	
Net non-interest income	4,039	5,978	-32.44	
Total net income	28,778	30,723	-6.33	
NPL expense	493	1,624	-69.64	
Operating expenses	16,404	16,300	0.64	
Before-tax net income	11,882	12,799	-7.16	
Net profit for the period	9,634	10,417	-7.52	
Return on Assets	Before-tax	0.43	0.50	-0.07
	After-tax	0.35	0.40	-0.05
Return on Equities	Before-tax	8.51	9.78	-1.27
	After-tax	6.90	7.96	-1.06
Net income ratio	33.48	33.91	-0.43	
Before-tax earnings per share (NT\$)	1.90	2.04	-0.14	

Note 1. IFRS compiled, consolidated figures from CPA reports.

2. A lower level of net non-interest income in 2017 was due to a less realized gain on available-for-sale financial assets.

3. A lower level of before-tax net income in 2017 was due to a lower other net non-interest income for the year.

#### (V) Status in Research and Development

Our research team has been issuing regular and non-periodical researches for topics on economies and financial market, industrial development and trends, special subjects on banking industry, etc. Our work done for business references in 2017 included: 11 independent research and development reports, newsletters on domestic and international economic development and financial markets (weekly and monthly), industry analysis (monthly, quarterly), industry development report (bimonthly), 8 studies on special subjects on economies and financial markets, as well as 12 issuances related to the domestic real estate market.

## II. Brief Business plan for 2018

### (I) Operation Guidelines and Major Operating Policies

1. Continuously to improve the asset quality, enlarge the capital scale, reduce operational risks, explore the organizational productivity levels, and enhance information efficiency to strengthen our business.
2. Follow the financial policies to expand the business scope continuously, develop the multi-core niche businesses, and improve the overall business synergy.
3. Aim to improve profitability by widening the interest rate spreads for higher interest income, expanding associated fee-income businesses, improving investment returns, strengthening performance from self-owned assets and encouraging bank tellers for making active marketing activities.

4. Keep up with the trend in financial digitization by using big data to build innovative thinking in order to provide high-quality related products and services. Moreover, integrate the physical and virtual channels along with giving customer-driven services to engage higher customer interaction and deepen customer relationships.
5. Grasp business opportunities outside Taiwan and construct a financial service network to serve global enterprises for better performance from overseas business.
6. Cultivate professional talents, give priorities on the protection of customers' rights and interests, strengthen corporate governance, and fulfill our corporate social responsibility.

#### (II) Projected Operating Goals

The major operating projects for 2018 are set as follows and shall be based on the business plan approved by the competent authorities, business results from 2017 annual business performance, current operation and projected future development trends.

1. Average deposit: NT\$2,231,000 million
2. Average loan outstanding: NT\$1,840,000 million
3. Foreign exchange undertaken: US\$76,000 million
4. Before-tax net income: NT\$9,018 million

✕The deposit and loan volumes were calculated as accumulated average outstanding amounts, and before-tax net income calculated as cumulative number.



President

*Huang, Chung-Min*

### III. Future development strategies

- (I) Strengthen capital structure and adjust the portfolio of assets and liabilities, improve risk control and liquidity management. Also, risk information disclosure will be made, both qualitatively and quantitatively, to match the international mechanism on risk management.
- (II) Reinforce the cooperation among the headquarters, regional centers and each business unit, and the horizontal communication within the headquarters to optimize the productivities from the organization.
- (III) Keep developing the lending business to corporates, especially in securing the mandate position in syndication projects and securities underwriting business to assist enterprises on fund raising and financial planning. In addition, we will try to serve our SME clients better, and provide various electronic payments products to enlarge our areas of corporate-banking service.
- (IV) Cater the market trend, meet customer needs and provide suitable and diversified financial products. Moreover, through our professional sales force, our full product line, including securities, mutual funds, mortgage, mortgage life insurance, retail loan, credit card, life insurance, property insurance, comprehensive insurance of industry and commerce, etc., will be fully integrated to explore the opportunities brought by digitalization of wealth management services.
- (V) Develop new payment products and services and form horizontal alliances to facilitate a larger customer base for both the domestic and overseas payment transactions to strive a win-win result for us and our partners.

### IV. Influences on the Environment of External Competition, Acts and Comprehensive Management

#### (I) The external competition environment

- Due to sluggish investment activities and limited growth in lending to SMEs, the market is oversupplied with capital. Our loans were mostly made to corporate clientele or big syndication loan projects. Under a saturated market and narrow-spread market because of tight competition among domestic players, the banking industry will actively develop the wealth management business and overseas markets to bring in extra business and profitability
- In 2017, business volume from our wealth management and borrowings from overseas enterprise achieved meaningful growth. In the meantime, the overall lending also increased from not only the existing accounts but also new accounts from startups in culture & creative, green energy and smart healthcare industries, thanks to the special financing incentive program from FSC, which also brought in opportunities to form horizontal alliances for potential business on payment management. Moreover, we believe that with the fast-paced growth in Fintech, revenues from our virtual branches will soon contribute to and become a key growth factor.

#### (II) Acts environment

- Since the case of money laundering from Mega International Commercial Bank (Mega), stricter requirements on legal compliance have been placed for the banking industry's U.S. operation. Currently, not only Mega and we have branches in the United States, government-controlled banks that operate in America include Taiwan Bank, Hua Nan Bank, First Bank, Chang Hwa Bank, Taiwan Cooperative Bank and Taiwan Business Bank. After Mega Bank's NT\$5.7 billion penalty for the case, there was another similar alleged violation from Hua Nan Bank in the United States in 2017 3Q. This has further highlighted the importance of layered controls regarding compliance for U.S. operations. To prevent any possible credit rating downgrade or violation notice received, the FSC has listed money laundering prevention in overseas branches as a key inspection item this year.

- On the back of fast progress on Fintech and new FSC regulations for law compliance and anti-money laundering, the banking industry will accelerate the improvement and upgrade on necessary facilities and system to conform to associated requirements. Moreover, to meet the three new supervision provisions from FSC, which cover the independent rating standards for the operation of corporate governance, internal audit and control, and the law compliance, the banking industry will speed up the compliance procedures and take them as important and long-term working projects.
- Face threats from global hackers, FSC founded “Financial Information Sharing and Analysis Center” in 2017 end to kick off a cooperative mechanism for safeguarding information safety by timely reporting and warning and to change the procedure of hacker prevention from passive to active.
- In response to Fintech trend and cooperate with the government’s aim to boost electronic payment transactions in five years, the government-controlled banks together launched “Taiwan Pay: Common payment QR Code” for settling consumer shopping and payments on taxes and utility bills. In addition the new Taiwan Pay connects to internet banking functions and credit cards; therefore, it will enable promotions to our internet banking accounts to grasp more e-payment business opportunities.

### (III) General business operation environment

Looking ahead, we expect the global economy in 2018 will expand further. Stronger consumer confidence from advanced economies and investment momentum from corporates will bring moderate growth to the economy. For emerging and developing economies, they will be benefited from surging overseas demands, coupled with a rebound in raw material prices and greater infrastructure investments in emerging Asian economies. The Directorate General of Budget, Accounting and Statistics projected Taiwan’s economic momentum would remain sound in 2018 and revised up the economic growth to 2.42% for the year, thanks to global economic growth and stable domestic demands.

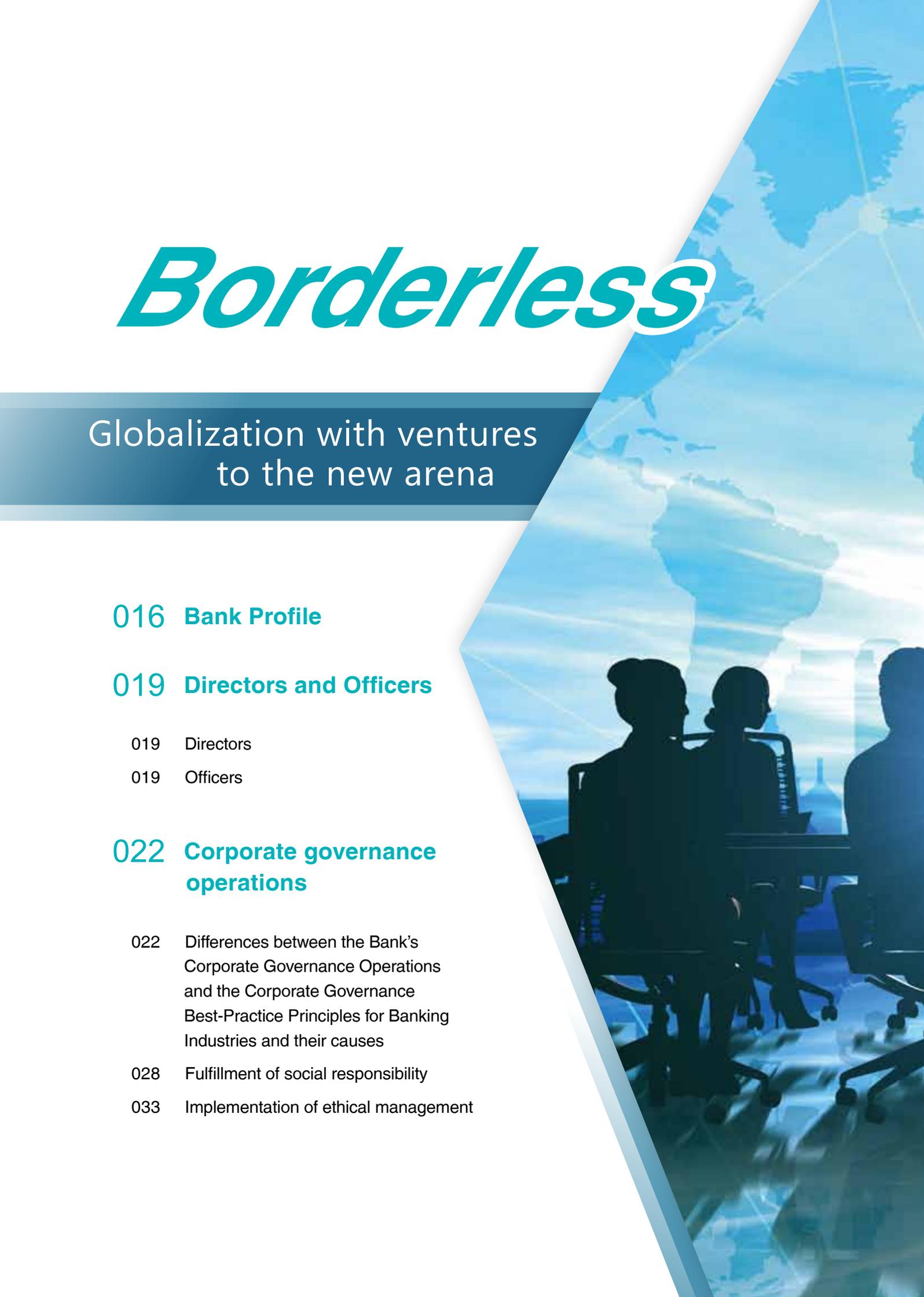
## V. Credit Rating

Rating Agency	Latest rating	Rating Results		Other rating information
		LT	ST	
Taiwan Rating Corporation	2017/06/28	twAA	twA-1+	Rating outlook: Stable
Standard & Poor’s Global Ratings	2017/06/28	A-	A-2	Outlook: Stable
Moody’s Investors Service	2017/12/04	Aa3	P-1	Outlook: Stable

Chairperson *Joanne Ling*

President *Huang, Chung-Min*

# *Borderless*



Globalization with ventures  
to the new arena

## 016 **Bank Profile**

## 019 **Directors and Officers**

019 Directors

019 Officers

## 022 **Corporate governance operations**

022 Differences between the Bank's  
Corporate Governance Operations  
and the Corporate Governance  
Best-Practice Principles for Banking  
Industries and their causes

028 Fulfillment of social responsibility

033 Implementation of ethical management



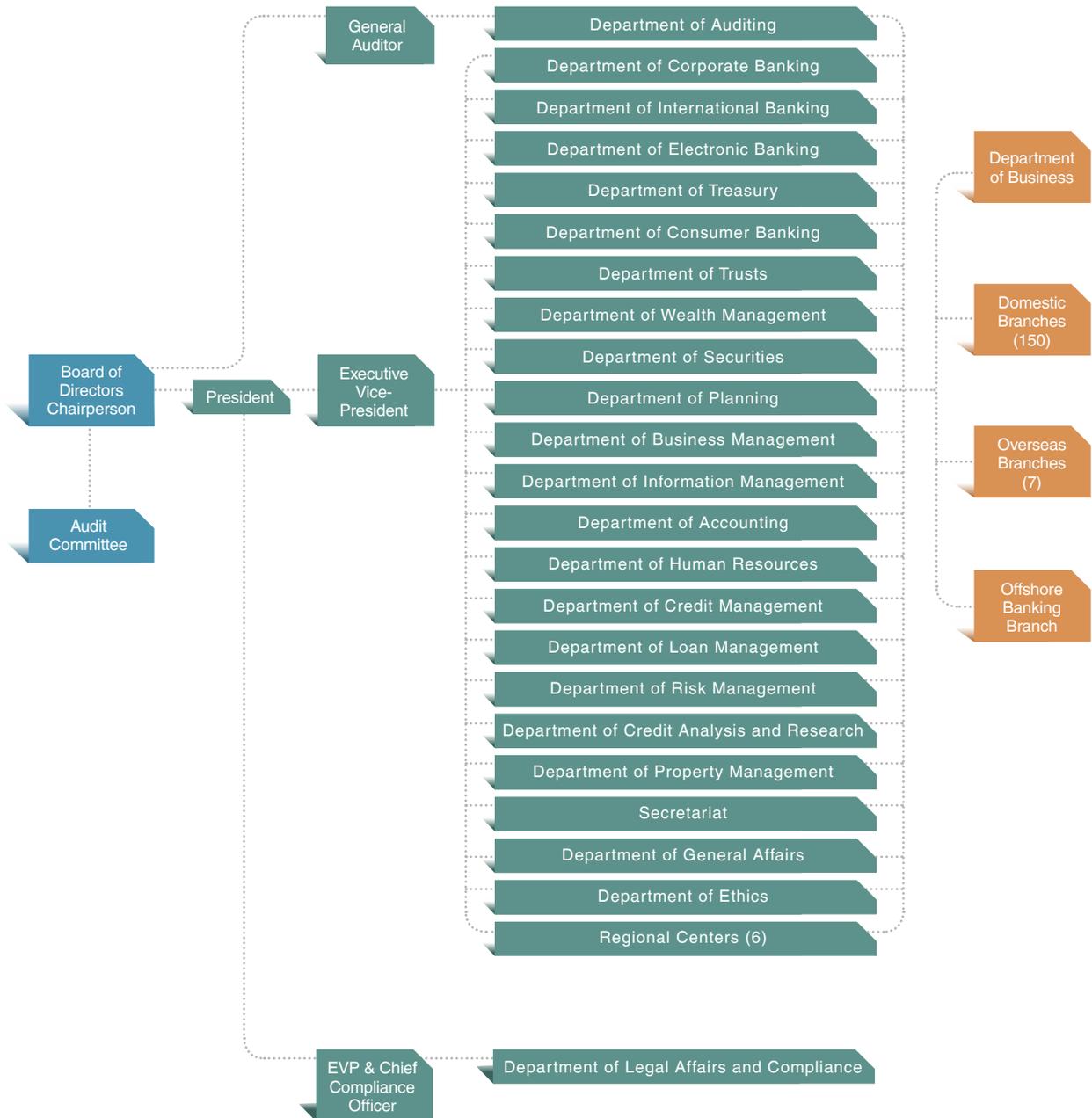
# Bank Profile

## I. History

The history of the Land Bank of Taiwan dates from 1945 when World War II came to an end. To facilitate implementation of land policies such as land-rights equalization and the land-to-the-tiller program in Taiwan, the government appropriated funds from the national treasury as capital to establish the “Land Bank of Taiwan” in accordance with the R.O.C. law on September 1, 1946 based on the five branches of Nippon Kangyo Bank consecutively set up in Taipei, Hsinchu, Taichung, Tainan and Kaohsiung since 1922, making the Bank the only domestic specialized bank that handled real estate. In May 1985, the Land Bank of Taiwan became qualified as a juristic person pursuant to Article 52 of the Banking Act; the Bank was later changed to a state-run organization on December 21, 1998 upon implementation of the Taiwan Province Simplification Statute; it was reorganized as “Land Bank of Taiwan Co., Ltd.” on July 1, 2003, and was further transformed into a public company on May 21, 2004.



II. Land Bank of Taiwan Organization Chart



### III. Employees

Dec. 31. 2017

Year		2017	2016
Number of Employees	Staff	5,204	5,215
	Technicians	467	488
	Total	5,671	5,703
Average Age		44.66	44.74
Average Service Seniority		17.12	17.15
Distribution of Education Levels	Doctor of Philosophy	4	4
	Master	1,188	1,069
	College	3,950	4,066
	High School	430	458
	Below High School	99	106

### IV. Capital Structure

Month & Year	Issue Price	Registered Capital		Paid-in Capital		Remarks	
		No. of Shares	Amount	No. of Shares	Amount	Capital Source	Others
Dec.2017	NT\$10	6.2594 billion	NT\$62.594 billion	6.2594 billion	NT\$62.594 billion	Appropriation from National Treasury and Capitalization over Years	

## Directors and Officers

### I. Directors

March. 31. 2018

Title	Name	Appointment Date	Term Duration	Institution Represented
Chairperson of the Board	Joanne Ling	12/19/2017	12/18/2020	Ministry of Finance
Managing Director	Huang, Chung-Min	12/19/2017	12/18/2020	Ministry of Finance
Managing Director	Chuang, Tsui-Yun	12/19/2017	12/18/2020	Ministry of Finance
Managing Director	Chang, Chin-Oh	12/19/2017	12/18/2020	Ministry of Finance
Managing Director	Lee, Tsung-Pei	12/19/2017	12/18/2020	Ministry of Finance (Independent Director)
Director	Lai, Ching-Chong	12/19/2017	12/18/2020	Ministry of Finance (Independent Director)
Director	Lin, Hsin-Wu	12/19/2017	12/18/2020	Ministry of Finance (Independent Director)
Director	Tsai, Bi-Chen	12/19/2017	12/18/2020	Ministry of Finance
Director	Yang, Song-Ling	12/19/2017	12/18/2020	Ministry of Finance
Director	Wang, Shu-Tuan	12/19/2017	12/18/2020	Ministry of Finance
Director	Chan, Hung-Hsi	12/19/2017	12/18/2020	Ministry of Finance
Director	Jong, Jeng-Fang	12/19/2017	12/18/2020	Ministry of Finance
Director	Hsu, Ming-Chin	12/19/2017	12/18/2020	(Labor Director)
Director	Chen, Jong-Shan	12/19/2017	12/18/2020	(Labor Director)
Director	Sun, Hao-Jan	12/19/2017	12/18/2020	(Labor Director)

### II. Officers

March. 31. 2018

Title	Name	Appointment Date
President	Huang, Chung-Min	04/06/2017
Executive Vice President	Chu, Yu-Feng	01/16/2011
Executive Vice President	Huang, Cheng-Ching	09/19/2011
Executive Vice President	Lee, Jenn-Ming	03/03/2014
Executive Vice President	Hsu, Ming-Cheng	06/30/2014
Executive Vice President	He, Ying-Ming	05/02/2017
General Auditor	Chiu, Tien-Sheng	05/02/2017
EVP & Chief Compliance Officer	Liang, Mei-Yuh	01/18/2017

# Directors



Manager Director	President	Chairperson of the Board	Manager Director	Manager Director
Lee, Tsung-Pei	Huang, Chung-Min	Joanne Ling	Chuang, Tsui-Yun	Chang, Chin-Oh

## Management Team



EVP&Chief  
Compliance  
Officer

Liang,  
Mei-Yuh

General  
Auditor

Chiu,  
Tien-Sheng

Executive Vice  
President

Lee,  
Jenn-Ming

Executive Vice  
President

Chu,  
Yu-Feng

Chairperson of  
the Board

Joanne  
Ling

President

Huang,  
Chung-Min

Executive Vice  
President

Huang,  
Cheng-Ching

Executive Vice  
President

Hsu,  
Ming-Cheng

Executive Vice  
President

He,  
Ying-Ming

# Corporate governance operations

## I. Differences between the Bank's Corporate Governance Operations and the Corporate Governance Best-Practice Principles for Banking Industries and their causes

Item	Operating situation		Differences with the Corporate Governance Best-Practice Principles for Banking industries and their causes	
	Yes	No		Summary description
I. Bank shareholding structure and shareholders' equity				
(I) Has the bank formulated the internal operating procedures to deal with shareholders' suggestions, questions, disputes and litigation matters; also, followed the procedures?	V		Stock affairs related matters are handled by the designated person with a smooth communication channels available.	No difference.
(II) Does the bank have control over the major shareholders who actually control the bank and the ultimate controllers of the major shareholders?	V		The Ministry of Finance is the sole shareholder of the Bank; also, the Bank has designated personnel to handle stock affairs. The list of major shareholders and their ultimate controllers are within the grasp of the Bank.	No difference.
(III) Have the risk management mechanisms and firewall mechanism between the Bank and the affiliates established and implemented by the bank?	V		In order to strengthen the control over subsidiaries, the Bank has the "Regulations Governing Subsidiaries" and "Regulations Governing Directors and Supervisors of Invested Companies and Subsidiaries" of Land Bank of Taiwan to implement the supervision and management mechanisms.	No difference.
II. Composition and responsibilities of the board of directors				
(I) In addition to setting up a Remuneration Committee and an Audit Committee according to law, does the bank voluntarily set up other functional committees?	V		Apart from setting up an Audit Committee on December 19, 2014, the board of directors of the Bank currently has no other functional committee setup.	No difference.
(II) Does the bank regularly evaluate the independence of the certification accountants?	V		The procedures for the appointment of the Bank's certification accountant are handled in accordance with the provisions of the Government Procurement Act. The accountants are requested to assess according to "The Norm of Professional Ethics for Certified Public Accountant of the Republic of China No.10" with a declaration of independence issued. The appointment should be submitted to the Audit Committee and the board of directors for discussion in advance and reported to the National Audit Office R.O.C. (Taiwan) for approval. In addition, the Bank and the accounting firm have concluded the contract termination and cancellation clauses for annual review.	No difference.
III. If the bank is a listed company, does the company have a full-time (part-time) unit or staff appointed to be responsible for corporate governance related matters (including but not limited to the information needed by the directors and supervisor for job performance, arranging the related matters of the board meeting and the shareholders meeting according to law, handling company registration and change registration, preparing the minutes of board meeting and shareholders meeting, etc.)?		V	The Bank is not a listed company.	No difference.
IV. Does the bank have established a communication channel with the interested parties (including but not limited to shareholders, employees, customers, etc.)?	V		The Bank has a toll-free customer grievance hotline and has a Director mailbox, customer grievance and a customer's opinion mailbox on the communication section of the website. Designated personnel are to handle the suggestions or disputes of customers and interested parties.	No difference.

Item	Operating situation			Differences with the Corporate Governance Best-Practice Principles for Banking industries and their causes
	Yes	No	Summary description	
<b>V. Information disclosure</b>				
(I) Does the bank have a website setup to disclose the financial business and corporate governance information about the Bank?	V		The Bank has set up a global information network and disclosed major financial business and corporate governance information in accordance with the regulations of the competent authority.	No difference.
(II) Does the bank adopt other forms of information disclosure (such as, setting up an English website, assigning specific individuals to take charge of the collection and disclosure of banking information, implementing a spokesperson system, and placing the investor conference on the bank website)?	V		The Bank has set up an English website and designated specific individuals to regularly collect important financial business information to be disclosed on the website. In order to implement the spokesman system, the Bank has the "Guidelines for Press Release and Contact" enacted. One Vice President is designated by the President as the spokesperson for the press and another Vice President is designated as the acting spokesperson to announce the major policies and business measures of the Bank to the public. In addition, the Public Relations Section of the Secretariat is responsible for the collection of information and news release operations. The Ministry of Finance is the legal representative of the Company, but the shares are not listed for trade.	No difference.
<b>VI. Does the bank have other important information (including but not limited to employee interests and rights, employee care, investor relations, stakeholder interests and rights, advanced study of directors and supervisors, implementation of risk management policies and risk measurement standards, implementation of customer policies, liability insurance acquired by the Bank for directors and supervisors, donations to political parties, interested parties, and charity groups, etc.) that help understand the implementation of corporate governance?</b>	V		<p><b>I. Employee equity, employee care:</b></p> <p>1. Employee benefits measures:</p> <p>(1) Welfare services handled by the company: loans with preferential interest rate, sports and entertainment activities, domestic vacation subsidies and advanced study.</p> <p>(2) Welfare services handled by the Employee Welfare Committee: group insurance, three-festival benefits, educational subsidies for employees' children and hospitalization and medical subsidies for serious illnesses.</p> <p>2. Retirement System: Employees' retirement, severance pay and pension are all subject to the relevant regulations of the "Rules Governing Retirement Pension and Severance Pay of the State-Owned Financial Insurance Enterprises of the Ministry of Finance" and the "Labor Standards Act." The list of the qualified retirees will be prepared in accordance with regulations and the retirement system will be implemented substantially.</p> <p>3. Labor-management agreement:</p> <p>(1) In addition to actively negotiating and communicating with the employees and staff for the pleas of theirs, resolve doubts and gain consensus through communication in the meeting.</p> <p>(2) The labor-management meeting is held according to Article 83 of the Labor Standards Act and the provisions of the "Regulations for Implementing Labor-Management Meeting" to promote a harmonious relationship between labor and the management and to integrate the centripetal force of employees.</p> <p>4. Employee equity maintenance measures:</p> <p>(1) In order to clearly regulate the rights and obligations of the employers and employees, the work rules of Land Bank of Taiwan are established in accordance with Article 70 of the Labor Standards Act for the compliance of the employers and employees.</p> <p>(2) The "Collective Agreement Between Land Bank of Taiwan and Land Bank of Taiwan Union" is reached between the employer and the employee, reviewed and approved for implementation by the Ministry of Finance, and filed for reference with the Ministry of Labor and Department of Labor, Taipei City Government. It helps stabilize labor relations and achieve the goals of protecting the labor equity and promoting a harmonious relationship between employees and employer through full communication, coordination and cooperation and by upholding the principle of integrity and mutual trust.</p>	No difference.

Item	Operating situation		Differences with the Corporate Governance Best-Practice Principles for Banking industries and their causes
	Yes	No	
			<p>(3) Employee Care: We reiterate every year that all units should take the initiative to care for and assign special personnel to actively counsel new staff and new transfer colleagues, to help them familiarize with the working environment and living conditions; also, to help them adjust in a timely manner so that they can make full use of their strengths and stabilize their career development in the Bank.</p> <p>II. Investor Relations, Stakeholder's equity</p> <ol style="list-style-type: none"> <li>1. Disclose the main education, experience, and job positions held with other companies of the directors in the annual report for the reference of interested parties.</li> <li>2. Implement the "Civil Servant Codes of Ethical Conduct" registration procedures and construct the "Codes of Ethical Conduct Incident Registration System" on the internal website with good implementation realized.</li> </ol> <p>III. The advanced study of directors and supervisors:</p> <ol style="list-style-type: none"> <li>1. The Bank held the Advanced Seminar for Directors and Supervisors (including independent supervisors) on 6.30.2017 and 11.20.2017 –"Global Trend Analysis - Risks and Opportunities" and "A Brief Discussion on the Newly Revised Criminal Law Confiscation Chapter (mainly for confiscation of financial gains) and money laundering prevention methods" for a six-hour keynote speech.</li> <li>2. Managing Director, Lee, Tsung-Pei, Director, Lee, Jih-Shyuan and Director, Tsai, Bi-Chen participated in the 3-hour keynote speech "Corporate Governance System and Obligations of Directors and Supervisors" arranged by the Ministry of Finance on 7.27.2017. Labor Director, Sun, Hao-Jan and Labor Director, Hsu, Ming-Chin attended the 9-hour course "2017 Labor Director Professional Awareness Training Program" arranged by the Ministry of Labor on 7.31.2017~8.1.2017.</li> <li>3. Continue to arrange administrative neutrality and corporate governance related courses.</li> </ol> <p>IV. Implementation of risk management policy and risk measurement standard:</p> <p>The "Risk Management Committee" of the Bank held a total of 7 meetings in 2017 to review the Bank's risk monitoring reports and risk control related proposals. The Risk Management Department continued to manage the measurement, monitoring, and report of the Bank's credit risk, market risk, operation risk, and other risks. In addition, stipulated and amended various risk management regulations.</p> <ol style="list-style-type: none"> <li>1. The enacted "Regulations Governing Interest Rate Risk of Land Bank of Taiwan" was issued according to the Letter dated 1.9.2017.</li> <li>2. The amended "Key Points for Establishment of Risk Management Committee" and "Risk Management Policies and Procedures" of the Land Bank of Taiwan was issued according to the Letter dated 3.2.2017.</li> <li>3. The "Table of Key Risk Indicators for Operational Risks of the Land Bank of Taiwan" was issued according to the Letter dated 6.12.2017 with 8 current indicators amended and 2 new indicators added.</li> <li>4. The amended "Land Bank of Taiwan Market Risk Limit Table" and the amended "Guidelines for Implementation of Risk Value Limit Control" were issued according to the Letter dated 7.18.2017.</li> <li>5. The amended "Land Bank of Taiwan Risk Management Policies and Procedures" was issued according to the Letter dated 9.22.2017.</li> </ol>

Item	Operating situation		Differences with the Corporate Governance Best-Practice Principles for Banking industries and their causes
	Yes	No	
			<p>6. The amended "Regulations Governing Liquidity Risk" and "Regulations Governing Interest Rate Risk" of Land Bank of Taiwan were issued according to the Letter dated 12.6.2017.</p> <p>7. The amended "Regulations Governing Market Risk of Land Bank of Taiwan" was issued according to the Letter dated 12.8.2017.</p> <p>8. The amended "Regulations Governing Operational Risk" and "Regulations Governing Credit Risk" of Land Bank of Taiwan were issued according to the Letter dated 12.11.2017.</p> <p>9. The amended "Guidelines for Derivatives Risk Management of Land Bank of Taiwan" was issued according to the Letter dated 12.15.2017.</p> <p>10. The "Regulations Governing Interest Rate Risk Management Indicator Limits Table of Land Bank of Taiwan" and the amended "Liquidity Risk Management Indicator Table" were issued according to the Letter dated 12.19.2017.</p> <p>11. The amended "Guidelines for Checking Reasonableness of Financial Instrument Transaction Price of Land Bank of Taiwan Precaution" and the amended attachment "Reasonable Transaction Prices of Financial Instruments Checklist" were issued according to the Letter dated 12.29.2017.</p> <p>V. Implementation of customer policy:</p> <p>1. Various business services of the Bank are posted on the Bank's corporate portal (<a href="http://www.landbank.com.tw">www.landbank.com.tw</a>) for public viewing at any time.</p> <p>2. Various consulting channels are provided. In addition to providing loan information on the Bank's portal website for public's enquiries, the Customer Service Center also provides real-time 24-hour inquiries and online calls (Web Call) and online text customer service for mortgages, ATM cards, credit cards, and other services.</p> <p>3. The "Toll-free number (0800-231590)" is set up to handle customer complaints immediately and to analyze the reasons for reviewing the complaints and improvement.</p> <p>4. The Bank's list of fees and charges is published at the business premises and the Bank's external website to safeguard consumer's equity.</p> <p>5. Establish the "fraud prevention alert" at the Bank's portal website / loan business section: "All loans must be applied to the bank in person. The request for "remittance in advance" or "collecting service fees or remuneration," if any, is an act of an agency; therefore, please stay alert. The Bank does not have loan process service outsourced to agencies. Please contact the Bank's business office near you for any loan application. Please stay alert and don't be deceived by an agency. Land Bank of Taiwan cares about you !</p> <p>6. In order to provide visually impaired customers to have a loan application filed conveniently and to have their equity protected, they may decide to adopt the "Notarization Processed According to the Notarization Law" or to designate "spouse or blood relatives or general relatives and friends or social welfare agencies" as a witness for the related process.</p> <p>7. In order to protect consumer's equity and to comply with the provisions of Article 47.1 of the Banking Act, the credit card revolving credit rate must not exceed 15%; also, it is clearly set out in the "International Credit Card Terms and Conditions." The business units shall actually provide it to the credit card applicants for review.</p> <p>8. In order to comply with the provisions of the "Personal Information Protection Act," all personal data provided, no matter by the parties or not, for the process of personal credit and credit card business are subject to notification obligations before they are processed or utilized.</p>

Item	Operating situation		Differences with the Corporate Governance Best-Practice Principles for Banking industries and their causes
	Yes	No	
			<p>9. In order to protect consumer's equity, the relevant documents concerning the individual credit granting business of the Bank are subject to the provisions of Paragraph 3, Article 13 of the "Consumer Protection Act." The Standardized Contract is signed or sealed by the consumer with the original Contract given to the consumer.</p> <p>10. In order to implement personal information protection, the Bank has established personal information protection policies, regulations governing personal information protection, guidelines for personal information protection operations, and guidelines for personal rights implementation in accordance with the provisions of the Personal Information Protection Act, Enforcement Rules of the Personal Information Protection Act, and the Measures for Safeguarding Personal Information Files of Non-Public Organizations designated by the Financial Supervisory Commission. In order to ensure the effective implementation of the personal information protection system, the Bank regularly applies personal information protection awareness and education and training to its personnel to make them aware of the requirements of the relevant laws and regulations, the scope of the responsibilities of the individuals involved, and the mechanisms for various personal information protection issues, procedures, and measures in order to have the personal information protection operation kept in the hearts of the Bank's staff.</p> <p>11. Amended and published Paragraph 2, Article 28 of "The competent authority may request the banking industry to contract certified public accountants to audit the personal information protection, anti-money laundering, and countering terrorism financing mechanisms according to the requirements of the competent authority" on 3.22.2017 in accordance with the "Implementation rules of Internal Audit and Internal Control System of Banking Industries;" also, contracted certified public accountants to audit the personal information protection mechanisms related matters in accordance with the Kim.Kuk.Yin.GuoZi No.10620000155 Letter dated 3.22.2017 of the Financial Supervisory Commission.</p> <p>12. In order to strengthen the ability of responding to unauthorized personal information disclosure, it is necessary to supervise the relevant units to conduct the e-commerce service system rehearsal, to formulate a complete rehearsal record, and implement the personal information protection system.</p> <p>13. In order to ensure the safety of customer personal information, the standard operating procedures for the Bank's handling customer's inquiring personal data not in person was discussed in the meeting on 1.12.2017; a letter was issued on 5.2.2017 to reaffirm that all units should actually handle all the archives safety and protection operation in accordance with relevant regulations of the Bank to prevent leakage of customer personal information; a letter was issued to all units of the Bank on 7.7.2017 to examine whether or not there were similar non-conformities for reviews and improvements in accordance with the Bank's "Personal Information Protection Operation Internal and External Units Nonconformities List" and "Personal Information Protection Operations Checklist;" also, to strengthen the promotion and implementation of personal information protection.</p>

Item	Operating situation		Differences with the Corporate Governance Best-Practice Principles for Banking industries and their causes
	Yes	No	
		<p>14. In order to prevent the Bank's employees from violating personal information protection related regulations, the list of cases involving penalties for violations of personal information protection issued by the competent authority recently was issued on 9.28.2017. All units are asked to check whether or not there are similar non-conformities for reviews and improvements; also, to strengthen the promotion and implementation of the related operation mechanisms.</p> <p>15. In order to protect customer personal information, a letter was issued on 7.26.2017 to reiterate that all units in the bank while accepting customer applications, such as, inquiries, readings, making photocopies and exercising other rights, should have customer identity confirmed properly.</p> <p>VI. Liability insurance acquired by the bank for directors and supervisors: There is currently no liability insurance contract signed. The Bank is still a 100% state-owned bank; stock shares are not listed for trade, and there are no other shareholders to bear the risks. Moreover, the cost of liability insurance is expensive; therefore, based on the consideration of actual benefits and with reference to the operation of Bank of Taiwan (also without liability insurance acquired), liability insurance will not be acquired for the time being. However, if the competent authority stipulates that it is required to acquire liability insurance in the future, the bank will consider the practice of other banks to plan for the acquisition of a liability insurance.</p> <p>VII. Donations to political parties, interested parties and charity groups: No donation is made to political parties and interested parties. In order to fulfill corporate social responsibilities, the company has based on the concept of feedback to the society sparing no effort in making donation to charity groups. Please refer to the "fulfilling corporate social responsibility" column in paragraph (6) of page 28.</p>	
VII. Based on the corporate governance evaluation results published by the Corporate Governance Center of Taiwan Stock Exchange to explain the improvement and measures.		The Bank was not included for evaluation.	No difference.

## II. Fulfillment of social responsibility

Item	Yes	No	Operating situation
<b>I. Implementation of corporate governance</b>			
(I) Has the bank had a corporate social responsibility policy or system established with the effectiveness of performance reviewed?		V	The Bank is a state-owned enterprise and the Ministry of Finance is the sole shareholder. The Bank has been in line with the government policies over the years to deal with various project loans, promoted national economic development, adopted the "feedback to the society" concept and cared for the community, environmental protection, and disadvantaged groups. Corporate social responsibility policies or systems are not enacted separately.
(II) Has the bank regularly conducted social responsibility education and training?		V	The Bank is a state-owned enterprise with the promotional courses of "Civil Service Codes of Ethical Conduct," "Administrative Impartiality Theory and Practice" "Bank Teller's Legal Responsibility (including Public Service Law)," and "Compliance Seminars" arranged to help establish the concept of civil affairs awareness, knowledge of law, and law enforcement.
(III) Has the bank had a corporate social responsibility (full-time) part-time unit setup with the management authorized by the board of directors to handle the task and report it to the board of directors?		V	The Bank is a state-owned enterprise without a corporate social responsibility (full-time) part-time unit setup.
(IV) Has the bank had a reasonable salary compensation policy setup and had the employee performance evaluation system and corporate social responsibility policies integrated; also, had established a clear and effective reward and punishment system?		V	<p>The Bank is a 100% state-owned bank. The benefits package of employees is handled according to the "Regulations Governing Personnel Salaries Payment of the Ministry of Finance" issued by the Ministry of Finance. For the purpose of implementing the issuance of the operating performance bonus system and the combination of the unit operating performance and employee contribution are handled as follows:</p> <ol style="list-style-type: none"> <li>1. It is clearly stated in the "Guidelines for Business Performance Bonus of the Bank" that the two-month performance bonus include annual review bonus and work bonus for an amount equivalent to maximum one-month salary. The work bonus is based on the employee's active business performance, the promotion of the annual business policy and goal, the rewards or punishments and attendance for an amount equivalent to one-month salary awarded to motivate the employees.</li> <li>2. The operational performance of the unit, the annual evaluation results of individual employee, and evaluation and bonus correlation are linked according to "The Bank's Performance Bonus-Special Bonus Regulations." Appropriate an amount equivalent to 20% of the performance bonus approved by the Ministry of Finance as a special bonus (including 17% unit bonus and 3% incentive bonus) for the distribution of bonus proportionally to the performance result of each unit and the degree of contribution made by each individual employee to the Bank.</li> </ol>
<b>II. Development of sustainable environment</b>			
(I) Is the bank committed to improving the utilization efficiency of various resources and using recycled materials that have a low impact on the environment?		V	<ol style="list-style-type: none"> <li>1. Adopt double-sided printing to save paper waste and purchase recycled paper for use.</li> <li>2. Implement garbage reduction, garbage sorting, and resource recycling.</li> <li>3. Strengthen the promotion of green procurement and purchase environmental protection products with energy-saving mark, water-saving mark, and green building mark.</li> <li>4. Regarding the suspected abnormal transactions of the merchants, the business unit reporting operations should be changed to the online risk management system to replace the original paper reporting operation.</li> <li>5. In line with the Ministry of Finance's electronic operation, the service charge invoice of the merchants should be changed to electronic invoices. In response to the government's promotion of electronic invoice policies, the bank's credit card has been used as an electronic invoice starting from January 24, 2017.</li> </ol>
(II) Has the bank established an appropriate environmental management system based on its industrial characteristics?		V	<ol style="list-style-type: none"> <li>1. The bank has arranged environmental protection videos for 4 hours annually since the year of 2011 to promote environmental education and training and to increase employee's awareness of environmental ecology and protection.</li> <li>2. In line with the Environmental Protection Administration, Executive Yuan to implement the national environmental cleansing week, the public sector is to inspire the private sector to value the importance of improving the living environment and to fulfill social responsibility.</li> </ol>

Item	Yes	No	Operating situation
(III) Does the bank pay attention to the impact of climate change on operational activities and carry out greenhouse gas investigations, formulate bank energy-saving, carbon reduction and greenhouse gas reduction strategies?	V		<ol style="list-style-type: none"> <li>1. Support the energy-saving action plan of the government agencies and schools to have old air conditioners changed to variable-frequency drive air conditioners with top priority and replace fluorescent lighting with LED lighting according to the schedule.</li> <li>2. The official bus deployment should be shared as much as possible and employees should be encouraged to take the public transportation system for a business trip.</li> <li>3. In response to the energy conservation and carbon reduction policy, it is mandatory to save utilities, fuel, and paper consumption by 1% (no increase) annually from the previous year; also, replace 10% electricity-consuming equipment with energy-saving equipment every year starting from the year of 2011.</li> </ol>
III. Maintenance of social welfare			
(I) Does the bank enact relevant management policies and procedures in accordance with relevant laws and regulations and international human rights treaties?	V		<ol style="list-style-type: none"> <li>1. The Bank sets the Work Rules according to the business nature of the Bank and the provisions of Article 70 of the Labor Standards Act for the compliance of both the employer and the employees.</li> <li>2. The labor-management meeting is held according to Article 83 of the Labor Standards Act and the provisions of the "Regulations for Implementing Labor-Management Meeting" to promote the harmonious relationship between labor and the management and to integrate the centripetal force of employees.</li> </ol>
(II) Does the bank establish employee grievance mechanisms and channels with proper processes handled?	V		<ol style="list-style-type: none"> <li>1. The Bank's customer complaints and handling of financial consumer disputes are reported quarterly to the board of directors or the standing board of directors. The implementation of the Bank's financial consumer protection operations is reported semi-annually to enhance the Board's supervision over consumer protection.</li> <li>2. The Bank has employee grievance section on the company's internal website-to the Chairman and President section, and an employee communication section-staff discussion section and union section as a conduit for employees to propose their suggestions and voice their opinions.</li> </ol>
(III) Does the bank provide employees with a safe and healthy work environment and conduct regular safety and health education programs for employees?	V		<ol style="list-style-type: none"> <li>1. In order to effectively prevent occupational disasters and protect the safety and health of employees, the "Occupational Safety and Health Work Rules" is stipulated in accordance with Article 34 of the Occupational Safety and Health Act for the compliance of employees taking as a whole in order to work together to prevent accidents from occurring.</li> <li>2. In order to implement occupational safety and health management, the occupational safety and health "Management Guidelines" and "Management Plans" are formulated in accordance with Article 12-1 of the Regulations Governing Occupational Safety and Health to increase the awareness of safety and health among all employees.</li> <li>3. Arrange three-hour employee safety and health education training every three years to ensure the safety and health of colleagues.</li> </ol>
(IV) Does the bank establish a regular employee communication mechanism and notify employees in a reasonable manner of operational changes that may have a significant impact on them?	V		<ol style="list-style-type: none"> <li>1. The labor-management meeting is held according to Article 83 of the Labor Standards Act and the provisions of the "Regulations for Implementing Labor-Management Meeting" to promote the harmonious relationship between labor and the management and to integrate the centripetal force of employees.</li> <li>2. The employees' demands are actively communicated through labor-management conferences to resolve doubts and gain consensus.</li> </ol>
(V) Does the bank establish effective training programs for employees to develop a career plan?	V		<p>In response to the advent of the digital finance era, we plan to gradually replace physical counter services mainly with virtual channel online banking and mobile banking services. The physical business bases will be transformed to provide consulting services and business marketing; also, provide employees with necessary job transfer (transformation) training and second financial expertise training.</p> <ol style="list-style-type: none"> <li>1. Perform staff functional analysis and manpower inventory; plan manpower needs and establish a talent database based on the manpower gap after the manpower inventory.</li> <li>2. Train high-level management, middle-level supervisors, digital-operation talents, financial talents, and general personnel according to each employee's functional applicability and professional knowledge.</li> </ol>

Item	Yes	No	Operating situation
<p>(VI) Does the bank formulate relevant consumer's equity protection policies and grievance procedures for R&amp;D, procurement, operations and service processes?</p> <p>(VII) Does the bank comply with relevant regulations and international standards as for the marketing and labeling of products and services?</p> <p>(VIII) Does the bank before dealing with the suppliers have them assessed whether or not they have committed a record of environmental and social impacts?</p> <p>(IX) Does the contract between the bank and its major suppliers contain a clause allowing the contract to be terminated or cancelled at any time when the supplier violates its corporate social responsibility policy with a significant impact on the environment and society?</p>	V		<p>3. Confirm the workload and workload increase of each unit according to the project objectives; understand thoroughly the functional applicability of colleague's handling digital finance business, financial marketing and virtual and physical integrated services for a timely assessment in order to adjust the job positions and manpower.</p> <p>4. Strengthen the professional skills of employees and the training of the second financial expertise so that the streamlined human resources can adapt to the changes and talent management can be activated. Guide colleagues to actively engage in customer services of wealth management, financial marketing, financial operations, and integrated virtual and physical operation.</p> <p>5. Assess the manpower gap due to the factors, such as, the number of employees retired each year and the professionals required for the digital financial business; also, initiate external recruitment openly.</p> <p>1. To comply with Articles 4 and Article 30-1 of the "Financial Consumer Protection Act" as amended and implemented by the Financial Supervisory Commission on February 10, 2017, Article 2 of the "Financial Consumer Protection Policy" of the Bank concerning the definition of financial consumers was amended and the amendment was resolved in the Board meeting on March 24, 2017.</p> <p>2. The Bank has set up three channels for communication with the public on the company's portal website, including Director-General's Mailbox, Customer Grievance, and Customer Mailbox; it also responds to customers' needs and suggestions before deadline in accordance with the job responsibility of the responsible division.</p> <p>It is to be handled in compliance with relevant regulations of the competent authorities and international standards.</p> <p>The Bank is a state-owned enterprise and will continue to cooperate with the government to promote the openness and transparency of procurement, to take advantage of the government procurement law to promote the profit-seeking and anti-fraud function, to enhance procurement efficiency and to establish an open and transparent procurement environment.</p> <p>Same as above.</p>
<p>IV. Enhancement of information disclosure Has the bank disclosed relevant and reliable corporate social responsibility information on its website and Market Observation Post System?</p>	V		<p>The Bank's relevant CSR-related information is disclosed on the Bank's corporate portal "Corporate Governance" section.</p>
<p>V. If a bank has its own corporate social responsibility best-practice principles setup in accordance with the "Corporate Social Responsibility Best Practice Principles for TWSE / GTSM-Listed Companies," please state the difference between its operation and the setup principles. None.</p>			
<p>VI. Other important information helpful in understanding the operational status of corporate social responsibility: ✕Planning and promotion of charity marketing activities:</p>			<p>1. "New Year Dance and Calligraphy" activity: It was held by the bank on January 19, 2017 to combine public welfare and promote social culture and arts. The Wealth Management Department invited "Keelung Changxing Master Lu Lion Dance Group" to perform the opening act. Calligraphy masters wrote on site and gave their master pieces to the audiences and the Bank's customers free of charge in order to pass on cultural customs, promote cultural and artistic social atmosphere, cleanse the heart of people and fulfill social responsibilities.</p> <p>2. "Land Bank of Taiwan stands by you" charity activities: The Bank upholds the hearts of caring for farmers and disadvantaged groups with the "Land Bank of Taiwan stands by you" charity activity held to purchase local cabbage, Chinese cabbage, Penglai rice, white radish and oranges for a total of 6,985 kilograms of vegetables and fruits to be distributed to 13 social welfare groups before the Chinese New Year, such as the Huashan Social Welfare Foundation, Zenan Homeless Social Welfare Foundation and Genesis Social Welfare Foundation. In addition, a donation ceremony was held on January 25, 2017. The representative of the social welfare groups gave a sentimental speech and made people deeply appreciate the great love of the social welfare group and the selfless dedication of Land Bank of Taiwan.</p>

Item	Yes	No	Operating situation
3.			In response to the 2017 donation activities of the United Way of Taiwan: The colleagues of the Bank have enthusiastically participated in the activities since the year of 1994. The donation has been collected in a free and willing manner. The long-lasting mercy of the Land Bank of Taiwan fellows has been carried on through the colleagues' participation in charity activities and the integrated centripetal force of employees.
4.			Taiwan Heroes Triumph, Land Bank of Taiwan Celebrates Mid-Autumn Festival" recognitions and charity activities: The Bank has supported sports activities since 1976 with funds budgeted annually to cultivate outstanding badminton and tennis players. The Bank has nurtured players including Qilin Wang, Jiaxin Lee, Renhao Hsu and Kaizhen Zhang for a long time who had won three gold medals and one bronze medal for the category of badminton and tennis in Taipei 2017 Universiad. With the upcoming Mid-Autumn Festival, the Bank organized the "Taiwan Heroes Triumph, Land Bank of Taiwan Celebrates Mid-Autumn Festival" Recognition and Charity Activities on September 28, 2017 to award prize money to the outstanding badminton and tennis players; also, ordered the moon cake gift boxes produced by the Factory for the Blind in New Taipei City and ordered fruits of the season to give to the four Taiwan Fund for Children and Families that had participated in the badminton and tennis camps of the Bank for a long time in order to help social welfare groups and children of disadvantaged families enjoy a happy and warm Mid-Autumn Festival.
5.			The "Sweet Banana and Caring Land Bank of Taiwan" charity activities: The excessive harvest of bananas in October 2017 caused the price to decline. The government had promoted the sale of bananas forcefully for the livelihoods of farmers. In response to government policies and for supporting farmers, the Bank had the "Sweet Banana and Caring Land Bank of Taiwan" charity activities arranged to convey the Bank's love through social welfare agencies and charity groups with 1,500 cases of bananas for a total of 22.5 tons purchased from the R.O.C. Federation of Fruits and Vegetables Cooperatives. The President of the Bank led the colleagues of the head office to visit Bethany Children's Home in Taipei City to conduct the first wave of donation activities with a warm and moving scene witnessed in the morning of October 30, 2017. Subsequently, the Bank's 148 business units throughout Taiwan had made donations to social welfare institutions and charity groups nationwide to share the love of the Bank and to let more social welfare institutions feel the care and love of the Bank through the Bank's action in order to fulfill the corporate social responsibility of the Bank.
6.			In response to the "2017 Financial Services Caring Carnival:" To promote financial knowledge, Taiwan Financial Services Roundtable, Taichung City Government, and Kaohsiung City Government respectively handled the "2017 Financial Services Caring Carnival" Taichung Fun Fair and Kaohsiung Fun Fair. The Bank actively participated in the project, set up a booth to disseminate financial knowledge, designed activities to interact with the public and shown the Bank's concern for promoting financial education and caring for the disadvantaged groups.
7.			Junior Badminton and Tennis Summer Camp" sports charity activities: The Bank has long promoted youth sports and annually handled summer youth badminton and tennis camps with charity groups and social welfare groups. The Bank's professional players serve as coaches with good review and warm response received from the public. Two badminton summer camps and one tennis summer camp were held in Taipei and Hsinchu from July 24 to July 28, 2017. In order to fulfill corporate social responsibility, reservations are made for the financially under privileged and disadvantaged youths of Taiwan Fund for Children and Families in order to learn and enjoy a good summer.
8.			Sponsor Student Scholarships: In order to enhance the Bank's corporate image and feedback to the society; also, to encourage students to study hard, scholarship and financial aids are offered to students of 20 schools this year for a grand total of NT\$1.242 million.
9.			Charity Concert combined with Charity Trust Donation Ceremony: In order to arouse the concern and attention of the community to the needs of disadvantaged groups for necessities and education, the Trust Department organized a charity concert combined with charity trust donation ceremony at Howard Civil Service International House on December 25, 2017, the Christmas Day. The Bank would like to thank the trustees (donors) and inspire more good people nationwide to participate in the event at the same time.
10.			Organizing localization and social welfare charity activities:
(1)			Shalu Branch assisted Taichung Blood Donation Center to hold a charity event entitled "Blood Donation for Love" on January 8, 2017. A gift was presented to the blood donors at the scene and a total of 214,000 cc blood was collected.
(2)			The manager of the ITRI Branch led the colleagues to help the mentally retarded youth at Shih Guang Educational and Nursing Institution in Hsinchu County to make soaps on March 28, 2017 and to purchase products from the Institution to share with the customers of the Branch.
(3)			Keelung Branch and the teachers and students of Chungyu Institute of Technology went to Keelung Hang-An Nursing Home Multiple Long-term Care Services on April 29, 2017 to escort the elderly with singing, ballet and magic show entertainment; also, gave them gifts to express the warmth and concern of the Bank.
(4)			Donggang Branch and Fongliao Branch had arranged a blood donation charity activity to promote the Bank's social image of enthusiasm for charity on May 19, 2017. A total of 52,500cc blood was donated through the enthusiastic response of the local police station and the public.
(5)			Taoyuan Branch participated in the "2017 Glory Love Fun Fair" organized by the Development Center of Spinal Cord Injury on May 27, 2017. The Development Center of Spinal Cord Injury has been in contact with the Bank since the year of 2000, which is a professional institution providing services for spinal cord injured. The Bank expressed its concept of caring for the disadvantaged with actions to fulfill corporate social responsibility.
(6)			Daechi Branch's relocation opening ceremony was held on October 16, 2017 with the "New Heart Theater Company" composed of youths with physical and mental disabilities in New Taipei City invited to perform. The Bank had donated scholarships to the "New Heart Theater Company" and the disadvantaged students of Shih Chien University.
(7)			Doulan Branch arranged mountaineering activity on October 1, 2017. The manager of the branch led the colleagues, colleagues' families, and customers, for mountaineering in the Huashan Scenic Area of Gukeng Township, Yunlin County. In addition to strengthening the physical strength, it is a great experience of ecological education.
(8)			In addition, Xiaogang Branch and Gonsun Branch responded to the "Love for the Elderly and Reunion" charity activity of the Angel Station of Huashan Social Welfare Foundation on January 6, 2017. Yuanlin Branch responded to ancient light fixture bazaar of Taiwan Fund for Children and Families in Changhua in early February of 2017. Shimen Branch responded to the "Happy Cherry Blossoms Sightseeing in Spring" power walk charity fun fair arranged by the tourism Bureau of Taoyuan City Government.

Item	Yes	No	Operating situation
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on February 10, 2017. Kaohsiung Branch responded to the charity activity held by Dagang Poguso Temple on March 4, 2017. The colleagues of Fengshan Branch voluntarily donated to Taiwan Fund for Children and Families in Kaohsiung Family Development Center on May 15, 2017. Taitung Branch visited Hai Shan Child Welfare in Taitung on May 24, 2017. Sunshar Branch responded to the "Pay Forward" charity concert of Humanistic Education Foundation on August 5, 2017. The colleagues of Taoyuan Branch voluntarily donated to Honghua Nursery School in Dayuan Township on August 29, 2017. Yuantong Branch gifted grapefruits to the First Social Welfare Foundation on September 29, 2017. Shinshen Branch arranged Mid-Autumn barbecue banquet for children of disadvantaged family through Auspiciousness Social Welfare Foundation on September 29, 2017. Renwu Branch purchased bananas from the plantation site to be gifted to Taiwan Fund for Children and Families in Kaohsiung on October 20, 2017. Dayuan Branch participated in the plantation activity of Reindeer Social Welfare Foundation in Taoyuan City on October 21, 2017. West Taichung Branch, Changhua Branch, North Taichung Branch, Wuri Branch, Taiping Branch, Xitun Branch, Caotuen Branch and Zhongqing Branch jointly participated in the "September 9 - Forever Love" warm-hearted fun party for the elderly held by Taichung Philanthropy on October 28, 2017. Caotuen Branch responded to the fun fair held by Nantou Education and Nursing Institution, Ministry of Health and Welfare on October 29, 2017. Nuoya Branch donated rice to Taiwan Fund for Children and Families in Kaohsiung on October 31, 2017. Zhonglun Branch responded to the thousand people street love activity held by Genesis Social Welfare Foundation on November 18, 2017; also, donated resources to Taipei Children Welfare Center on November 23, 2017. ITRI Branch participated in the folk song converts organized by Genesis Social Welfare Foundation on November 26, 2017.

✘Cooperate with the policies to arrange caring trust business, labor relief loans, accelerated reconstruction of dangerous and old buildings, guidance for SMEs, etc.

1. Continue to cooperate with the policies to arrange "Loha Pension" loans and utilize the Bank's website and various media to strengthen its propaganda. As of the end of December 2017, a total of 649 loans were processed for a total amount of NT\$3.132 billion. In addition, applied for the loan "Fully Billed Accounting Management System" patent with a patent certificate issued by the Intellectual Property Office, Ministry of Economic Affairs, R.O.C. on March 21, 2017.

2. Continue to handle the "Labor Insurance Insured Personal Loan" to assist those employees who are in need of loans for the New year holiday. A total of 75,796 loans / NT\$7.573 billion was processed. As of the end of December 2017, the Bank was with a total of 396,744 loans for a grand total of NT\$28.383 billion. The handling period for the year of 2018 is from January 12, 2017 to January 26, 2018. A press release was issued on January 10, 2018 to remind friends who have financing needs to use the Internet as a convenient channel to easily complete the loan application procedure.

3. Cooperate with the Financial Supervisory Commission in enacting the "Trustee Industry Assessment and Incentive Measures for Property Trusts for Elderly Persons and Persons with Physical and Mental Disabilities" to promote the property trust for the elderly and individuals with mental or physical disability and to pay attention to the necessities needed by the disadvantaged groups. In addition to the implementation of development plans and preferential projects by the business units, actively promoted and handled the "Social Welfare Caring Trust" and invited corporate customers and good-hearted people to support this good call in order to fulfill the corporate social responsibility of the Bank.

4. A total of 7 principals donated NT\$33 million in 2017. The Bank was entrusted to establish the "Social Welfare Caring Trust" and "Education Charity Scholarship Trust" with 7 counties and municipal governments, including Kaohsiung City, Taichung City, Keelung City, Chiayi City, Chiayi County, Nantou County, and Hsinchu County, with a total of 406 beneficiaries supported.

5. In line with the "guidance for the SME" policy, work with the SMEs Integrated Assistance Center to arrange the "2017 Care and Service for SMEs and Enhancing Financial Competitiveness Seminar" on March 29, 2017 to assist SMEs in obtaining working capital and improving financial competitiveness.

6. Grant loans for dangerous and old buildings renovation in line with the government's policy of promoting the renovation of dangerous and old buildings to improve the living environment and safety. There was one loan for building renovation approved by the end of December 2017 for a quota of NT\$100 million and there were financing cases in discussion for an amount of around NT\$1.2 billion.

✘Enact and announce financial friendly service measures, purchase barrier-free ATMs, prevent frauds and donate scholarships to feedback to society.

1. Announced in writing the completion of the "Friendly Credit Card Application for Foreigners" section on the official website of the Bank on May 9, 2017 to provide foreigners with a friendly service in applying for a credit card.

2. The Bank's financial friendly service measures are announced pursuant to the Financial Friendly Service Guidelines of the Bankers Association of the Republic of China to provide financial friendly services for people with physical and mental disabilities and to improve service quality.

3. Promote the establishment of barrier-free ATMs (including ATMs for physically impaired and visually impaired customers) in line with the competent authority's policies. As of the end of December 2017, a total of 465 ATMs (including 18 ATMs for the use of visually-impaired customers) were available to provide convenient services to the customers on a wheelchair.

4. A total 34 frauds had been prevented successfully in 2017 with an amount of NT\$15.7 million and US\$139,000 saved so that the citizens were protected from a property loss.

5. Renwu Branch was put in service officially on July 11, 2017 with a portion of the operating fund saved for organizing the Caring and Loving Activities and donating scholarships to Kaohsiung Municipal Renwu Special Education School.

6. DaZhi Branch was relocated on October 16, 2017 with a portion of the operating fund saved for making donation to New Heart Theater Company and Shih Chien University; also, to feedback the villages and communities.

Item	Yes	No	Operating situation
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VII. If the bank's corporate social responsibility report meets the verification criteria of the relevant verification agency, please describe it in details:

The Bank issued the first corporate social responsibility report in December 2017 and commissioned SGS Taiwan Ltd. to have it verified in accordance with the core criteria and AA1000 Tape 1 Moderate Level of the GRI Standards.

### III. Implementation of ethical management:

Item	Yes	No	Operational Situation
<b>I. Establishing ethical management policies and plans</b>			
(I) Does the bank clearly state the policies and practices of ethical management in its regulations and external documents, as well as the commitment of the board of directors and the management to actively implement operating policies?	V		The Bank has enacted the "Guidelines for the Adoption of Codes of Ethical Conduct by the Board Directors and the Management" for the Board of Directors and the management to actively implement ethical management.
(II) Does the bank set a plan to guard against unethical conduct, specify operating procedures, guidelines for conduct, disciplinary actions, and grievance systems in all programs and implement them?	V		1. The staff of the Bank should have the registration operation of an incident processed in accordance with the "Civil Servant Codes of Ethical Conduct" of the Executive Yuan, the "Guidelines for Lobbying Registration and Investigation of the Executive Yuan and its affiliates (agencies)," the "Guidelines for Lobbying Registration and Investigation of the Ministry of Finance," and the mandatory references and directives. 2. Establish the "Codes of Ethical Conduct Registration System" on the company's internal network. Arrange related education promotion courses by taking advantage of the staff's on-the-job training and new recruit's pre-job training.
(III) Does the bank adopt preventive measures for the operating activities with the risk of unethical conduct stated in Paragraph 2 of Article 7 of the "Ethical Management Best Practice Principles for TWSE / GTSM-Listed Companies" or within the scope of other business?	V		Same as above.
<b>II. Implementing ethical management</b>			
(I) Does the bank assess the ethics record of the counterparty and specify the ethical conduct clauses in the contract signed with the counterparty?	V		1. The Bank's financial consumer protection policy expressly states that: The Bank provides financial products or services to financial consumers with a contract signed in accordance with the principle of fairness, reasonableness, equality and reciprocity; also, exercise due diligence. 2. When the Bank conducts transactions with customers or other counterparties, legitimacy is evaluated in advance and the business activities are conducted in a fair and transparent manner.
(II) Does the bank set up a full-time (part-time) business unit that promotes corporate ethical management under the board of directors and regularly reports on the implementation to the board of directors?	V		The Bank is a state-owned enterprise without establishing a full-time (part-time) business unit that promotes corporate ethical management under the board of directors.
(III) Does the bank formulate a policy to prevent conflicts of interest, provide a proper reporting pipeline and implement it?	V		The Bank is a state-owned enterprise; therefore, the staff should follow the provisions of the "Act on Recusal of Public Servants Due to Conflict of Interest" and arrange the recusal operations accordingly for any case in conflict of interest. The relevant units also provide suggestions on consultations and dispositions.

Item	Yes	No	Operational Situation
(IV) Does the bank have an effective accounting system and internal control system established for the implementation of ethical management; also, does the internal auditing unit regularly check or entrust the accountant to perform the check?	V		<ol style="list-style-type: none"> <li>1. The Bank complied with the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries" issued by the Financial Supervisory Commission to establish an effective internal control system. Each business unit is to define the relevant enforcement rules for implementation.</li> <li>2. The Bank established the "Land Bank of Taiwan Accounting System" in accordance with the Accounting Act, Business Entity Accounting Act, International Financial Reporting Standards, Accounting System (Template) for Banking Industries, and relevant regulations of the competent authority. It was resolved and approved by the board of directors; also, submitted to the Ministry of Finance to be transferred to the Directorate-General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. (Taiwan) for approval before announcement. Also, it is published on the company's internal website as a standard for accounting transactions.</li> <li>3. Pursuant to Paragraph 1, Article 28 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries," when the annual financial statements are audited by an accountant, the accountant is entrusted to verify the internal control system, to assess the bank's control environment, main business risks, etc., to express opinions on the correctness of the data submitted to the competent authority, the implementation of the internal control system and the compliance, and the appropriateness of the allowance for bad debt policy, and to issue an inspection report.</li> <li>4. Each unit's general business check report, project check report, major contingency incidents, or check report of matters instructed by the competent authorities are reported to the chairman and the Audit Committee for review with an electronic disk prepared and delivered to the independent directors. The opinions issued by an external auditor, the non-conformities identified in an audit, and the corrective action should be reported to the board of directors and the Audit Committee.</li> <li>5. The internal audit unit submits an "audit report" to the board of directors and the Audit Committee semiannually, including the compliance of the internal control system and internal auditing system, the improvement of nonconformities found in an internal and external audit. The instructions given by the directors on the audit report are tracked and controlled by the internal audit unit until the corrective action completed.</li> <li>6. The directors of the Bank regularly hold a review meeting with the internal auditors regarding the non-conformities of the internal control system. The directors also give instructions on the implementation of the internal control system and the auditing system.</li> <li>7. The Bank's "annual audit plan for internal audit operations" was submitted to the Audit Committee for approval and then submitted to the board of directors for approval before implementation.</li> <li>8. The Bank inspected whether or not the internal auditors had violated the matters stated in Article 13 of the "Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries." For any violation committed, the offender will be reassigned to a new job position within one month from the date of discovery.</li> </ol>
(V) Does the bank regularly hold internal and external education and training in ethical management?	V		There were 11 classes in related courses arranged for 597 trainees of the Bank in 2017.
III. The operations of the bank's reporting system			
(I) Does the bank have specific reporting and reward systems enacted, a convenient reporting pipeline established and an appropriate responsible person assigned for the reported offender?	V		The Bank has established a reporting hotline according to the "Act of the Establishment and Management of the Government Employee Ethics Units and Officers" and the "Enforcement Rules:" (02)2371-4572, Mail Box: Taipei PO Box 1541, E-mail: lbged@landbank.com.tw, etc. and assigned responsible persons to handle the reported cases.
(II) Does the bank have the standard operating procedures for an investigation and related confidentiality mechanisms enacted for a reporting matter?	V		Based on the "Civil Service Ethics Handbook" edited and printed by the Ministry of Justice to collect information on and investigate the reported cases. In addition, comply with the provisions concerning the confidentiality of relevant information on reported cases pursuant to Article 10 of "The Anti-Corruption Informant Rewards and Protection Regulation" enacted and published by the Executive Yuan.

Item	Yes	No	Operational Situation
(III) Does the bank take measures to protect the informants from improper treatment?	V		Comply with the provisions concerning the safety of informants pursuant to Article 12 of "The Anti-Corruption Informant Rewards and Protection Regulation."
IV. Strengthening information disclosure Does the bank disclose the contents of the ethical management best practice principles and effectiveness of implementation on its website and Market Observation Post System?	V		The Bank's relevant ethical management related information is disclosed on the Bank's corporate portal "Corporate Governance" section.

土銀相挺 高雄啟動全國第一案舊屋重建



# *Insightfulness*

Discerning with great and  
accurate judgment

## 038 **Operating Overview**

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# Operating Overview

## I. Contents of Business

### (I) Overview of Operations

#### 1. Major Businesses

##### (1) Deposit

Unit: NT\$ in thousands; %

Type of Depositor	2017.12.31		2016.12.31		Increased (Decreased)	Increased (Decreased) Percentage (%)
	Amount	Percentage %	Amount	Percentage %		
Time Deposits	1,469,406,850	61.75	1,323,718,474	59.34	145,688,376	11.01
Demand Deposits	756,611,615	31.80	744,737,014	33.39	11,874,601	1.59
Public Treasury Deposits	153,540,449	6.45	162,120,962	7.27	-8,580,513	-5.29
Total	2,379,558,914	100.00	2,230,576,450	100.00	148,982,464	6.68
Percentage of Liabilities and Equity	82.52		83.45			

Note: The amounts of liabilities and equity in the end of year 2017 and 2016 are NT\$2,883,589,490,000 and NT\$2,673,046,251,000 respectively.

##### (2) Loan

Unit: NT\$ in thousands; %

Type of Loan	2017.12.31		2016.12.31		Increased (Decreased)	Increased (Decreased) Percentage (%)
	Amount	Percentage %	Amount	Percentage %		
Discount	720,656	0.04	630,596	0.03	90,060	14.28
Short-term loan and overdrafts	219,234,995	11.78	174,706,432	9.81	44,528,563	25.49
Medium-term loan	592,111,118	31.82	598,245,799	33.58	-6,134,681	-1.03
Long term loan	1,048,807,952	56.36	1,008,076,981	56.58	40,730,971	4.04
Total	1,860,874,721	100.00	1,781,659,808	100.00	79,214,913	4.45
Percentage of Total Assets	64.53		66.65			

Note: The amount of total assets in the end of year 2017 and 2016 are NT\$2,883,589,490,000 and NT\$ 2,673,046,251,000 respectively.

##### (3) Foreign Exchange

Unit: US\$ in thousands; %

Type of Foreign Exchange	2017.12.31		2016.12.31		Increased (Decreased) Amount	Increased (Decreased) Percentage (%)
	Amount	Percentage %	Amount	Percentage %		
Export	10,299,614	12.11	4,907,282	5.99	5,392,332	9.88
Import	6,587,646	7.74	10,870,956	13.28	-4,283,310	-39.40
Remittances	68,187,103	80.15	66,105,119	80.73	2,081,984	3.15
Total	85,074,363	100.00	81,883,357	100.00	3,191,006	3.90

##### (4) Trust Business

###### (4.1) Trust Business Amount

Unit: NT\$ in thousands; %

Types of Trust	Year 2017	Year 2016	Increased (Decreased)	Increased (Decreased) Percentage (%)
Entrusted Investment Securities	58,655,512	60,173,784	-1,518,272	-2.52
Real Estate Trust Investment	161,154,603	159,815,196	1,339,407	0.84
Securitization Business	63,536,287	65,726,551	-2,190,264	-3.33
General property trust Business	3,994,840	3,462,323	532,517	15.38
Fund custody Business	89,795,670	89,252,194	543,476	0.61
Subsidiary Business	3,806,151	3,383,088	423,063	12.51
Total	380,943,063	381,813,136	-870,073	-0.23

(4.2) Service Fee Income of Trust Business

Unit: NT\$ in thousands; %

Types of Trust	Year 2017		Year 2016		Increased (Decreased) Percentage (%)
	Amount	Percentage of the Total Service Fee Income in the Bank (%)	Amount	Percentage of the Total Service Fee Income in the Bank (%)	
Accepting Orders to Invest Securities	274,802	7.52	197,997	5.27	38.79
Real Estate Trust Investment	135,951	3.72	136,520	3.63	-0.42
Securitization Business	34,223	0.94	31,588	0.84	8.34
General property trust Business	12,257	0.34	9,600	0.26	27.68
Fund custody Business	76,061	2.08	81,711	2.18	-6.91
Subsidiary Business	9,132	0.25	7,666	0.20	19.12
Total	542,426	14.84	465,082	12.38	16.63

Note: The total service fee income in the Bank includes securities brokerage and underwriting income, which is NT\$3,655,820,000 for year 2017 and NT\$3,756,605,000 for year 2016.

(5) Wealth Management Business

(5-1) Service Fee Income of Wealth Management Business

Unit: NT\$ in thousands; %

Types	Year 2017		Year 2016		Increased (Decreased) Percentage (%)
	Amount	Percentage of the Total Service Fee Income in the Bank (%)	Amount	Percentage of the Total Service Fee Income in the Bank (%)	
Income of Accepting Orders to Invest Securities Fee	274,801	7.52	198,013	5.27	38.78
Income of Bank Insurance Fee (including Mortgage life insurance)	757,079	20.71	1,011,076	26.91	-25.12
Income of Gold Passbook Fee	2,274	0.06	3,211	0.09	-29.18
Total	1,034,154	28.29	1,212,300	32.27	-14.69

Note: The total service fee income in the Bank includes securities brokerage and underwriting income, which is NT\$3,655,820,000 for year 2017 and NT\$3,756,605,000 for year 2016.

(6) Electronic Finance

(6-1) Times of Transaction of Electronic Finance Business

Types	Year 2017 Times of Transfer transaction	Year 2016 Times of Transfer transaction	Increased (Decreased) Times	Increased (Decreased) Percentage %
Internet Banking	5,250,302	4,507,939	742,363	16.47
Mobile Banking	621,535	419,814	201,721	48.05
Continuous Payment Authority	1,802,055	1,495,341	306,714	20.51

(6-2) Service Fee Income of Electronic Finance Business

Unit: NT\$ in thousands; %

Types	Year 2017		Year 2016		Increased (Decreased) Percentage (%)
	Amount	Percentage of the Total Service Fee Income in the Bank (%)	Amount	Percentage of the Total Service Fee Income in the Bank (%)	
Service Fee Income	90,274	2.47	83,617	2.23	7.96

Note: The total service fee income in the Bank includes securities brokerage and underwriting income, which is NT\$3,655,820,000 for year 2017 and NT\$3,756,605,000 for year 2016.

(7) Securities Brokerage Business

(7-1) The Amount of Securities Brokerage Business Operation

Unit: NT\$ in thousands; %

Types	Year 2017	Year 2016	Increased (Decreased)	Increased (Decreased) Percentage (%)
Underwriting Amount of Securities	2,942,410	2,763,353	179,057	6.48
Turnover of Securities Brokerage Business	217,359,259	147,474,779	698,884,480	47.39
Average Balance of Securities Trading Margin Purchase and Short Sale	1,127,142	1,004,326	122,816	12.23

## (7-2) Service Fee Income of Securities Brokerage Business

Unit: NT\$ in thousands; %

Types	Year 2017		Year 2016		Increased (Decreased) Percentage (%)
	Amount	Percentage of the Total Service Fee Income in the Bank (%)	Amount	Percentage of the Total Service Fee Income in the Bank (%)	
Securities Brokerage and Underwriting	172,005	4.70	118,822	3.16	44.76

Note: The total service fee income in the Bank includes securities brokerage and underwriting income, which is NT\$3,655,820,000 for year 2017 and NT\$3,756,605,000 for year 2016.

## (8) Investment Business

## (8.1) Investment in Securities

Unit: NT\$ in thousands; %

Types	2017.12.31	2016.12.31	Increased (Decreased)	Increased(Decreased) Percentage (%)
Government Bonds	109,600,731	69,879,343	39,721,388	56.84
Corporate Bonds	8,348,601	5,948,246	2,400,355	40.35
Stocks (Short-term Investment)	2,003,039	3,789,683	-1,786,644	-47.14

## (8.2) Purchasing and Selling Short-Term Bill

Unit: NT\$ in thousands; %

Types	Year 2017	Year 2016	Increased (Decreased)	Increased(Decreased) Percentage (%)
Outright Purchase Notional Amount	309,944,904	396,106,005	-86,161,101	-21.75
Outright Sale Notional Amount	182,474	0	182,474	100.00
Repurchase Notional Amount	3,418,298	9,176,387	-5,758,089	-62.75

## (8.3) Proprietary Trading of Government Bonds

Unit: NT\$ in thousands; %

Types	Year 2017	Year 2016	Increased (Decreased)	Increased(Decreased) Percentage (%)
Notional Amount of Outright Purchase and Sale of Government Bonds	12,883,487	35,330,207	-22,446,720	-63.53
Conditionally Notional Amount of Outright Purchase and Sale of Government Bonds	79,472,710	73,982,461	5,490,249	7.42
Balance of Outright Purchase and Sale of Government Bonds	28,639,562	30,070,922	-1,431,360	-4.76

## (9) Credit Card

Unit: card, NT\$ in thousands ;%

Types	Year 2017	Year 2016	Increased (Decreased)	Increased (Decreased) Percentage (%)	
Credit card issuance Business	Circulation Card	265,693	233,952	31,741	13.57
	Approved Card	140,970	129,511	11,459	8.85
	Transaction Amount	10,206,894	9,426,656	780,238	8.28
	Revolving Credit Balance	354,683	296,000	58,683	19.83
Acquiring Business	Physical Stores, Internet Stores and ATM Transaction Amount	20,534,892	18,118,756	2,416,136	13.33

## 2. The Percentage and Change of the Main Business Assets in Total Assets

Unit: NT\$ in thousands; %

Types of the Main Business Asset	Year 2017		Year 2016	
	Amount	Percentage of the Total Assets (%)	Amount	Percentage of the Total Assets (%)
Total Assets	2,883,589,490	100.00	2,673,046,251	100.00
Discount and Loan – Net Amount	1,879,104,149	65.17	1,770,689,449	66.24
Financial assets in available-for-sale – Net Amount	407,495,721	14.13	407,325,442	15.24
Deposit in the Central Bank and Inter-bank Lending	229,181,736	7.95	236,364,063	8.84
Total Liabilities	2,738,947,227	94.98	2,538,318,791	94.96
Deposit and Remittance	2,400,023,270	83.23	2,247,268,415	84.07
Financial Bonds Payable	66,691,640	2.31	79,694,341	2.98
Accrued Payables	24,844,608	0.86	24,459,437	0.92

Note 1: The amount in year 2016 was re-numbered by the CPAs according to the account accredited by the National Audit Office. The numbers in year 2017 were audited and attested by the CPAs.

Note 2: The data in this table is the consolidated number.

### 3. The Percentage and Change of the Individual Business Income in Net Income

Unit: NT\$ in thousands; %

Types	Year 2017		Year 2016	
	Amount	Percentage of the Total Net Income (%)	Amount	Percentage of the Total Net Income (%)
Net interest income	24,738,995	85.96	24,744,842	80.54
Net Service Fee Revenue	2,831,290	9.84	3,014,136	9.81
Financial assets and liabilities net interest at fair value through profit or loss	-237,008	-0.82	43,054	0.14
The Net Profit of Available-for-sale Financial Assets	647,536	2.25	1,469,318	4.78
Net Interest in Property Transaction	18,748	0.07	30,451	0.10
Others	778,846	2.71	1,421,476	4.63
Total Net Income	28,778,407	100.00	30,723,277	100.00

Note 1: The amount in year 2016 was re-numbered by the CPAs according to the account accredited by the National Audit Office. The numbers in year 2017 were audited and attested by the CPAs.

Note 2: The data in this table is the consolidated number.

#### (II) Market Analysis:

##### 1. Business area

The Bank is the only professional bank designated by the government to conduct the real estate credit business, provide corporate financing, individual financing, trust, wealth management, foreign currency exchange and electronic banking service. The service channel includes a domestic and internal territory; there are 151 domestic branch offices (including the Head office banking department) and 1 offshore banking unit, There are 7 overseas branches respectively located in Los Angeles, Singapore, Hong Kong, Shanghai, New York, Tianjin and Wuhan.

##### 2. Market supply and demand in the future and growth

(1) The Small and Medium-size Enterprise (SME) loan and wealth management business keeps on growing  
Although the transaction volume of the housing market has decreased and impacted on the consumer loan business. However, with the gradual recovery of the domestic economy, the bank cooperated with the government to launch a "Five plus two" innovative industries plan and actively engaged in the financing of SMEs to increase the interest rate spread income. Besides, promoting wealth management products in the low-interest circumstances will help the sustainable growth of the wealth management business and the electronic banking business will continue to expand, further increasing the growth momentum of the bank's domestic business.

##### (2) High potential of urban renewal and green finance market

With the active promotion by the government, the policy support and awards by amending the regulations made the high potential of the urban renewal market. Banks can actively participate in the market through trust services and financing services, not only to increase the business but also to increase the interest and service charge revenues. The development of green finance in Taiwan currently is no longer limited to financing, but it is synchronized with other dimensions and strengthens the deployment of green finance.

##### 3. Competition niche

##### (1) Solid professional basis

The Bank was established on September 1, 1946, 71 years old as of now. The Bank is the only professional bank designated by the government to conduct the real estate credit business. Not only does it have broad experience in real estate credit extension but also has the advantage in the development of real estate trust, real estate and financial asset securitization. Provide client with a complete real estate financial service mechanism. The Bank is leading the real estate financing market such as land financing, construction financing, mortgage loan, real estate trust and securitization business.

## (2) Diversified business development

Except for leading positions in the domestic real estate-related financial division, the business expertise has also been fully applied to the clients' overseas investment or real estate development plans. To respond to the aging and low fertility society in Taiwan in recent years, the Bank cooperated with the government to promote annuity reform, long-term care system and house pension policy. It has launched reverse mortgage loans with outstanding performance. In response to the government's promotion of the policy to accelerate the reconstruction of dangerous and old buildings, the company has launched and accelerated the reconstruction loan for dangerous and old buildings in 2017. Meanwhile, the Bank actively develops diversified businesses such as consumer finance, corporate finance, wealth management and trust and participates in the urban renewal market to provide clients with diversified services.

## (3) Start digital financial transformation

Faced with the development trend of FinTech in the future, the Bank cooperated with the government's plan to "Double Electronic Payment Ratio in Five Years" and actively promoted the "Building a Digital Financial Environment BANK3.0" project. When launching the various digital mobile financial services, it can also provide mobile payment-related products. Action to pay for related products. For example, in cooperation with the Finance Information Service Company and Taiwan Mobile Payment, they jointly established the Taiwan Pay "Land Bank Debit Card Cloud Payment" and QR Code payment services, trying to gain the market share of the huge mobile payment market. Through the linkage of the mobile phone to transfer, shopping and payment (expense or tax) and provide the consumer with convenient and safe payment services.

## (4) Promote globalization deployment

Aggressively deploy international service networks, establish overseas branches in Los Angeles, New York, Singapore; and the Hong Kong branch, Shanghai branch, Tianjin branch and Wuhan branch in Mainland China, and continuously increase the service level and geographical territory of Taiwanese-funded corporate clients. The service scope makes the financial services network more complete.

## 4. The advantageous and disadvantageous factors of the development vision and corresponding solutions

## (1) The advantageous factors

- ① It is estimated that the global economic growth rate in 2018 will be better than in 2017, which will help increase the demand for corporate funds and the willingness for market investments, drive the growth momentum of the loan business of the banking industry and wealth management business and increase the profits. Besides, the award plan for the policy loan to promote industries and accelerate overseas deployment will expand the domestic and international business of the financial industry in 2018.
- ② With the promotion of policies, accelerated release of the restriction of the laws and regulations and gradual improvement of IT safety and security, the increase in acceptance by the public. The continued expansion of the banking industry and the strategic alliances and cooperation with technology companies will help improve the innovation capability of FinTech products and the development of FinTech markets, bringing new business opportunities and new clients to the banking industry.
- ③ With the global economic recovery, the United States keeps raising interest rates and a reduction of its balance sheet, which terminated the international low-interest cycle and confirmed the gradual increase in interest rates. With the expectation of stable interest rates in the domestic market, it made the interest rate spreads increase in the global banking industry in 2018, more than in 2017. Moreover, this will help to improve profitability.
- ④ The banking industry is facing operating difficulties in Mainland China. The difficulties in improving profitability and the frozen cross-strait relations have also made all national banks to shift the overall overseas market deployment to the "New Southbound 18 Countries" promoted by the government. With the assistance of the government in developing the "New Southbound" market, it was able to reduce the restrictions from domestic regulations and concentrate on the various business operating challenges in the "New Southbound" countries.

(2) The disadvantage factors

- ① In the year 2018, the banking industry will continue to improve the ability of related professional personnel's skills for anti-money laundering and countering terrorist finance, to establish the dedicated department and to upgrade the equipment and system capabilities. Besides, with the equipment requirement because of FinTech innovations, marketing and promotion, will make the related cost and disbursements of the banking industry increase significantly in 2018.
- ② The domestic housing market declined, and the transaction volume of the housing market could be significantly reduced and the reduction in housing prices will impact the Bank's business in real estate loans and increase the credit risk. The Bank has already controlled the credit of loan-to-value according to the regulations. The provision rate of bad debts allowance for real estate loans has also been increased to 1.5% and should be able to mitigate the risks that may arise when housing prices are reduced.
- ③ Mainland China adjusted its economic and industrial structure, promoted financial de-leveraging policies, adopted limited-purchase and limit-credit policies in some cities and strictly investigated mortgage loans and real estate agency industries. The risks of higher corporate debt and higher house prices continue to increase. The credit structure of local corporations will weaken and the asset quality of the banking industry in Mainland China may likewise weaken.
- ④ The banking industry has expanded its overseas market and FinTech market, and its business model has gradually changed. Especially during the process of the "Southbound" development, the customs of the various countries are entirely different. The requirements increased FinTech innovation and R&D. Besides, the importance of IT security and risk control is rising. The banking industry has urgent demands for all kinds of relevant talents. It is expected that the financial talents supply in 2018 will still be a problem.

(3) Countermeasures

- ① Continue to adjust asset allocation, transform to corporate finance, aggressively engage in SME loan, foreign currency loan and credit loan to increase the interest rate spread, promote wealth management products to increase service charge income. Cooperate with the government to invest in the "Five plus two innovation industry" and urban renewal market. Make the operating revenues and asset allocation be diversified and improve the overall profitability.
- ② Under the operating environment improved by the policies of the Central Bank and Financial Supervision Commission, it is expected to drive the growth of the FinTech business. For example, the online application of financial services, mobile payment and third-party payment and the accumulation of financial big data will help improve the analysis results. It is expected to benefit the growth of the Bank's various businesses and revenues.
- ③ Connect various links such as financial services, broadband networks, information platforms and sales channels, cooperate with the establishment of risk control and the IT security environment, accelerate the cooperation of different industries, and provide the client with more convenient and secure financial services through mobile payments. Besides, the accumulation of financial big data will benefit the analysis results and the various businesses of the banking industry.
- ④ Duly review and amend the relevant regulations on credit checks and credit extension and carefully assess new creditors for real estate, especially for the contractor with weaker financial assets, construction location located in remote area, areas with high vacant house rates and those with product types not accepted by the market. The real estate related credit extension will be carefully evaluated and reviewed. Taking risk control into account when expanding the credit extension business will make the Bank's business operations more robust and stable.

# *Sound Security*



Digital Finance &  
Closely Guarded

## **046 Financial Status and Risk Management**

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# Financial Status and Risk Management

## I. Condensed Consolidated Balance Sheets and Income Statements (last 5 years)

### (1) Condensed Consolidated Balance Sheets and Income Statements : International Financial Reporting Standards

#### Condensed Consolidated Balance Sheets

Unit: NT\$ in thousands

Accounting Title	Year	Financial data for Year 2014–2017 (Note)			
		2017	2016	2015	2014
Cash and cash equivalents (due from the Central Bank and Call Loans to banks)		278,474,923	281,978,785	297,349,053	276,816,472
Financial assets at fair value through profit or loss		3,243,418	3,473,556	4,689,817	1,551,824
Financial assets available-for-sale		407,495,721	407,325,442	351,622,173	288,193,371
Securities purchased under agreements to resell and bond investment		8,029,166	3,763,733	0	0
Receivables – Net		8,868,031	7,362,799	6,930,795	6,055,423
Income tax assets		168,391	173,536	167,370	143,714
Discount and loans – Net		1,879,104,149	1,770,689,449	1,724,903,022	1,868,479,470
Financial assets in held-to-maturity		238,122,980	136,810,089	36,460,359	12,195,507
Investments accounted for using equity method – Net		0	0	0	24,190
Other financial assets – Net		1,633,383	1,646,662	1,657,383	3,680,710
Real estate properties – Net		22,954,513	23,239,864	23,377,397	23,837,637
Investment properties – Net		24,110,445	24,102,105	24,195,770	24,262,176
Intangible assets – Net		869,156	894,168	660,361	611,567
Deferred income tax assets – Net		2,901,012	3,570,007	3,925,696	3,985,029
Other assets		7,614,202	8,016,056	7,527,506	5,484,918
<b>Total assets</b>		<b>2,883,589,490</b>	<b>2,673,046,251</b>	<b>2,483,466,702</b>	<b>2,515,322,008</b>
Due to the Central Bank and Call Loans from banks		200,334,268	142,091,394	122,083,387	209,745,830
Borrowed from the Central Bank and other banks		2,040,692	2,359,557	2,516,829	2,529,138
Financial liabilities at fair value through profit or loss		3,546,578	8,665,611	9,017,252	222,942
Securities sold under agreements to repurchase		15,157,816	7,713,092	5,372,087	10,757,747
Account payables		24,844,608	24,459,437	20,644,932	22,680,553
Income tax liabilities		368,616	816,584	923,755	1,106,456
Deposits and remittances		2,400,023,270	2,247,268,415	2,098,660,734	2,050,378,807
Payable bonds		66,691,640	79,694,341	72,193,289	77,797,199
Other financial liabilities		146,198	175,111	101,981	119,893
Liability reserve		17,651,342	16,937,778	16,611,687	15,361,617
Deferred income tax liabilities		6,926,029	6,926,134	6,935,227	6,937,342
Other liabilities		1,216,170	1,211,337	1,262,364	967,125
Total liabilities	Before distribution	2,738,947,227	2,537,469,716	2,356,323,524	2,394,772,387
	After distribution	2,738,947,227	2,538,318,791	2,356,323,524	2,398,604,649

Accounting Title	Year	Financial data for Year 2014–2017 (Note)			
		2017	2016	2015	2014
Capital stock	Before distribution	62,594,000	62,594,000	58,100,000	50,000,000
	After distribution	62,594,000	62,594,000	58,100,000	50,000,000
Capital reserve		21,748,869	21,748,869	21,748,869	21,748,869
Retained earnings	Before distribution	57,431,060	48,761,249	42,294,258	44,715,121
	After distribution	57,431,060	47,912,174	42,294,258	40,882,859
Other items in shareholders' equity		2,868,334	2,472,417	5,000,051	4,085,631
Total shareholders' equity	Before distribution	144,642,263	135,576,535	127,143,178	120,549,621
	After distribution	144,642,263	134,727,460	127,143,178	116,717,359

Note: Figures for the period of 2014 have been made by the CPAs based on the audit result of the National Audit Office. These figures are in accordance with the 2013 version of the International Financial Reporting Standards and several accounts after adjustment. Figures for the period of 2015 to 2016 have been made by the CPAs based on the audit result of the National Audit Office. Figures for the period of 2017 have been audited and certified by CPAs.

### Condensed Consolidated Comprehensive Income Statements

Unit: NT\$ in thousands

Accounting Title	Year	Financial data for Year 2014-2017 (Note)			
		2017	2016	2015	2014
Interest revenues		43,449,692	41,840,744	43,718,337	43,313,386
Less: Interest expense		18,710,697	17,095,902	19,385,011	20,162,020
Net interest revenue		24,738,995	24,744,842	24,333,326	23,151,366
Net non-interest revenue		4,039,412	5,978,435	4,640,907	3,859,697
Net operating income		28,778,407	30,723,277	28,974,233	27,011,063
Loan losses and provision for losses on guarantee		492,992	1,624,497	408,371	191,047
Operating expenses		16,403,886	16,299,823	16,314,912	15,213,508
Continuing operations' income before tax		11,881,529	12,798,957	12,250,950	11,606,508
Income tax expense		2,247,906	2,382,044	2,268,481	2,144,580
Continuing operations' net income		9,633,623	10,416,913	9,982,469	9,461,928
Income (Loss) from discontinued operations		0	0	0	0
Net income		9,633,623	10,416,913	9,982,469	9,461,928
Other comprehensive income (net of tax) for the period		281,180	-2,832,631	443,350	866,828
Total comprehensive income for the period		9,914,803	7,584,282	10,425,819	10,328,756
Net income attributable to owner of the parent		9,633,623	10,416,913	9,982,469	9,461,928
Net income attributable to non-controlling interests		0	0	0	0
Comprehensive income attributable to owner of the parent		9,914,803	7,584,282	10,425,819	10,328,756
Comprehensive income attributable to non-controlling interests		0	0	0	0
Earnings per share (NTD)		1.54	1.66	1.59	1.51

Note: 1. Figures for the period of 2014 have been made by the CPAs based on the audit result of the National Audit Office. These figures are in accordance with the 2013 version of the International Financial Reporting Standards and several accounts after adjustment. Figures for the period of 2015 to 2016 have been made by the CPAs based on the audit result of the National Audit Office. Figures for the period of 2016 have been audited and certified by CPAs.

2. The Bank's capital has increased to NT\$ 62.594 billion since October 31, 2016 and retroactively adjusted tabulated earnings per share each year.

## Individual Condensed Balance Sheets

Unit: NT\$ in thousands

Accounting Title	Year	Financial data for Year 2013–2017 (Note)				
		2017	2016	2015	2014	2013
Cash and cash equivalents (due from the Central Bank and Call Loans to banks)		278,392,151	281,977,889	297,433,843	276,816,472	255,690,923
Financial assets at fair value through profit or loss		3,243,418	3,473,556	4,689,817	1,551,824	2,205,335
Financial assets available-for-sale		407,495,721	407,325,442	351,622,173	288,193,371	290,049,749
Securities purchased under agreements to resell and bond investment		8,029,166	3,763,733	0	0	1,171,587
Receivables – Net		8,937,267	7,350,702	6,915,206	6,055,423	14,000,043
Income tax assets		168,391	173,536	167,370	143,714	139,788
Discount and loans – Net		1,879,104,149	1,770,689,449	1,724,903,022	1,868,479,470	1,804,190,412
Financial assets in held-to-maturity		238,119,804	136,806,886	36,457,128	12,195,507	1,270,403
Investments accounted for using equity method – Net		40,000	40,000	33,616	24,190	18,942
Other financial assets – Net		1,633,383	1,646,662	1,657,383	3,680,710	3,690,519
Real estate properties – Net		22,949,749	23,234,378	23,370,911	23,837,637	23,964,785
Investment properties – Net		24,110,445	24,102,105	24,195,770	24,262,176	24,351,193
Intangible assets – Net		859,401	885,590	651,345	611,567	553,016
Deferred income tax assets – Net		2,901,012	3,570,007	3,925,696	3,985,029	4,234,895
Other assets		7,613,976	8,015,876	7,527,271	5,484,918	2,183,930
<b>Total assets</b>		<b>2,883,598,033</b>	<b>2,673,055,811</b>	<b>2,483,550,551</b>	<b>2,515,322,008</b>	<b>2,427,715,520</b>
Due to the Central Bank and Call Loans from banks		200,334,268	142,091,394	122,083,387	209,745,830	202,365,412
Borrowed from the Central Bank and other banks		2,040,692	2,359,557	2,516,829	2,529,138	2,476,871
Financial liabilities at fair value through profit or loss		3,546,578	8,665,611	9,017,252	222,942	105,971
Securities sold under agreements to repurchase		15,157,816	7,713,092	5,372,087	10,757,747	6,226,271
Account payables		24,828,253	24,447,902	20,633,393	22,680,553	27,850,177
Income tax liabilities		363,132	802,245	908,967	1,106,456	1,020,336
Deposits and remittances		2,400,059,667	2,247,308,030	2,098,772,607	2,050,378,807	1,977,568,122
Payable bonds		66,691,640	79,694,341	72,193,289	77,797,199	75,697,121
Other financial liabilities		146,198	175,111	101,981	119,893	146,415
Liability reserve		17,645,044	16,933,407	16,609,619	15,361,617	15,143,320
Deferred income tax liabilities		6,926,029	6,926,134	6,935,227	6,937,342	6,950,727
Other liabilities		1,216,453	1,211,527	1,262,735	967,125	1,943,913
Total liabilities	Before distribution	2,738,955,770	2,537,479,276	2,356,407,373	2,394,772,387	2,313,725,230
	After distribution	2,738,955,770	2,538,328,351	2,356,407,373	2,398,604,649	2,317,494,656
Capital stock	Before distribution	62,594,000	62,594,000	58,100,000	50,000,000	50,000,000
	After distribution	62,594,000	62,594,000	58,100,000	50,000,000	50,000,000
Capital reserve		21,748,869	21,748,869	21,748,869	21,748,869	21,748,869
Retained earnings	Before distribution	57,431,060	48,761,249	42,294,258	44,715,121	38,932,123
	After distribution	57,431,060	47,912,174	42,294,258	40,882,859	35,162,697
Other items in shareholders' equity		2,868,334	2,472,417	5,000,051	4,085,631	3,309,298
Total shareholders' equity	Before distribution	144,642,263	135,576,535	127,143,178	120,549,621	113,990,290
	After distribution	144,642,263	134,727,460	127,143,178	116,717,359	110,220,864

Note: Figures for the period from 2013 to 2016 have been made by the CPAs based on the audit result of the National Audit Office. Figures for the period of 2017 have been audited and certified by CPAs.

Individual Condensed Comprehensive Income Statements

Unit: NT\$ in thousands

Accounting Title	Financial data for Year 2013-2017 (Note)				
	2017	2016	2015	2014	2013
Interest revenues	43,449,443	41,840,690	43,718,337	43,313,386	41,608,347
Less: Interest expense	18,710,766	17,096,033	19,385,154	20,162,020	19,196,556
Net interest revenue	24,738,677	24,744,657	24,333,134	23,151,366	22,411,791
Net non-interest revenue	3,955,033	5,887,144	4,559,668	3,859,697	4,263,169
Net operating income	28,693,710	30,631,801	28,892,802	27,011,063	26,674,960
Loan losses and provision for losses on guarantee	482,992	1,624,497	408,371	191,047	1,410,461
Operating expenses	16,336,717	16,232,321	16,252,657	15,213,508	14,340,493
Continuing operations' income before tax	11,864,001	12,774,983	12,231,774	11,606,508	10,924,006
Income tax expense	2,230,378	2,358,070	2,249,305	2,144,580	1,921,777
Continuing operations' net income	9,633,623	10,416,913	9,982,469	9,461,928	9,002,229
Income (Loss) from discontinued operations	0	0	0	0	0
Net income	9,633,623	10,416,913	9,982,469	9,461,928	9,002,229
Other comprehensive income (net of tax) for the period	281,180	-2,832,631	443,350	866,828	-57,344
Total comprehensive income for the period	9,914,803	7,584,282	10,425,819	10,328,756	8,944,885
Net income attributable to owner of the parent	9,633,623	10,416,913	9,982,469	9,461,928	9,002,229
Net income attributable to non-controlling interests	0	0	0	0	0
Comprehensive income attributable to owner of the parent	9,914,803	7,584,282	10,425,819	10,328,756	8,944,885
Comprehensive income attributable to non-controlling interests	0	0	0	0	0
Earnings per share (NTD)	1.54	1.66	1.59	1.51	1.44

Note: 1. Figures for the period from 2013 to 2016 have been made by the CPAs based on the audit result of the National Audit Office. Figures for the period of 2017 have been audited and certified by CPAs.

2. The Bank's capital has increased to NT\$62.594 billion since October 31, 2016 and retroactively adjusted tabulated earnings per share each year.

## II. Financial Data for the Last Five Years

### (1) Consolidated Financial Analysis : International Financial Reporting Standards

Accounting Title Analyzed		2014-2016 Financial Analysis (Note)			
		2017	2016	2015	2014
Operating capability	Ratio of loans to deposits (%)	79.46	80.08	83.49	92.40
	Non-performing loan ratio (%)	0.19	0.18	0.19	0.19
	Ratio of interest expenses to annual average deposits (%)	0.67	0.67	0.83	0.85
	Ratio of interest revenues to annual average loans (%)	1.89	1.95	2.05	2.02
	Total assets turnover (times)	0.01	0.01	0.01	0.01
	Average operating income per employee (NTD in thousands)	5,047.96	5,359.02	5,025.01	4,672.39
	Average profit per employee (NTD in thousands)	1,689.81	1,817.01	1,731.26	1,636.73
Profitability	Return on Tier I capital (%)	8.51	10.27	10.50	11.30
	Return on assets (%)	0.35	0.40	0.40	0.38
	Return on shareholders' equity (%)	6.90	7.96	8.19	8.34
	Net income ratio (%)	33.48	33.91	34.45	35.03
	Earnings per share (NTD)	1.54	1.66	1.59	1.51
Financial structure	Ratio of liabilities to assets (%)	94.96	94.93	94.85	95.33
	Ratio of fixed assets to shareholders' equity (%)	15.87	17.25	18.39	20.42
Growth rate	Asset growth rate (%)	7.88	7.63	-1.27	3.61
	Profit growth rate (%)	-7.17	4.47	5.55	6.25
Cash flows	Cash ratio (%)	35.98	-21.63	31.52	15.10
	Cash flow adequacy ratio (%)	961.13	523.04	1,054.29	494.03
	Cash flow sufficiency ratio (%)	-13,459.07	1,368.03	-1,496.62	-2,983.14
	Liquid reserve ratio (%)	25.87	24.11	19.11	18.31
	Total secured loans to related parties (NTD in thousands)	11,044,216	11,726,940	10,799,874	10,662,338
	Ratio of total secured loans to related parties to total loans (%)	0.63	0.72	0.68	0.61
Operating scale	Market share of assets (%)	3.90	3.78	3.67	3.96
	Market share of net worth (%)	2.37	2.37	2.39	2.39
	Market share of deposits (%)	5.91	5.72	5.53	5.72
	Market share of loans (%)	6.87	6.76	6.79	7.57

Please analyze the variance of the various financial ratios for the last two years (variance over 20%):

- The profit growth rate in 2017 was lower than in 2016; the main reason was that the net income before tax in 2017 was lower than in 2016.
- The cash flow ratio and cash flow allowance ratio in 2017 was higher than in 2016 because the cash flow from operating activities increased in 2017 than in 2016. Besides, the cash flow satisfaction ratio in 2017 was lower than in 2016. The main reason was the cash flow from operating activities and investing activities in 2016 were all cash outflows, making a positive ratio for the year 2016. However, for the year 2017, the cash flow from operating activities was cash inflows and the cash flow from investing activities was an outflow, making a negative ratio for the year 2017.

Note 1: Figures for the period of 2014 have been made by the CPAs based on the audit result of the National Audit Office. These figures are in accordance with the 2013 version of the International Financial Reporting Standards and several accounts after adjustment. Figures for the period of 2015 to 2016 have been made by the CPAs based on the audit result of the National Audit Office. Figures for the period of 2017 have been audited and certified by CPAs.

Note 2: Equations for calculation of various ratios:

1. Operation capabilities

- (1) Ratio of loans to deposits = Average total loans outstanding / Average total deposits
- (2) Non-performing loan ratio = Total non-performing loans / Total loans
- (3) Ratio of interest expenses to annual average deposits = Total interest expenses / Annual average deposits
- (4) Ratio of interest revenues to annual average loans = Total interest revenues / Annual average loans
- (5) Total assets turnover = Net operating income / Average total assets
- (6) Average operating revenues per employee = Net operating income / Number of employees
- (7) Average profit per employee = Net income / Number of employees

2. Profitability

- (1) Return on Tier I capital = Before-tax earnings or losses / Net average Tier I capital
- (2) Return on assets = Net income / Average total assets
- (3) Return on shareholders' equity = Net income / Average net shareholders' equity
- (4) Net income ratio = Net income / Net operating income
- (5) Earnings per share (Comprehensive income attributable to owner of the parent preferred stock dividends) / Weighted average number of shares issued

3. Financial structure

- (1) Ratio of liabilities to assets = Total liabilities / Total assets
- (2) Ratio of real estate and equipment to shareholders' equity – real estate and equipment / Net shareholders' equity

4. Growth rate

- (1) Asset growth rate = (Total assets in the current year - Total assets in the preceding year) / Total assets in the preceding year
- (2) Profit growth rate = (Income before income tax in the current year - Income before income tax in the preceding year) / Income before income tax in the preceding year

5. Cash flows

- (1) Cash flows ratio = Net cash flows from operating activities / (Interbank loans and overdrafts + Commercial papers payable + Financial liabilities at fair value through profit or loss + Securities sold under agreements to repurchase + Payables with due date within one year)
- (2) Net cash flow adequacy ratio = Net cash flows from operating activities for the last five years / (Capital expenditure + Cash dividends) for the last five years
- (3) Cash flow sufficiency ratio = Net cash flows from operating activities / Net cash flows from investment activities

6. Liquid reserve ratio = Current assets required by the Central Bank / Various liabilities requiring liquid reserve

7. Operating scale

- (1) Market share of assets = Total assets / Total assets of all financial institutions handling deposits and loans
- (2) Market share of net worth = Net worth / Total net worth of all financial institutions handling deposits and loans
- (3) Market share of deposits = Total deposits / Total deposits of all financial institutions handling deposits and loans
- (4) Market share of loans = Total loans / Total loans of all financial institutions handling deposits and loans

Note 3: Total liabilities are net of reserves for losses on guarantees, losses on security trades, losses on breach of contracts, and accidental loss.

Note 4: Financial institutions handling deposits and loans include domestic banks, branches of Mainland China in Taiwan, branches of foreign banks in Taiwan, credit cooperatives, and credit departments of farmers' and fishermen's associations.

Note 5: The Bank's capital has increased to NT\$62.594 billion since October 31, 2016 and retroactively adjusted tabulated earnings per share each year.

## Individual Financial Analysis

Accounting Title Analyzed		2013-2017 Financial Analysis (Note)				
		Year	2017	2016	2015	2014
Operating capability	Ratio of loans to deposits (%)	79.45	80.08	83.48	92.40	92.58
	Non-performing loan ratio (%)	0.19	0.18	0.19	0.19	0.27
	Ratio of interest expenses to annual average deposits (%)	0.67	0.67	0.83	0.85	0.85
	Ratio of interest revenues to annual average loans (%)	1.89	1.95	2.05	2.02	2.02
	Total assets turnover (times)	0.01	0.01	0.01	0.01	0.01
	Average operating income per employee (NTD in thousands)	5,059.73	5,371.17	5,033.59	4,692.68	4,607.87
	Average profit per employee (NTD in thousands)	1,698.75	1,826.57	1,739.11	1,643.84	1,555.06
Profitability	Return on Tier I capital (%)	8.50	10.25	10.91	11.30	11.48
	Return on assets (%)	0.35	0.40	0.40	0.38	0.37
	Return on shareholders' equity (%)	6.90	7.96	8.19	8.34	8.36
	Net income ratio (%)	33.57	34.01	34.55	35.03	33.75
	Earnings per share (NTD)	1.54	1.66	1.59	1.51	1.44
Financial structure	Ratio of liabilities to assets (%)	94.96	94.93	94.85	95.33	95.43
	Ratio of fixed assets to shareholders' equity (%)	15.87	17.25	18.38	20.42	21.74
Growth rate	Asset growth rate (%)	7.88	7.63	-1.26	3.61	1.91
	Profit growth rate (%)	-7.13	4.44	5.39	6.25	7.85
Cash flows	Cash ratio (%)	35.89	-21.71	31.59	15.10	-11.40
	Cash flow adequacy ratio (%)	1,036.49	128.25	414.20	216.47	86.94
	Cash flow sufficiency ratio (%)	-13,465.20	1,374.89	-1,508.16	-2,983.14	6,271.43
Liquid reserve ratio (%)		25.87	24.11	19.11	18.31	18.89
Total secured loans to related parties (NTD in thousands)		11,044,216	11,726,940	10,799,874	10,662,338	10,938,576
Ratio of total secured loans to related parties to total loans (%)		0.63	0.72	0.68	0.61	0.64
Operating scale	Market share of assets (%)	3.90	3.78	3.67	3.96	4.18
	Market share of net worth (%)	2.37	2.37	2.39	2.39	2.57
	Market share of deposits (%)	5.91	5.72	5.53	5.72	5.85
	Market share of loans (%)	6.87	6.76	6.79	7.57	7.68

Please analyze the variance of the various financial ratios for the last two years (variance over 20%):

- The profit growth rate in 2017 was lower than in 2016; the main reason was that the net income before tax in 2017 was lower than in 2016.
- The cash flow ratio and cash flow allowance ratio in 2017 was higher than in 2016 because the cash flow from operating activities increased in 2017 than in 2016. Besides, the cash flow satisfaction ratio in 2017 was lower than in 2016. The main reason was the cash flow from operating activities and investing activities in 2016 were all cash outflows, making a positive ratio for the year 2016. However, for the year 2017, the cash flow from operating activities was cash inflows and the cash flow from investing activities was an outflow, making a negative ratio for the year 2017.

Note 1: Figures for the period from 2013 to 2016 have been made by the CPAs based on the audit result of the National Audit Office. Figures for the period of 2017 have been audited and certified by CPAs.

Note 2: Equations for calculation of various ratios:

1. Operation capabilities

- (1) Ratio of loans to deposits = Average total loans outstanding / Average total deposits
- (2) Non-performing loan ratio = Total non-performing loans / Total loans
- (3) Ratio of interest expenses to annual average deposits = Total interest expenses / Annual average deposits
- (4) Ratio of interest revenues to annual average loans = Total interest revenues / Annual average loans
- (5) Total assets turnover = Net operating income / Average total assets
- (6) Average operating revenues per employee = Net operating income / Number of employees
- (7) Average profit per employee = Net income / Number of employees

2. Profitability

- (1) Return on Tier I capital = Before-tax earnings or losses / Net average Tier I capital
- (2) Return on assets = Net income / Average total assets
- (3) Return on shareholders' equity = Net income / Average net shareholders' equity
- (4) Net income ratio = Net income / Net operating income
- (5) Earnings per share (Comprehensive income attributable to owner of the parent preferred stock dividends) / Weighted average number of shares issued

3. Financial structure

- (1) Ratio of liabilities to assets = Total liabilities / Total assets
- (2) Ratio of real estate and equipment to shareholders' equity – real estate and equipment / Net shareholders' equity

4. Growth rate

- (1) Asset growth rate = (Total assets in the current year - Total assets in the preceding year) / Total assets in the preceding year
- (2) Profit growth rate = (Income before income tax in the current year - Income before income tax in the preceding year) / Income before income tax in the preceding year

5. Cash flows

- (1) Cash flows ratio = Net cash flows from operating activities / (Interbank loans and overdrafts + Commercial papers payable + Financial liabilities at fair value through profit or loss + Securities sold under agreements to repurchase + Payables with due date within one year)
- (2) Net cash flow adequacy ratio = Net cash flows from operating activities for the last five years / (Capital expenditure + Cash dividends) for the last five years
- (3) Cash flow sufficiency ratio = Net cash flows from operating activities / Net cash flows from investment activities

6. Liquid reserve ratio = Current assets required by the Central Bank / Various liabilities requiring liquid reserve

7. Operating scale

- (1) Market share of assets = Total assets / Total assets of all financial institutions handling deposits and loans
- (2) Market share of net worth = Net worth / Total net worth of all financial institutions handling deposits and loans
- (3) Market share of deposits = Total deposits / Total deposits of all financial institutions handling deposits and loans
- (4) Market share of loans = Total loans / Total loans of all financial institutions handling deposits and loans

Note 3: Total liabilities are net of reserves for losses on guarantees, losses on security trades, losses on breach of contracts, and accidental loss.

Note 4: Financial institutions handling deposits and loans include domestic banks, branches of Mainland China in Taiwan, branches of foreign banks in Taiwan, credit cooperatives, and credit departments of farmers' and fishermen's associations.

Note 5: The Bank's capital has increased to NT\$ 62.594 billion since October 31, 2016 and retroactively adjusted tabulated earnings per share each year.

## Capital Adequacy

Unit: NT\$ in thousands

Accounting Title Analyzed		Year (Note 1)	Capital Adequacy Ratios from 2013 to 2017					
			2017	2016	2015	2014	2013	
Owner's capital	Common stock		131,218,205	121,831,335	113,570,681	104,813,055	97,135,643	
	Other total tier I of non-common stocks equity		15,271,997	10,771,997	2,990,121	2,944,555	0	
	Tier II capital		44,357,029	51,599,859	61,685,666	64,008,483	68,110,196	
	Owner's capital		190,847,231	184,203,191	178,246,468	171,766,093	165,245,839	
Risk-weighted assets	Credit risk	Standardized approach	1,455,622,817	1,485,249,221	1,466,575,546	1,466,626,560	1,377,185,253	
		Internal ratings-based approach						
		Securitization						
	Operational risk	Basic indicator approach		53,082,779	51,118,577	49,101,454	47,980,803	
		Standardized approach / Alternative standardized approach	50,300,796					
		Advanced						
	Market risk	Standardized approach	42,341,623	52,704,583	42,277,653	36,635,433	37,041,116	
		Internal models						
	Total risk-weighted assets			1,548,265,236	1,591,036,583	1,559,971,776	1,552,363,447	1,462,207,172
	Capital adequacy ratio (%)			12.33%	11.58%	11.43%	11.06%	11.30%
Ratio of Tier I capital to risk assets (%)			9.46%	8.33%	7.47%	6.94%	6.64%	
Ratio of common stock to total assets (%)			8.48%	7.66%	7.28%	6.75%	6.64%	
Leverage ratio (%)			4.90%	4.78%	4.45%	-	-	

Please account for the reason which influences the Capital adequacy ratio of the last two years (There is no need to analyze it if the variation of increase and decrease has not achieved 20%)

Note 1: Figures for 2013 to 2017 have been audited by the CPAs.

Note 2: Equations for calculation of various ratios or values:

- (1) Owner's capital = Common stocks equity + Other total tier I of non-common stocks equity + Tier II capital
- (2) Total risk-weighted assets = Credit-risk-weighted assets + Total risk charge (operational risk market risk) × 12.5
- (3) Capital adequacy ratio = Owner's capital / Total risk-weighted assets
- (4) Ratio of Tier I capital to risk assets = Tier I capital (common stocks equity + other total tier I of non-common stocks equity) / Total risk-weighted assets
- (5) Ratio of common stocks equity to risk asset = Common stocks equity / Total risk-weighted asset
- (6) Leverage Ratio = Net tier I capital / Exposure measurement

Note 3: Public disclosure requirement of leverage ratio began in 2015.

### III. Risk Management Issues

#### (I) Qualitative and quantitative information of various risk

##### 1. Credit risk management system and capital appropriated

#### Credit Risk Management System For the Year 2017

Disclosure information	Description
<p>1. The strategy, target, policy and process for credit risk</p>	<p>I. The target for credit risk management: The target for the Bank to implement credit risk management is to keep capital adequacy and create the highest reward after risk adjustment within the scope of tolerable credit risk accepted by the Bank.</p> <p>II. The management strategy of credit risk management: In order to employ and allocate the funds of bank effectively, the business management strategy of the credit risk of the Bank shall consider overall economic circumstances, the operation strategy, entire credit portfolio connotation and quality, cost and reward of risk, etc. then decide to adopt various tool to reduce credit risks which include the request for collateral, net amount settlement in the balance sheet, third-party guarantee, etc. And to mitigate or transfer credit risk.</p> <p>III. Management strategy of the credit risk. (I) According to the credit management strategy and business guideline such as "The Policy and Procedure of Risk Management," "The Management Guideline for Credit Risk," "Credit and Investment Policy," etc., which were approved by the Board of Directors. Under the related materials of Basel Accord and regulations of competent authorities, define the management process and procedure for all credit risk for implementation compliance. (II) To employ the funds of the Bank effectively, the formulation of all credit risk strategy and operation regulation will consider overall economic circumstances, the operation strategy, cost and reward of risk, Under the related materials of Basel Accord and regulations of competent authorities. The strategy and regulation will be reviewed and amended periodically and be effective after the approval of the Board of Directors / Top Management based on the approval process.</p> <p>IV. Management process of the credit risk. For all credit extension and investment business, the various department and division under the head office, regional center, and business unit conduct risk identification, measurement, monitor, report and control, assessment and review all possible credit risk to facilitate the implementation of credit risk management for the entire bank.</p>
<p>2. The management organization and structure of credit risk</p>	<p>The structure of credit risk management and control function of the Bank is constituted with three lines of defense by Board of Directors, Risk Management Committee, Audit Department, Risk Management Department, the Supervision Unit of Various Business, Financial Trading Unit and Business Unit:</p> <p>I. First line of defense (Risk generating or bearing unit): All units of the Bank bear the risks arising from their daily operation concerning their functions and business scope. Those who meet the credit risk are the first line of defense and shall be responsible for the credit risk management. Design and perform adequate internal control procedures for the specific risk characters to cover all relevant operational activities. And executive risk management and control over various business risk based on applicable laws and regulations, various provisions of the Bank and multiple tools for credit risk.</p> <p>II. Second line of defense (Risk control and management unit): The second line of defense (risk management department and various business supervision units) should assist and supervise the first line of defense to identify, measure and manage credit risk for the business under their management. (I) Risk Management Department serves as an independent and dedicated role and is responsible for the assessment, supervision, control, review, and reporting of the overall business risk of the Bank. (II) Other various business supervision unit shall identify, assess and control the credit risk of the business under its supervision, newly development business or financial products, formulating and executing credit risk management regulation and mechanism of various business, supervise risk undertaking ability and current status of risk-bearing for the business under its supervision, and make decision based on its responsibility.</p> <p>III. Third line of defense (Internal Audit Unit): To perform the audit and evaluate the effectiveness of the credit risk management system which was designed and executed by the First line and Second line of defense, and inspect the defects and correction or improvement of credit risk control of the entire Bank and follow up, provide a timely improvement recommendation.</p>
<p>3. The scope and features of the credit risk reporting and measurement system</p>	<p>I. Credit risk reporting: (I) Scope: Regularly state and report the scope of credit risk monitoring report to the management which includes asset quality, various countries, industries, groups, credit holders of considerable amount, and exposure of collateral categories, etc. (II) Features: Immediately perform the dynamic monitoring of credit risk, if there is a significant change or exceed the relevant limit, apply for the further review of the supervisor of the business unit base on the procedure and then report to the chief executive to control credit risk effectively.</p>

Disclosure information	Description
	<p>II. Credit risk measurement system:</p> <p>(I) Scope: The Bank calculates the accrual capital based on credit risk standardized approach currently, the risk management system generates various reports as the basis of monitoring report for the top management, risk management committee and the Board of Directors. Besides, the Bank expects to measure credit risk with the more advanced approach, it implemented internal credit evaluation model and had developed the probability model of breach of contract such as scoring card for newly received mortgage loan application, scoring card for mortgage loan behavior, scoring card for consuming loan, scoring card for credit card and scoring card for enterprise financing, etc. and perform the segmentation for credit extension customers. Complete the establishment of loss rate model for mortgage loan contract breach. The Bank will keep planning to set up the quantitative model of credit risk for other business to improve the management ability of credit risk.</p> <p>(II) Features: Build up a whole-bank credit risk data supermarket for connectable relevant information system (such as credit evaluation system, credit check and loan process management system, etc.) to facilitate various credit risk limit control. Conducting risk segmentation based on the level of breach-contract customers to emphasize the credit risk management mechanisms of the Bank.</p>
4. Credit risk hedge or mitigation policy, and strategies and process for continued effectiveness of tools monitoring, hedging and mitigating risks	<p>I. Policy on the credit risk hedge or risk reduction:</p> <p>(I) To prevent the Bank's loss because of breach of contract by borrowers or trading counterparties, the Bank will request for collateral, guarantor or get the guarantee from credit guarantee agency to mitigate the credit risk.</p> <p>(II) According to the Basel Accord III and the regulations of the competent authorities, the operation methods (such as qualified collaterals and guarantee agencies) for conducting credit risk reduction because of regulatory compliance shall be included in the information systems to calculate the effectiveness of credit risk reduction of the Bank accurately.</p> <p>II. Strategies and process for continued effectiveness of tools monitoring, hedging and mitigating credit risks: The strategy and processes for the continuous and effectiveness of credit risk monitoring avoidance and credit reduction tools: Through the mechanism of post-lending management and review, focus on the operation status of credit customers, status of collaterals, credit status of guarantors and cases guaranteed by the guarantee agencies to check whether the results comply with the regulations of the Bank and guarantee agencies and conduct regular inspections to ensure the effectiveness of risk reduction.</p>
5. Method adopted for legal capital accrual	Credit Risk Standardized Approach

**The Exposure Amount and Capital Accrual after Risk Reduction  
under Credit Risk Standardized Approach  
March 31, 2018**

Unit: NT\$ in thousands

Type of Risk Exposure	Exposure Amount after Risk Reduction	Capital Accrual
Sovereign country	698,800,251	0
Non-Central Government Public Sector	61,816,960	989,071
Banks (including Multi-lateral Development Banks)	171,410,759	5,622,202
Enterprises (Including securities and insurance companies)	736,139,413	53,704,112
Retail Exposures	328,277,518	22,516,615
Real Estate for Residence	815,403,770	31,518,580
Equity Security Investments	980,831	78,466
Other Assets	75,511,259	4,718,267
<b>Total</b>	<b>2,888,340,762</b>	<b>119,147,314</b>

2. Risk management system for asset securitization, exposure amount and capital accrual

Risk Management System for Securitization  
For the Year 2017

Disclosure information	Description
<p>1. Management strategy and process of asset securitization</p>	<p>I. The management strategy of asset securitization: According to the "Guidelines Governing Investment Beneficiary Certificates and Asset Backed Securities" and "Guidelines Governing Short-term Bills Business" approved by the Board of Directors of the Bank. The regulation was defined for business when investment in beneficiary certificates, asset backed securities (non-founding bank), or perform as underwriter institute (founding bank) of asset-backed commercial paper for process compliance.</p> <p>II. The management process of asset securitization: (I) According to the rules of "Guidelines Governing Investment Beneficiary Certificates and Asset Backed Securities" and "Guidelines Governing Short-term Bills Business" of the Bank, when investing in beneficiary certificates, asset backed securities (non-founding bank), and underwriting agency business (founding bank) of asset-backed commercial paper, the investment target must be a certain level of credit rating or above and establish the authorization limit approval amount of different level of supervisor. When the credit rating agencies downgraded the investment target, the "The Special Task Force Team for Investment in Marketable Securities" shall convene a meeting immediately to study the corresponding solutions and apply the approval of the president. (II) According to the regulation of the credit-extension authorization limit table for all levels of the Bank's supervisors, when conducting the business of the liquidity financing (founding bank), it shall be processed under the hierarchical responsibility of credit-extension management organization and conduct with general credit-extension reviewed procedure.</p>
<p>2. Management organization and structure of asset securitization</p>	<p>Establish a risk management organization and structure which is constituted with three lines of defense by Board of Directors, Risk Management Committee, Risk Management Department, the Supervision Units of Various Business, Operating (Trading) Unit, and Audit Division:</p> <p>I. First line of defense (Risk generating or bearing unit): The relevant units (including but not limited to the financial department and financial transaction unit) conducting the asset securitization business shall bear, identify, evaluate and control the risks arising from their asset securitization business concerning their functions and business scope, and state and report the related risk management information accordingly.</p> <p>II. Second line of defense (Risk control and management unit): Risk Management Department and the Supervision Units of Various Business should assist and supervise the first line of defense to identify, measure and manage the risk arising from asset securitization business for the business under their management. (I) Risk Management Department performs as an independent and dedicated role and is responsible for the assessment, supervision, control, review, and reporting of the overall asset securitization business of the Bank. (II) Other various business supervision units shall identify, assess and control the asset securitization business risk of the business under its supervision, formulating and executing the management regulation and mechanism for asset securitization business risk of the business under its supervision, supervise risk undertaking ability and current status of risk-bearing for the business under its supervision, and make decision based on its responsibility.</p> <p>III. Third line of defense (Internal Audit Unit): To perform the audit and evaluate the effectiveness of the asset securitization risk management system which was designed and executed by the First line and Second line of defense, and inspect its appropriateness, reliability and the status of legal compliance.</p>
<p>3. The scope and features of asset securitization risk report and measurement system</p>	<p>I. Risk report of asset securitization: (I) Scope: Regularly state and report the scope of the assessment report of asset securitization that the Bank invested which includes investment category, amount, credit rating and evaluation, etc. (II) Features: The Bank formulated loss control standard and relevant corresponding solution for the investment in real estate investment trust beneficiary certificates, domestic beneficiary certificates and asset backed securities, foreign currency asset securitization products, etc. to control risk.</p> <p>II. Asset securitization measurement system: (I) Scope: According to the "Guideline Governing Investment in Beneficiary Certificate and Asset Backed Security" of the Bank and relevant regulations, manually and regularly monitor the status of securitization target exposure (such as credit rating, contract performance status, market transaction information, etc.) and accrued capital accordingly. (II) Features: The monitor result conducted based on the regulations mentioned above shall be summarized and regularly included in the risk monitor report and submitted to the Board of Directors and Risk Management Committee. In case of significant abnormal situation, the business supervision unit shall report to the chief executive based on the regulation to develop the countermeasures accordingly.</p>
<p>4. Asset securitization risk hedge or mitigation policy, and strategies and process for continued effectiveness of tools monitoring, hedging and mitigating risks</p>	<p>I. The policy on asset securitization hedge or risk reduction: According to the material of Basel Accord and the regulation of competent authorities, the credit risk reduction tools of asset securitization exposure based on the regulation should be included to calculate risk reduction effectiveness of asset securitization of the Bank accurately.</p> <p>II. Strategies and process for continued effectiveness of tools monitoring, hedging and mitigating asset securitization risks: By periodically and non-periodically monitoring the credit rating and the changes in asset pool of investment in beneficiary securities and asset backed securities, execute stop-loss limit mechanism when it is necessary and report to the chief executive based on the procedure so as to facilitate controlling the risk of asset securitization.</p>
<p>5. Method adopted for legal capital accrual</p>	<p>Asset Securitization Standardized Approach</p>

Engage in securitization: None

Securitization exposure and capital accrual: None

Securitization product information: None

### 3. Operational risk management system and capital accrual

## Operational Risk Management System For the Year 2017

Disclosure information	Description
1. The management strategy and process of operational risk	<p>I. The management strategy of operational risk: In order to control the materiality of the frequency of occurrence and loss amount of the Banks operational risk within the tolerance, aggressively identify, measure, monitor all business and operational process and continue to develop and establish various operation risk management tools.</p> <p>II. The management process of operational risk:</p> <p>(I) There are business regulation, internal control system and standard operation process for all the Bank's products, operating activities and for business unit's compliance. Employ risk identify, measure, monitor, report and control, assess and review all material operational risk of the Bank.</p> <p>(II) Formulate relevant emergency response and recovery plan (Business Continuity Plan) to ensure the various business will continue to operate when there is nature or severe human-made accident and formulate relevant regulation for the outsourced business by the Bank.</p>
2. Management organization and structure of operational risk	<p>The operational risk management organization structure of the Bank is constituted by the Board of Directors, Risk Management Committee, Audit Department, Risk Management Department, the Supervision Units of Various Business (including the various departments and divisions of head quarter, all regional centers), Financial Trading Unit and Business Units:</p> <p>The Bank identifies the operational risk management responsibility for each unit with three lines of defense:</p> <p>I. First line of defense (Risk generating or bearing unit):</p> <p>(I) It is the first line of defense for all unit of the Bank to take the responsibility of the operational risk arising from its daily business operation under its function and business scope. It should be responsible for identifying and managing the risk, based on the features of the risk, design and execute adequate internal control procedure to cover all relevant operational activities. According to applicable laws and regulation, the Bank formulates the management tools for operational risk, performs the control of operational risk under its business and state and reports the relevant management risk to the various business supervision units based on the regulation.</p> <p>(II) The first line of defense is responsible and continuously manage the operational risk arising from operating activities which include:</p> <p>1. Identify, measure, assess, control and decrease the operational risk resulting from operating activities to ensure the operation activities agree with the goal and mission of the Bank.</p> <p>2. The first line of defense shall control the operational risk within the tolerant scope of the unit, it should report the status of exposure to the second line of defense if necessary.</p> <p>3. Perform the management procedure for operational risk and ensure adequate internal control.</p> <p>4. When the process and control procedure are not enough, it should provide the improvement solution immediately.</p> <p>(III) The first line of defense shall regularly or irregularly conduct a self-assessment on the issues mentioned in the previous paragraph to ensure the operational risk is adequately controlled and managed.</p> <p>II. Second line of defense (Risk control and management unit which is the risk management department and the various business supervision units):</p> <p>(I) The second line of defense shall assist and supervise the first line of defense to identify, measure and manage operational risk and the execution status of self-assessment.</p> <p>(II) Risk Management Department serves as an independent and dedicated role and is responsible for the assessment, supervision, control, review, and reporting of the overall operational risk of the Bank.</p> <p>(III) Other various business supervision unit shall identify, assess and control the operating of the business under its supervision, newly development business or financial products, core products, operating activities, operation process, information system and newly developed business or financial products. Formulate the management regulation and mechanism for the operational risk of its business and operating activities. Supervise the risk undertaking ability and status of risk tolerance for the various business and through education and training, employees from all level are fully aware that they should cooperate to implement the execution of operational risk management and taking their responsibilities within the scope of their duties.</p> <p>III. Third line of defense (Audit Department):</p> <p>(I) Audit department is the third line of defense, and is responsible for performing the audit and evaluation of the effectiveness of the operational risk management system which was designed and executed by the First line and Second line of defense, and provide improvement recommendation in a timely manner.</p> <p>(II) Audit department is responsible for checking the effectiveness of the implementation of operational risk across all units of the Bank, the regular audit the execution status of operational risk management system and process control. And inspect the follow-up to the correction or improvement of the operational risk defects control of the Bank.</p>

Disclosure information	Description
3. The scope and feature of operational risk report and measurement system	<p>I. Operational risk report:</p> <p>(I) Scope: the scope of operational risk monitoring report which should state and report to the management level regularly include:</p> <ol style="list-style-type: none"> <li>1. The monthly conducted operation risk loss business, operating risk exposure situation, key risk indicators established by each supervision unit of various business, warning or proposed matters, and trend analysis, etc.</li> <li>2. The self-assessment result of the various major business operational risk conducted with the current year.</li> </ol> <p>(II) Features: When encounter the various major operational risk issues, irregularly prepare relevant dynamic risk monitoring report; when the relevant risk exposure and control assessment changes because of the external environment and internal environment change, it should be disclosed in the operational risk monitoring report.</p> <p>II. Operational risk management system:</p> <p>(I) Scope: According to the Basel Accord, the regulations of the competent authorities and the Bank's business requirements, implement the management tools such as internal loss event management to identify, measure and assess the operational risk of the Bank's core products, operating activities, operational processes and information systems. Besides, based on the risk causes, types, and business type to summarize the risk profile information of the Bank, and through the connecting function to connect management tools, establish the Bank's operational risk database. Then calculate capital accrual for the operational risk accurately. And gradually implement advanced risk measure method.</p> <p>(II) Features: Collect internal loss data and establish the operational risk loss database. For quantifiable risks, implement key risk indicators (KRI) and set warning limits to assist in identifying the operational risks involved in the leading products and business activities of the Bank; for qualitative risks, implement Risk and Control Self Assessment (RCSA) and request all units of the Bank to assess the control status of operational risk of main operating activities.</p>
4. Operational risk hedge or mitigation policy, and strategies and process for continued effectiveness of tools monitoring, hedging and mitigating risks	<p>I. Policy on operational risk hedge or risk reduction</p> <p>(I) Based on the frequency of occurrence of operational risk loss event in the Bank and the materiality of loss amount to analyze to decide the corresponding strategy for the risk of various business and operating activities. Including risk hedge, risk transfer or offset, risk reduction or control, risk undertaking and other strategy as below:</p> <ol style="list-style-type: none"> <li>1. For the risk of a low frequency but high in loss amount, it should adopt prevention and reduction methodology such as limitation control, business transfer or business continuity plan, etc.</li> <li>2. For the risk of high frequency but low in loss amount, it should adopt internal control, insurance policy, outsourcing operations, know your customer, legal compliance management, ethics regulation management and emphasis on education and training, etc.</li> <li>3. For the loss of high frequency and high in loss amount, it should adopt avoidance methodology to avoid the operating activities which may cause risks.</li> <li>4. For the loss of low frequency and low in loss amount, the risk is acceptable.</li> </ol> <p>(II) The processes outsourced by the Bank (such as data processing, credit card processing, cash transit and refill, internal audit, etc.) are conducted based on "Directions for Outsourcing Operations of the Land Bank of Taiwan", "Directions for Data Processing Outsourcing Operations of the Land Bank of Taiwan" to prevent the operational risk because of outsourcing processes and as the strategy of operational risk reduction.</p> <p>(III) Take out the fidelity bond insurance, cash insurance, financial industry safe deposit box liability insurance, theft insurance, public liability insurance, fire insurance, electronic equipment insurance, etc. to reduce the risk because of operation and as the operational risk reduction tools.</p> <p>II. Strategies and process for continued effectiveness of tools monitoring, hedging and mitigating operational risks:</p> <p>(I) The supervision units of various business regularly review relevant regulations, standard operation procedure of the business under its supervision, and through self-assessment for operational risk to discover risks which are not identified and control points which are not implemented effectively.</p> <p>(II) Risk Management Department regular review the status of operational risk control of the Bank and relevant operational risk issues, provide suggestions on the timely manner, and continuously monitor and track the part where risk control is not enough. Adopt adequate management methodology to reduce operational risk.</p> <p>(III) All insured units shall review the insured business items regularly to ensure the insurance policies are effective.</p>
5. Method adopted for legal capital accrual	Operational Risk Standardized Approach

### Capital Accrual for Operational Risk December 31, 2017

Unit: NT\$ in thousand

Year	Operation Gross Profit	Capital Accrual
Year 2015	28,748,588	
Year 2016	29,232,874	
Year 2017	28,604,523	
Total	86,585,985	4,024,064

#### 4. Market risk management system and capital accrual

### Market Risk Management System For the Year 2017

Disclosure information	Description
<p>1. The strategy and process for market risk management</p>	<p>I. Market risk management strategy: When conducting market risk related business, assess the materiality of the loss may occur of the transaction before or after the transaction or in the severe change in economic environment and adopt methodology such as risk avoidance, risk reduction or transfer, risk control, risk undertaking, etc. For example, actively avoiding high leverage, financial products with high volatility and significant losses, or adopting strategies for closing position, selling, and hedging strategies; and in accordance with relevant regulations such as limit management, stop-loss mechanism, over-limit treatment, and risk undertaking, effectively control market risks. Take control of the overall risk and the result of risk measurement to ensure continued effectiveness.</p> <p>II. Market risk management process:</p> <p>(I) Basic principles include the various product standards, the standards of new products / business and relevant rules and process of market risk identification, measurement, monitoring and reporting.</p> <p>(II) Market risk identification: Financial trading unit and risk management personnel shall fully understand and confirm that each financial instrument should have its specific market risk factors. Risk management personnel should try their best to identify the risk factor that may lead to the market risks and confirm the accurateness and applicability of financial instruments evaluation formula.</p> <p>(III) Market risk measurement: Develop a quantifiable model to measure market risk and integrate with daily risk limitation management.</p> <p>(IV) Market risk evaluation: According to the market price evaluation method, model evaluation, the external source or independent market price verification to evaluate the evaluation of the financial product on hand.</p> <p>(V) Market risk monitoring: According to various limits, the financial trading unit routinely monitors the transaction status throughout business activities to manage and control the execution of multiple transactions within the scope of authorization and limits. The monitoring includes the trading modes, trading targets, and transaction process, position and change in profit or loss shall comply with regulations and be conducted within limits and authorizations. The Risk Management Department shall monitor and analyze the data generated by the risk measurement model on a daily basis, if there is a significant exposure which will endanger financial or business conditions or legal compliance, it should immediately report to the president and report to the Board of Directors.</p> <p>(VI) Market risk report: Risk Management Department regularly reports the Bank's market risk management statements or report to the Risk Management Committee, including the risk positions, exposure situations, profit/loss situations, status of limits utilization, and compliance situation of relevant market risk management regulations of the Bank; In order to comply with the principle of public disclosure, and in accordance with the regulations of the competent authorities, the Bank regularly disclose the market risk management information.</p>
<p>2. Management organization and structure of market risk</p>	<p>Establish a market risk management organization and structure which is constituted with three lines of defense by Board of Directors, Risk Management Committee, Audit Department, Risk Management Department, the Supervision Units of Various Business in headquarter and financial trading unit:</p> <p>I. First line of defense (Risk generating or bearing unit): Each financial trading unit shall follow the relevant regulations of the Bank's market risk management, and formulate applicable regulations for market risk control and position management. Actively monitor various limits and state and report relevant management information to the Supervision Units of Various Business or Risk Management Department according to rules.</p> <p>II. Second line of defense (Risk control and management unit which is the risk management department and the various business supervision units):</p> <p>(I) Risk Management Department is an independent and dedicated unit of the bank's market risk management. It serves as a platform of centralization and is responsible for planning and establishing the market risk management framework and procedures approved by the board of directors. Collect and disclose the Bank's market risk information and status of execution, regularly submits reports and recommendations to the Risk Management Committee and the Board of Directors, and serves as a communication center for market risk management intelligence and culture.</p> <p>(II) The relevant supervision units of various business of the headquarter shall be responsible for identifying, assessing, supervising and controlling the market risks arising from the business under the Bank's risk management policies, and cooperate with Risk Management Department to complete the market risk control of the Bank. And formulating the product guidelines for the products transaction process under its supervision, limits management and risk control.</p> <p>III. Third line of defense (Audit Department): Audit department is responsible for performing the audit and evaluation of the effectiveness of the marketing risk management system which was designed and executed by the First line and Second line of defense, inspect the follow-up to the correction or improvement of the market risk defects control of the Bank and provide improvement recommendation in a timely manner.</p>

Disclosure information	Description
3. The scope and features of market risk report and measurement system	<p>I. Market risk report:</p> <p>(I) Scope: The scope of regularly state and report the market risk monitoring report to the management includes equity securities risk, interest risk of fixed-income instrument, exchange rate risk, derivative financial product risk, overseas marketable securities risk, New Taiwan dollar and foreign currency liquidity risk, interest rate risk and investment limit monitoring, etc.</p> <p>(II) Features: Market risk report presents the Bank's market risk of financial assets denominated in New Taiwan Dollar and foreign currency financial asset based on risk value, value, DV01, duration, variance analysis, scenario simulation, etc. In addition to reflecting market exposure risks, the report can also provide various profit and loss, limit usage status, investment performance, market trend overview, etc. to the management, and as the evidence for the management to adjust market risk management policies, procedures and limits.</p> <p>II. Market risk measurement system:</p> <p>(I) Scope: Currently, the scope of financial products measured by the risk value assessment system includes the single risk value of the stocks, funds, bonds, bills and foreign exchange positions of the Bank and the calculation and measurement of the risk value of the market risk factor and the total component risk value.</p> <p>(II) Features: The risk assessment system assesses the maximum loss that will occur at a given probability for a specified period based on statistical methods, to reasonably estimate the Bank's market risk exposure situation of stocks, funds, bonds, bills, and foreign exchange position and total exposure of market risk. And present the Bank's risk value base on factors such as interest rate, exchange rates, and securities to measure the market risk of each factor and as the evidence for the management to adjust market investment strategy, risk tolerance limits.</p>
4. Market risk hedge or mitigation policy, and strategies and process for continued effectiveness of tools monitoring, hedging and mitigating risks	<p>I. Policy on market risk hedge or risk reduction:</p> <p>(I) According to relevant regulations of the Bank, the transaction limits, risk limits, time limits, stop-loss mechanisms of various financial products, and derivative products transactions for hedging purpose are implemented to avoid market risks.</p> <p>(II) Currently, the Bank holds foreign currency securities with fixed-rate interest. The transaction unit evaluates the trend of market interest rate and conducts interest rate swap to avoid the risk of interest rate changes. Before reaching the loss control standards, design various early-warning standards and when the early-warning standard is met, notify relevant units immediately by e-mail. It is expected to control and avoid market risk effectively. Besides, the primary purpose of foreign exchange forward contract is to meet the requirement of customers' payment for international trade or hedge for financial management, aiming at the settlement of customers' position. The foreign currency swap held by the Bank is also aiming at the settlement of customer's foreign currency exchange or forward. The primary purpose of these transactions is to hedge and thus the market risk is controlled within a certain level.</p> <p>II. Strategies and process for continued effectiveness of tools monitoring, hedging and mitigating market risks: Regularly and irregularly reviewing the Bank's risk value, nominal capital, stop-loss limit, trading strategy, etc., in the emergency situation or over time-limit the trading unit should perform the processing plan, or reduce the position, or sell at the stop-loss limit, or enter hedge contract to avoid loss increase.</p>
5. Method adopted for legal capital accrual	Market Risk Standardized Approach

Capital Accrual for Market Risk  
March 31, 2018

Unit: NT\$ in thousand

Risk	Capital Accrual
Interest rate risk	1,758,627
Equity security risk	567,786
Foreign exchange risk	30,605
Commodity risk	
Options process with the simplified approach	
Total	2,357,018

# *Continuousness*

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### **Statement by the Audit Committee**

The Company's business reports and financial statements for the year of 2017(including the Balance Sheets, the Statements of Comprehensive Income, the Statements of Changes in Equity, and the Statements of Cash Flows), audited and attested by CPAs Gau, Wey-Chuan, and Mei, Yuan-Chen of KPMG, have been reviewed by the Audit Committee at the 2nd-term 3rd meeting held on March 16, 2018, in which we have found no discrepancy. This review report is submitted in accordance with the requirements of Article 14-4 of the Securities and Exchange Act.

### **Audit Committee**

Independent Director: Lai, Ching-Chong

Independent Director: Lin, Hsin-Wu

Independent Director: Lee, Tsung-Pei  
(Convenor)

March 16, 2018

## Independent Auditors' Report

To the Board of Directors of Land Bank of Taiwan Co., Ltd.:

### Opinion

We have audited the consolidated financial statements of Land Bank of Taiwan Co., Ltd. ("the Bank"), which comprise the consolidated statement of financial position as of December 31, 2017 and 2016, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended December 31, 2017 and 2016, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank as at December 31, 2017 and 2016, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2017 and 2016 in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and with the International Financial Reporting Standards ("IFRSs"), International Accounting Standards ("IASs"), interpretation as well as related guidance endorsed by the Financial Supervisory Commission of the Republic of China.

### Basis for Opinion

We conducted our audit in accordance with the "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and the auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Banks in accordance with the Certified Public Accountants Code of Professional Ethics in Republic of China ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis of our opinion.

### Key Audit Matters

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

#### 1. The assessment of loan impairment

Please refer to Note 6(f) and (l) for the related accounting policy on loan impairment, Note 5(a) for the assessment on loan impairment of accounting assumptions and estimation uncertainty, and Note 6(ah) for the disclosure of the assessment on loan impairment.

How to address this matter in our audit

The main activity of Land Bank of Taiwan Co. (the Bank) is providing loan services. The Bank undertakes credit risk when a customer is not able to perform the repayment on schedule while providing loan services. Therefore, the assessment on loan impairment of accounting assumptions and estimation uncertainty were included as our key audit matters.

Our principal audit procedures included:

Our principal audit procedures included (i) analyzing the balance and structure of the loans and changes in bad debts to identify significant changes and understand their reasons. (ii) reviewing relevant credit files, overdue aging, collateral value, historical default and loss probability. (iii) reviewing whether the loan is subject to objective evidence of impairment. (iv) evaluating whether the classification and estimation method used were appropriate. (v) inspecting whether the amount of impairment was calculated in accordance with the provisions "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing / Non-accrual Loans". (vi) assessing whether the items related to assessment on impairment allowance has been fairly disclosed in the financial report.

## 2. Valuation for fair value of financial assets

Please refer to Note 4(f) for the related accounting policy in the valuation for fair value of financial assets, and Note 6(ag) for the valuation for fair value of financial assets on accounting assumptions and estimation uncertainty.

How to address this matter in our audit

Directly open market quotations are not applicable to some of the Bank's financial instruments. These instruments are evaluated by using observable input parameters; and the setting of some parameters involves the subjective judgment of the management. Since the amount of financial instrument is significant, the valuation for fair value of financial assets on accounting assumptions and estimation uncertainty were included as our key audit matters.

Our principal audit procedures included:

Our principal audit procedures included (i) testing the design and implementation of the internal control operation cycle. (ii) analyzing and evaluating the balance and structure of financial instruments. (iii) inspecting the evaluation parameters and access for obtaining the fair value of financial instruments. (iv) Issuing external investment confirmations to assess its existence, correctness and rights.

## 3. The assessment on the impairment of financial instrument

Please refer to Note 4(f) for the related accounting policy of financial instrument impairment, Note 5(b) for the assessment on financial instrument impairment of accounting assumptions and estimation uncertainty, and Note 6(i) and (ag) for the disclosure on the assessment for financial instrument impairment.

How to address this matter in our audit

The assessment on the impairment for financial assets relies on the objective evidence of impairment that the management authorities comprehensively consider through various observable materials. The assessment on the impairment of financial instrument involves accounting assumptions and estimation uncertainty, and was therefore, included as our key audit matters.

Our principal audit procedures included:

Our principal audit procedures included (i) reviewing the operating practices or the assessment on the impairment. (ii) understanding the impairment process and assessing the fairness of the management's assessment on the impairment of financial assets and allowances for impairment losses in view of the financial assets credit rating and changes, market price decline, sustainability, and debt service status.

### Other Matter

The financial report is subject to the amount approved by the Audit Department of the Supervisory Office. The accounts in 2015 were reviewed and approved by the Chief Executive of the Executive Yuan and the Audit Department of the Ombudsman. The relevant financial statements have been re-written in accordance with the instructions.

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

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Securities Issuers and IFRSs, IASs, interpretation as well as related guidance endorsed 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 Bank'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 Banks or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Banks's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue

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

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

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

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

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

The engagement partners on the audit resulting in this independent auditors' report are Gau Wey-Chuan and Mei Yuan-Chen.

KPMG  
Taipei, Taiwan (Republic of China)  
March 23, 2018

#### Notes to Readers

The accompanying consolidated financial statements are intended only to present the consolidated statement of financial position, financial performance and its cash flows in accordance with the 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 accepted and applied in the Republic of China.

The auditors' report and the accompanying consolidated financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of the English and Chinese language auditors' report and consolidated financial statements, the Chinese version shall prevail.



Expressed in, New Taiwan Dollars

Liabilities and Equity		December 31, 2017		December 31, 2016	
		Amount	%	Amount	%
<b>Current liabilities:</b>					
21000	Total deposits from the central bank and banks (note 6(n))	\$ 200,334,268	7	142,091,394	5
21500	Total due to the central bank and banks	2,040,692	-	2,359,557	-
22000	Total financial liabilities at fair value through profit or loss (notes 6(c) and (ag))	3,546,578	-	8,665,611	-
22500	Total notes and bonds issued under repurchase agreement (note 6(d))	15,157,816	1	7,713,092	-
23000	Total payables (note 6(o))	24,844,608	1	24,459,437	1
23200	Total current tax liabilities	368,616	-	816,584	-
23500	Total deposits and remittances (note 6(p), (ag) and 7)	2,400,023,270	83	2,247,268,415	85
24000	Total bank notes payable (notes 6(q) and (ag))	66,691,640	2	79,694,341	3
25500	Total other financial liabilities (note 6(r))	146,198	-	175,111	-
25600	Total provisions (note 6(s))	17,651,342	1	16,937,778	1
29300	Total deferred income tax liabilities	6,926,029	-	6,926,134	-
29500	Total other liabilities (note 6 (u))	1,216,170	-	1,211,337	-
<b>Total liabilities</b>		<b>2,738,947,227</b>	<b>95</b>	<b>2,538,318,791</b>	<b>95</b>
<b>Equity attributable to owners of parent: (note 6(w))</b>					
31101	Common stock	62,594,000	2	62,594,000	2
31500	Total capital surplus	21,748,869	1	21,748,869	1
32001	Legal reserve	31,236,043	1	28,380,377	1
32003	Special reserve	17,859,908	1	14,064,239	1
32005	Total unappropriated earnings	8,335,109	-	5,467,558	-
		57,431,060	2	47,912,174	2
32500	Total other equity interest	2,868,334	-	2,472,417	-
<b>Total equity</b>		<b>144,642,263</b>	<b>5</b>	<b>134,727,460</b>	<b>5</b>
<b>Total liabilities and equity</b>		<b>\$ 2,883,589,490</b>	<b>100</b>	<b>2,673,046,251</b>	<b>100</b>

Consolidated Statements of Comprehensive Income  
For the years ended December 31, 2017 and 2016

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

		2017		2016		Change %
		Amount	%	Amount	%	
41000	Total interest income	\$ 43,449,692	151	41,840,744	136	4
51000	Less: Total interest expenses	18,710,697	65	17,095,902	56	9
	Net income of interest (note 6(y))	24,738,995	86	24,744,842	80	-
	Net non-interest income					
49100	Net service fee (charge) income (losses) (note 6(z) and 7)	2,831,290	10	3,014,136	10	(6)
49200	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss (notes 6(c) and (aa))	(237,008)	(1)	43,054	-	(650)
49300	Realized gain (loss) on available-for-sale financial assets (note 6(ab))	647,536	2	1,469,318	5	(56)
49600	Foreign exchange gain (loss)	255,223	1	(114,611)	-	323
49863	Net gain (loss) on disposal of property	18,748	-	30,451	-	(38)
49899	Other miscellaneous income (loss) (note 6(ac))	523,623	2	1,536,087	5	(66)
		28,778,407	100	30,723,277	100	(6)
58200	Total bad debts expense and guarantee liability provision (note 6(f))	492,992	2	1,624,497	5	(70)
58500	Total employee benefits expenses (note 6(ad))	10,388,869	36	10,398,526	34	-
59000	Total depreciation and amortization expense (note 6(ae))	996,069	3	923,351	3	7
59500	Total other general and administrative expense (note 6(af))	5,018,948	17	4,968,946	16	1
		16,403,886	56	16,299,823	53	1
		11,881,529	42	12,798,957	42	(7)
	Profit (loss) from continuing operations before tax	11,881,529	42	12,798,957	42	(7)
61003	Add: Tax income (expense) (note 6(v))	(2,247,906)	(8)	(2,382,044)	(8)	6
	Profit (loss)	9,633,623	34	10,416,913	34	(8)
65000	Other comprehensive income:					
65200	Components of other comprehensive income that will not be reclassified to profit or loss					
65201	Gains (losses) on remeasurements of defined benefit plans	(114,737)	-	(304,997)	(1)	62
65220	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-	-
		(114,737)	-	(304,997)	(1)	62
65300	Other components of other comprehensive income that will not be reclassified to profit or loss					
65301	Exchange differences on translation	(1,182,010)	(4)	(989,054)	(3)	(20)
65302	Unrealized gains (losses) on valuation of available-for-sale financial assets (note 6(w))	1,577,927	5	(1,538,580)	(5)	203
65320	Income tax related to components of other comprehensive income that will be reclassified to profit or loss (note 6(w))	-	-	-	-	-
	Components of other comprehensive income that will be reclassified to profit or loss	395,917	1	(2,527,634)	(8)	116
65000	Other comprehensive income	281,180	1	(2,832,631)	(9)	110
	Total comprehensive income	\$ 9,914,803	35	7,584,282	25	31
	Basic earnings per share (note 6(x))	\$ 1.54		1.66		

Consolidated Statements of Changes in Equity

For the years ended December 31, 2017 and 2016

Expressed in Thousands of New Taiwan Dollars

Equity attributable to owners of parent									
	Ordinary shares	Capital surplus	Retained earnings			Total other equity interest			Total equity
			Legal reserve	Special reserve	Unappropriated retained earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Total other equity interest	
Balance at January 1, 2016	\$58,100,000	21,748,869	25,346,802	13,681,727	3,265,729	1,103,764	3,896,287	5,000,051	127,143,178
Profit (loss)	-	-	-	-	10,416,913	-	-	-	10,416,913
Other comprehensive income	-	-	-	-	(304,997)	(989,054)	(1,538,580)	(2,527,634)	(2,832,631)
Total comprehensive income	-	-	-	-	10,111,916	(989,054)	(1,538,580)	(2,527,634)	7,584,282
Retained earnings transferred capital	4,494,000	-	-	(3,644,925)	(849,075)	-	-	-	-
Reversal of the disposed land to special reserve	-	-	-	(17,330)	17,330	-	-	-	-
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	3,033,575	-	(3,033,575)	-	-	-	-
Special reserve appropriated	-	-	-	4,044,767	(4,044,767)	-	-	-	-
Balance at December 31, 2016	62,594,000	21,748,869	28,380,377	14,064,239	5,467,558	114,710	2,357,707	2,472,417	134,727,460
Profit (loss)	-	-	-	-	9,633,623	-	-	-	9,633,623
Other comprehensive income	-	-	-	-	(114,737)	(1,182,010)	1,577,927	395,917	281,180
Total comprehensive income	-	-	-	-	9,518,886	(1,182,010)	1,577,927	395,917	9,914,803
Reversal of the disposed land to special reserve	-	-	-	(11,885)	11,885	-	-	-	-
Appropriation and distribution of retained earnings:									
Legal reserve appropriated	-	-	2,855,666	-	(2,855,666)	-	-	-	-
Special reserve appropriated	-	-	-	3,807,554	(3,807,554)	-	-	-	-
Balance at December 31, 2017	\$62,594,000	21,748,869	31,236,043	17,859,908	8,335,109	(1,067,300)	3,935,634	2,868,334	144,642,263

Consolidated Statements of Cash Flows  
For the years ended December 31, 2016 and 2015

Expressed in Thousands of New Taiwan Dollars

	2017	2016
<b>Cash flows from (used in) operating activities:</b>		
Profit (loss) from continuing operations before tax	\$ 11,881,529	12,748,957
<b>Adjustments:</b>		
<b>Adjustments to reconcile profit (loss):</b>		
Depreciation expense	724,758	727,180
Amortization expense	271,311	205,171
Provision (reversal of provision) for bad debt expense	459,989	1,768,404
Interest expense	18,710,697	17,095,902
Interest income	(43,449,692)	(41,840,744)
Dividend income	(355,209)	(432,946)
Net change in provisions for guarantee liabilities	30,663	(143,613)
Gain on disposal of property	(18,747)	(30,451)
<b>Total adjustments to reconcile profit (loss)</b>	<b>(23,626,230)</b>	<b>(22,651,097)</b>
<b>Changes in operating assets and liabilities:</b>		
<b>Change in operating assets:</b>		
Decrease (increase) in due from the central bank and call loans to banks	22,057,629	(3,625,178)
Decrease in derivative financial assets for hedging	230,138	1,216,261
Increase in securities purchased under resell agreements	(4,265,433)	(3,763,733)
Decrease (increase) in receivables	(775,566)	320,150
Increase in discounts and loans	(108,079,684)	(47,605,750)
Decrease (increase) in available-for-sale financial assets	1,407,648	(57,241,849)
Increase in held-to-maturity financial assets	(101,312,890)	(100,349,730)
Increase in other financial assets	(435,261)	(95,147)
Decrease (increase) in other assets	(21,724)	312,834
<b>Total net change in operating assets</b>	<b>(191,195,143)</b>	<b>(210,832,142)</b>
<b>Changes in operating liabilities:</b>		
Increase in deposits from the central bank and banks	58,242,874	20,008,007
Decrease in financial liabilities at fair value through profit or loss	(5,119,033)	(351,641)
Increase in notes and bonds issued under repurchase agreement	7,444,724	2,341,005
Increase in payable	49,089	3,791,808
Increase in deposits and remittances	152,754,855	148,607,681
Increase in provisions for employee benefits	568,164	164,707
Decrease in other liabilities	(56,816)	(88,996)

	2017	2016
Total net change in operating liabilities	213,883,857	174,472,571
Total change in operating assets and liabilities	22,688,714	(36,359,571)
Total adjustments	(937,516)	(59,010,668)
Cash inflow (outflow) generated from operations	10,944,013	(46,211,711)
Interest received	42,701,575	41,535,272
Dividends received	355,209	432,946
Interest paid	(18,382,828)	(17,071,496)
Dividends paid	(2,021,838)	(2,157,879)
Net Cash flows from (used in) operating activities	33,596,131	23,472,868
Cash flows from (used in) investing activities:		
Acquisition of property and equipment	(484,102)	(569,168)
Proceeds from disposal of property and equipment	7,953	180
Decrease(increase) in refundable deposits	423,576	(801,385)
Acquisition of intangible assets	(242,738)	(439,034)
Acquisition of investment properties	(1,106)	(1,489)
Proceeds from disposal of investment properties	46,800	95,083
Net cash flows from (used in) investing activities	(249,617)	(1,715,813)
Cash flows from (used in) financing activities:		
Decrease in due to the central bank and banks	(318,865)	(157,272)
Proceeds from issuing bank notes payable	4,501,854	7,499,345
Repayments of bank notes payable	(17,500,000)	-
Increase in guarantee deposits received	61,648	37,968
Increase (decrease) in other financial liabilities	(28,914)	73,130
Net cash flows from (used in) financing activities	(13,284,277)	7,453,171
Effect of exchange rate changes on cash and cash equivalents	(1,512,561)	(1,251,094)
Net increase (decrease) in cash and cash equivalents	18,549,676	(18,986,604)
Cash and cash equivalents at beginning of period	172,097,961	191,084,566
Cash and cash equivalents at end of period	\$ 190,647,637	172,097,962
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 49,293,187	45,614,722
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	133,325,284	122,719,507
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	8,029,166	3,763,733
Cash and cash equivalents at end of period	\$ 190,647,637	172,097,962

# Directory of Head Office and Branches

## HEAD OFFICE

Department of Securities	No.81, Yanping S. Rd., Zhongzheng District, Taipei City 10043, Taiwan (R.O.C.)		
	TEL:(02)23483962	FAX:(02)23891864	
Department of Trusts	No.53, Huaining St., Zhongzheng District, Taipei City 10046, Taiwan (R.O.C.)		
	TEL:(02)23483456	FAX:(02)23754092	
Department of International Banking	No.46, Guanqian Rd., Zhongzheng District, Taipei City 10047, Taiwan (R.O.C.)		
	TEL:(02)23483456	FAX:(02)23317322	SWIFT:LBOTTWTP088
Department of Business	No.46, Guanqian Rd., Zhongzheng District, Taipei City 10047, Taiwan (R.O.C.)		
	TEL:(02)23483456	FAX:(02)23752716	SWIFT:LBOTTWTP041

## DOMESTIC BRANCHES

### Taipei City

Offshore Banking Branch	6F, No.53, Huaining St., Zhongzheng District, Taipei City 10046, Taiwan (R.O.C.)		
	TEL:(02)23483456	FAX:(02)23711359	
Taipei Branch	No.72, Bo-ai Rd., Zhongzheng District, Taipei City 10043, Taiwan (R.O.C.)		
	TEL:(02)23713241	FAX:(02)23752122	SWIFT:LBOTTWTP005
Yuanshan Branch	No.91, Sec. 4, Chengde Rd., Shilin District, Taipei City 11166, Taiwan (R.O.C.)		
	TEL:(02)28866379	FAX:(02)28866556	SWIFT:LBOTTWTP155
Dongmen Branch	No.165, Sec.2, Jinshan S.Rd, Da-an District, Taipei City 10644, Taiwan (R.O.C.)		
	TEL:(02)23911188	FAX:(02)23960209	SWIFT:LBOTTWTP138
Chengtung Branch	No.46-2, Sec. 2, Zhongshan N. Rd., Zhongshan District, Taipei City 10448, Taiwan (R.O.C.)		
	TEL:(02)25676268	FAX:(02)25217239	SWIFT:LBOTTWTP140
Minquan Branch	No.26, Minquan W. Rd., Zhongshan District, Taipei City 10449, Taiwan (R.O.C.)		
	TEL:(02)25629801	FAX:(02)25616053	SWIFT:LBOTTWTP006
Changan Branch	No.52, Sec. 2, Chang-an E. Rd., Zhongshan District, Taipei City 10456, Taiwan (R.O.C.)		
	TEL:(02)25238166	FAX:(02)25434262	SWIFT:LBOTTWTP008
Changchuen Branch	No.156, Changchun Rd., Zhongshan District, Taipei City 10459, Taiwan (R.O.C.)		
	TEL:(02)25681988	FAX:(02)25683261	SWIFT:LBOTTWTP102
Sungshan Branch	No.1, Sec. 1, Dunhua S. Rd., Songshan District, Taipei City 10557, Taiwan (R.O.C.)		
	TEL:(02)25774558	FAX:(02)25780590	SWIFT:LBOTTWTP063
Chunglun Branch	No.26, Dongxing Rd., Songshan District, Taipei City 10565, Taiwan (R.O.C.)		
	TEL:(02)27477070	FAX:(02)27471762	SWIFT:LBOTTWTP106
Fuhsin Branch	No.132, Sec. 3, Minsheng E. Rd., Songshan District, Taipei City 10596, Taiwan (R.O.C.)		
	TEL:(02)27199989	FAX:(02)25451215	SWIFT:LBOTTWTP090
Kuting Branch	No.125, Sec. 3, Roosevelt Rd., Da-an District, Taipei City 10647, Taiwan (R.O.C.)		
	TEL:(02)23634747	FAX:(02)23632118	SWIFT:LBOTTWTP007

DOMESTIC BRANCHES

Taipei City

Jenai Branch	No.29, Sec. 3, Ren-ai Rd., Da-an District, Taipei City 10651, Taiwan (R.O.C.)
	TEL:(02)27728282      FAX:(02)27110884      SWIFT:LBOTTWTP057
Chunghsiao Branch	No.129, Sec. 1, Fuxing S. Rd., Da-an District, Taipei City 10666, Taiwan (R.O.C.)
	TEL:(02)27312393      FAX:(02)27313649      SWIFT:LBOTTWTP058
Dah An Branch	No.37, Sec. 2, Da-an Rd., Da-an District, Taipei City 10667, Taiwan (R.O.C.)
	TEL:(02)23256266      FAX:(02)23259819      SWIFT:LBOTTWTP123
Hoping Branch	No.15, Sec. 3, Heping E. Rd., Da-an District, Taipei City 10670, Taiwan (R.O.C.)
	TEL:(02)27057505      FAX:(02)27015459      SWIFT:LBOTTWTP045
Tunhua Branch	No.76, Sec. 2, Dunhua S. Rd., Da-an District, Taipei City 10683, Taiwan (R.O.C.)
	TEL:(02)27071234      FAX:(02)27066470      SWIFT:LBOTTWTP074
Wanhua Branch	No.205, Sec. 2, Xiyuan Rd., Wanhua District, Taipei City 10864, Taiwan (R.O.C.)
	TEL:(02)23322778      FAX:(02)23323391      SWIFT:LBOTTWTP116
Hinyi Branch	No.436, Sec. 1, Keelung Rd., Xinyi District, Taipei City 11051, Taiwan (R.O.C.)
	TEL:(02)27585667      FAX:(02)27582282      SWIFT:LBOTTWTP079
Tungtaipei Branch	No.107, Songde Rd., Xinyi District, Taipei City 11075, Taiwan (R.O.C.)
	TEL:(02)27272588      FAX:(02)27285721      SWIFT:LBOTTWTP099
Sungnan Branch	No.130, Songshan Rd., Xinyi District, Taipei City 11090, Taiwan (R.O.C.)
	TEL:(02)27631111      FAX:(02)27669933      SWIFT:LBOTTWTP141
Shihlin Branch	No.689, Sec. 5, Zhongshan N. Rd., Shilin District, Taipei City 11145, Taiwan (R.O.C.)
	TEL:(02)28341361      FAX:(02)28313863      SWIFT:LBOTTWTP009
Tienmu Branch	No.122, Sec. 2, Zhongzheng Rd., Shilin District, Taipei City 11148, Taiwan (R.O.C.)
	TEL:(02)28767287      FAX:(02)28767257      SWIFT:LBOTTWTP133
Dazhi Branch	No.283, Lequn 2nd Rd., Zhongshan Dist., Taipei City 10462, Taiwan (R.O.C.)
	TEL:(02)85025868      FAX:(02)85026786      SWIFT:LBOTTWTP160
Neihu Branch	No.156, Sec. 6, Minquan E. Rd., Neihu District, Taipei City 11490, Taiwan (R.O.C.)
	TEL:(02)27963800      FAX:(02)27963961      SWIFT:LBOTTWTP064
Shihu Branch	No.185, Gangqian Rd., Neihu District, Taipei City 11494, Taiwan (R.O.C.)
	TEL:(02)26599888      FAX:(02)26593659      SWIFT:LBOTTWTP120
Nankang Branch	No.364 Sec. 1, Nankang Rd., Nankang District, Taipei City 11579, Taiwan (R.O.C.)
	TEL:(02)27834161      FAX:(02)27820454      SWIFT:LBOTTWTP004
Wenshan Branch	No.206, Jingxing Rd., Wenshan District, Taipei City 11669, Taiwan (R.O.C.)
	TEL:(02)29336222      FAX:(02)29335279      SWIFT:LBOTTWTP093
NanJing Donglu Branch	1F, No.70, Sec.3, NanJing E.Rd., ZhongShan District, Taipei City10489 Taiwan (R.O.C.)
	TEL:(02)2503-6345      FAX:(02)2503-5643      SWIFT:LBOTTWTP165

## DOMESTIC BRANCHES

## New Taipei City

Huachiang Branch	No.2, Alley 1, Lane 182, Sec. 2, Wunhua Rd., Banqiao District, New Taipei City 22044, Taiwan (R.O.C.)
	TEL:(02)22518599      FAX:(02)22517665      SWIFT:LBOTTWTP107
Panchiao Branch	No.143, Sec. 1, Wunhua Rd., Banqiao District., New Taipei City 22050, Taiwan (R.O.C.)
	TEL:(02)29689111      FAX:(02)29667278      SWIFT:LBOTTWTP050
Tungpanchiao Branch	No.212, Minzu Rd., Banqiao District, New Taipei City 22065, Taiwan (R.O.C.)
	TEL:(02)29633939      FAX:(02)29633931      SWIFT:LBOTTWTP095
Kuangfu Branch	No.148, Sec. 2, Sanmin Rd., Banqiao District, New Taipei City, 22069 Taiwan, R.O.C.
	TEL:(02)89522345      FAX:(02)89522395      SWIFT:LBOTTWTP129
Hsichih Branch	No.306-3, Sec. 1, Datong Rd., Xizhi District, New Taipei City 22146, Taiwan (R.O.C.)
	TEL:(02)26498577      FAX:(02)26498666      SWIFT:LBOTTWTP115
Xike Branch	No.93, Sec. 1, Xintai 5 th Rd., Xizhi District, New Taipei City 22175, Taiwan (R.O.C.)
	TEL:(02)26972858      FAX:(02)26972601      SWIFT:LBOTTWTP148
Hsintien Branch	No.309, Sec. 1, Beixin Rd., Xindian District, New Taipei City 23147, Taiwan (R.O.C.)
	TEL:(02)29151234      FAX:(02)29178333      SWIFT:LBOTTWTP061
Yungho Branch	No.33, Zhulin Rd., Yonghe District, New Taipei City 23441, Taiwan (R.O.C.)
	TEL:(02)89268168      FAX:(02)89268181      SWIFT:LBOTTWTP049
Yuantong Branch	No.192, Liancheng Rd., Zhonghe District, New Taipei City 23553, Taiwan (R.O.C.)
	TEL:(02)22497071      FAX:(02)22497701      SWIFT:LBOTTWTP158
Shuangho Branch	No.120, Sec. 2, Zhongshan Rd., Zhonghe District, New Taipei City 23555, Taiwan (R.O.C.)
	TEL:(02)22425300      FAX:(02)22425495      SWIFT:LBOTTWTP087
Chungho Branch	No.323, Jingping Rd., Zhonghe District, New Taipei City 23577, Taiwan (R.O.C.)
	TEL:(02)29461123      FAX:(02)29440419      SWIFT:LBOTTWTP003
Tucheng Branch	No.127, Sec. 1, Zhongyang Rd., Tucheng District, New Taipei City 23664, Taiwan (R.O.C.)
	TEL:(02)22651000      FAX:(02)22667858      SWIFT:LBOTTWTP080
Sanshia Branch	No.83, Minsheng St., Sanxia District, New Taipei City 23741, Taiwan (R.O.C.)
	TEL:(02)86711010      FAX:(02)86711033      SWIFT:LBOTTWTP112
Shulin Branch	No.82, Bao-an 2nd St., Shulin District, New Taipei City 23860, Taiwan (R.O.C.)
	TEL:(02)26845116      FAX:(02)26845115      SWIFT:LBOTTWTP098
Beisanhong Branch	No. 99, Sec. 4, Chongyang Rd., Sanchong District, New Taipei City 24145, Taiwan (R.O.C.)
	TEL:(02)89821919      FAX:(02)89819492      SWIFT:LBOTTWTP157
Sanchung Branch	No.1-8, Sec. 2, Chongxin Rd., Sanchong District, New Taipei City 24147, Taiwan (R.O.C.)
	TEL:(02)89712222      FAX:(02)29848053      SWIFT:LBOTTWTP010
Hsisanchung Branch	No.81, Sec. 1, Chongyang Rd., Sanchong District, New Taipei City 24161, Taiwan (R.O.C.)
	TEL:(02)29846969      FAX:(02)29859842      SWIFT:LBOTTWTP100
Hsinchuang Branch	No.221, Siyuan Rd., Xinzhuang District, New Taipei City 24250, Taiwan (R.O.C.)
	TEL:(02)29973321      FAX:(02)29973320      SWIFT:LBOTTWTP086
Nanhsinchuang Branch	No.288-23, Xinshu. Rd., Xinzhuang District, New Taipei City 24262, Taiwan (R.O.C.)
	TEL:(02)22066080      FAX:(02)22066372      SWIFT:LBOTTWTP111

DOMESTIC BRANCHES

New Taipei City

Taishan Branch	No.168, Sec. 3, Mingzhi Rd., Taishan District, New Taipei 24354, Taiwan (R.O.C.)
	TEL:(02)29018899      FAX:(02)29014174      SWIFT:LBOTTWTP134
Luchou Branch	No.100, Zhongshan 1st Rd., Luzhou District, New Taipei City 24748, Taiwan (R.O.C.)
	TEL:(02)22859100      FAX:(02)22858983      SWIFT:LBOTTWTP076
Tanshui Branch	No.42, Sec. 1, Zhongshan N. Rd., Danshui District, New Taipei City 25157, Taiwan (R.O.C.)
	TEL:(02)26219691      FAX:(02)26219695      SWIFT:LBOTTWTP081
Baozhong Branch	No.94-3, Baozhong Rd., Xindian District, New Taipei City 23144, Taiwan (R.O.C.)
	TEL:(02)29111898      FAX:(02)29111737      SWIFT:LBOTTWTP163

Keelung City

Keelung Branch	No.18, Yi 1st Rd., Zhongzheng District, Keelung City 20241, Taiwan (R.O.C.)
	TEL:(02)24210200      FAX:(02)24224407      SWIFT:LBOTTWTP002
Chengping Branch	No.652, Zhongzheng Rd., Zhongzheng District, Keelung City 20248, Taiwan (R.O.C.)
	TEL:(02)24621111      FAX:(02)24627214      SWIFT:LBOTTWTP073

Taoyuan County

Chungli Branch	No.190, Zhongshan Rd., Zhongli District, Taoyuan City 32041, Taiwan (R.O.C.)
	TEL:(03)4253140      FAX:(03)4253674      SWIFT:LBOTTWTP014
Peichungli Branch	No.400, Huanbei Rd., Zhongli District, Taoyuan City 32070, Taiwan (R.O.C.)
	TEL:(03)4250011      FAX:(03)4223230      SWIFT:LBOTTWTP124
Neili Branch	No.33, Huanzhong E. Rd., Zhongli District, Taoyuan City 32071, Taiwan (R.O.C.)
	TEL:(03)4612666      FAX:(03)4613868      SWIFT:LBOTTWTP145
Pingchen Branch	No.5, Shanding Sec., Zhongfeng Rd., Pingzhen District, Taoyuan City 32463, Taiwan (R.O.C.)
	TEL:(03)4699111      FAX:(03)4699119      SWIFT:LBOTTWTP091
Shihmen Branch	No.49, Beilong Rd., Longtan District, Taoyuan City 32552, Taiwan (R.O.C.)
	TEL:(03)4792101      FAX:(03)4708934      SWIFT:LBOTTWTP015
Yangmei Branch	No.116, Daping St., Yangmei District, Taoyuan City 32643, Taiwan (R.O.C.)
	TEL:(03)4881215      FAX:(03)4881217      SWIFT:LBOTTWTP137
Taoyuan Branch	No.75, Zhongzheng Rd., Taoyuan District, Taoyuan City 33041, Taiwan (R.O.C.)
	TEL:(03)3379911      FAX:(03)3379976      SWIFT:LBOTTWTP013
Peitaoyuan Branch	No.1071, Zhongzheng Rd., Taoyuan District, Taoyuan City 33045, Taiwan (R.O.C.)
	TEL:(03)3566199      FAX:(03)3565406      SWIFT:LBOTTWTP131
Nantaoyuan Branch	No.835, Zhongshan Rd., Taoyuan District, Taoyuan City 33059, Taiwan (R.O.C.)
	TEL:(03)3786969      FAX:(03)3786984      SWIFT:LBOTTWTP114
Linkou Branch	No.109, Wunhua 2nd Rd., Guishan District, Taoyuan City 33377, Taiwan (R.O.C.)
	TEL:(03)3182128      FAX:(03)3183719      SWIFT:LBOTTWTP143

## DOMESTIC BRANCHES

### Taoyuan County

Bade Branch	No.702, Sec. 1, Jiesshou Rd., Bade District, Taoyuan City 33450, Taiwan (R.O.C.)		
	TEL:(03)3667966	FAX:(03)3669900	SWIFT:LBOTTWTP121
Dayuan Branch	No. 55, Zhongzheng E. Rd., Dayuan District, Taoyuan City 33756, Taiwan (R.O.C.)		
	TEL:(03)3850805	FAX:(03)3856625	SWIFT:LBOTTWTP136
Nanknag Branch	No.16, Luoyang St., Luzhu District, Taoyuan City 33845, Taiwan (R.O.C.)		
	TEL:(03)3526556	FAX:(03)3527099	SWIFT:LBOTTWTP096

### Hsinchu City

Hsinchu Branch	No.1, Zhongyang Rd., Hsinchu City 30041, Taiwan (R.O.C.)		
	TEL:(03)5213211	FAX:(03)5233693	SWIFT:LBOTTWTP016
Tunghsinchu Branch	No.22, Beida Rd., Hsinchu City 30044, Taiwan (R.O.C.)		
	TEL:(03)5353998	FAX:(03)5353923	SWIFT:LBOTTWTP103

### Hsinchu County

Chupei Branch	No.130, Xianzheng 9th Rd., Zhubei City, Hsinchu County 30251, Taiwan (R.O.C.)		
	TEL:(03)5532231	FAX:(03)5532308	SWIFT:LBOTTWTP108
Hukou Branch	No.102, Sec. 1, Zhongzheng Rd., Hukou Township, Hsinchu County 30342, Taiwan (R.O.C.)		
	TEL:(03)5996111	FAX:(03)5901987	SWIFT:LBOTTWTP052
Hsingong Branch	No.76, Zhonghua Rd., Hukou Township, Hsinchu County 30353, Taiwan (R.O.C.)		
	TEL:(03)5981969	FAX:(03)5985373	SWIFT:LBOTTWTP118
ITRI Branch	No.195, Sec. 4, Zhongxing Rd., Zhudong Township, Hsinchu County 31040, Taiwan (R.O.C.)		
	TEL:(03)5910188	FAX:(03)5910199	SWIFT:LBOTTWTP156
Chutung Branch	No.10, Donglin Rd., Zhudong Township, Hsinchu County 31047, Taiwan (R.O.C.)		
	TEL:(03)5961171	FAX:(03)5961175	SWIFT:LBOTTWTP017

### Miaoli County

Chunan Branch	No.62, Zhongzheng Rd., Zhunan Township, Miaoli County 35047, Taiwan (R.O.C.)		
	TEL:(037)551022	FAX:(037)551090	SWIFT:LBOTTWTP146
Toufen Branch	No.932, Zhonghua Rd., Toufen Township, Miaoli County 35159, Taiwan (R.O.C.)		
	TEL:(037)667185	FAX:(037)667188	SWIFT:LBOTTWTP021
Tunghsiao Branch	No.85, Zhongzheng Rd., Tongxiao Township, Miaoli County 35741, Taiwan (R.O.C.)		
	TEL:(037)756010	FAX:(037)756014	SWIFT:LBOTTWTP084
Miaoli Branch	No.402, Zhongzheng Rd., Miaoli City, Miaoli County 36043, Taiwan (R.O.C.)		
	TEL:(037)320531	FAX:(037)329215	SWIFT:LBOTTWTP020

DOMESTIC BRANCHES

Taichung City

Taichung Branch	No.1, Sec. 2, Ziyou Rd., Central District, Taichung City 40045, Taiwan (R.O.C.)	TEL:(04)22235021	FAX:(04)22204961	SWIFT:LBOTTWTP024
Nantaichung Branch	No.81, Guoguang Rd., South District, Taichung City 40254, Taiwan (R.O.C.)	TEL:(04)22240323	FAX:(04)22201390	SWIFT:LBOTTWTP101
Hsitaichung Branch	No.2-4, Wuquan Rd., West District, Taichung City 40355, Taiwan (R.O.C.)	TEL:(04)22289151	FAX:(04)22276621	SWIFT:LBOTTWTP055
Peitaichung Branch	No.79, Sec.1,Zhongping Rd., Beitun District, Taichung City 40458, Taiwan (R.O.C.)	TEL:(04)22016902	FAX:(04)22014766	SWIFT:LBOTTWTP077
Beituen Branch	No.232, Sec. 4, Wenxin Rd., North District, Taichung City 40462, Taiwan (R.O.C.)	TEL:(04)22915678	FAX:(04)22913636	SWIFT:LBOTTWTP122
Chungkang Branch	No.598, Sec.2, Wenxin Rd., Xitun District, Taichung City 40758, Taiwan (R.O.C.)	TEL:(04)23288800	FAX:(04)23287958	SWIFT:LBOTTWTP094
Situn Branch	No.542, Sec. 3, Taiwan Blvd. Xitun District, Taichung City 40757, Taiwan (R.O.C.)	TEL:(04)27087759	FAX:(04)27086359	SWIFT:LBOTTWTP144
Nantun Branch	No.65, Wenxin S. Rd., Nantun District, Taichung City 40854, Taiwan (R.O.C.)	TEL:(04)24723568	FAX:(04)24727911	SWIFT:LBOTTWTP161
Taiping Branch	No.131, Sec. 3, Zhongshan Rd., Taiping District, Taichung City 41169, Taiwan (R.O.C.)	TEL:(04)22780788	FAX:(04)22783488	SWIFT:LBOTTWTP072
Dali Branch	No.405, Sec. 2, Guoguang Rd., Dali District, Taichung City 41266, Taiwan (R.O.C.)	TEL:(04)24061679	FAX:(04)24061579	SWIFT:LBOTTWTP150
Wujih Branch	No.535, Sec.1, Zhongshan Rd., Wuri District, Taichung City 41443, Taiwan (R.O.C.)	TEL:(04)23360311	FAX:(04)23360321	SWIFT:LBOTTWTP119
Fengyuan Branch	No.508, Zhongshan Rd., Fengyuan District, Taichung City 42044, Taiwan (R.O.C.)	TEL:(04)25242191	FAX:(04)25283716	SWIFT:LBOTTWTP022
Jhongke Branch	2F-1, No.6, Zhongke Rd., Daya District, Taichung City 42881, Taiwan (R.O.C.)	TEL:(04)25658228	FAX:(04)25658255	SWIFT:LBOTTWTP135
Shalu Branch	No.407, Zhongshan Rd., Shalu District, Taichung City 43350, Taiwan (R.O.C.)	TEL:(04)26651717	FAX:(04)26651256	SWIFT:LBOTTWTP113
Tachia Branch	No.40, Zhenzheng Rd., Dajia District, Taichung City 43746, Taiwan (R.O.C.)	TEL:(04)26877181	FAX:(04)26860142	SWIFT:LBOTTWTP023
Zhongcing Branch	No.358 Sec.2, Jhongcing Rd., Beitun District, Taichung City 40676, Taiwan (R.O.C.)	TEL:(04)22956677	FAX:(04)22956776	SWIFT:LBOTTWTP164

Nantou County

Nantou Branch	No.202, Zhongshan St., Nantou City, Nantou County 54057, Taiwan (R.O.C.)	TEL:(049)2222143	FAX:(049)2221833	SWIFT:LBOTTWTP025
Tsaotun Branch	No.601-7, Zhongzheng Rd., Caotun Township, Nantou County 54241, Taiwan (R.O.C.)	TEL:(049)2330573	FAX:(049)2353647	SWIFT:LBOTTWTP082

## DOMESTIC BRANCHES

### Changhua County

Changhua Branch	No.98, Guangfu Rd., Changhua City, Changhua County 50045, Taiwan (R.O.C.)		
	TEL:(04)7230777	FAX:(04)7242934	SWIFT:LBOTTWTP047
Fuhsing Branch	No.399, Sec. 7, Zhonglu Rd., Fuxing Township, Changhua County 50661, Taiwan (R.O.C.)		
	TEL:(04)7785566	FAX:(04)7789933	SWIFT:LBOTTWTP142
Yuanlin Branch	No.100, Sec. 2, Zhongshan Rd., Yuanlin City, Changhua County 51052 Taiwan (R.O.C.)		
	TEL:(04)8323171	FAX:(04)8330634	SWIFT:LBOTTWTP026

### Yunlin County

Huwei Branch	No.490, Sec. 1, Linsen Rd., Huwei Township, Yunlin County 63243, Taiwan (R.O.C.)		
	TEL:(05)6327373	FAX:(05)6320297	SWIFT:LBOTTWTP056
Touliu Branch	No.72, Zhongshan Rd., Douliu City, Yunlin County 64051, Taiwan (R.O.C.)		
	TEL:(05)5323901	FAX:(05)5334295	SWIFT:LBOTTWTP027
Peikang Branch	No.90, Minzhu Rd., Beigang Township, Yunlin County 65142, Taiwan (R.O.C.)		
	TEL:(05)7836111	FAX:(05)7835525	SWIFT:LBOTTWTP028

### Chiayi City

Chiayi Branch	No.309, Zhongshan Rd., Chiayi City 60041, Taiwan (R.O.C.)		
	TEL:(05)2241150	FAX:(05)2250426	SWIFT:LBOTTWTP029
Chiasing Branch	No.28, Ziyou Rd., Chiayi City 60093, Taiwan (R.O.C.)		
	TEL:(05)2810866	FAX:(05)2810882	SWIFT:LBOTTWTP110

### Chiayi County

Minhsiung Branch	No.126, Sec. 3, Jianguo Rd., Minxiong Township, Chiayi County 62157, Taiwan (R.O.C.)		
	TEL:(05)2200180	FAX:(05)2214643	SWIFT:LBOTTWTP066

### Tainan City

Tainan Branch	No.28, Zhongzheng Rd., West District, Tainan City 70048, Taiwan (R.O.C.)		
	TEL:(06)2265211	FAX:(06)2240057	SWIFT:LBOTTWTP032
Tungtainan Branch	No.261, Sec. 3, Dongmen Rd., East District, Tainan City 70172, Taiwan (R.O.C.)		
	TEL:(06)2906183	FAX:(06)2906946	SWIFT:LBOTTWTP083
Peitainan Branch	No.128-7, Gongyuan Rd., North District, Tainan City 70448, Taiwan (R.O.C.)		
	TEL:(06)2210071	FAX:(06)2256036	SWIFT:LBOTTWTP062
Anping Branch	No.23, Sec. 2, Zhonghua W. Rd., Anping District, Tainan City 70844, Taiwan (R.O.C.)		
	TEL:(06)2933555	FAX:(06)2933666	SWIFT:LBOTTWTP109

DOMESTIC BRANCHES

Tainan City

Annan Branch	No.47, Sec. 3, Haidian Rd., Annan District, Tainan City 70966, Taiwan (R.O.C.)
	TEL:(06)2568669                      FAX:(06)2569778                      SWIFT:LBOTTWTP147
Yungkang Branch	No.20, Zhongshan S. Rd., Yungkang District, Tainan City, 71075, Taiwan (R.O.C.)
	TEL:(06)2321171                      FAX:(06)2324144                      SWIFT:LBOTTWTP031
Dawan Branch	No.1062, Sec. 2, Yongda Rd., Yungkang District, Tainan City, 71080, Taiwan (R.O.C.)
	TEL: (06)2071200                      FAX: (06)2071250                      SWIFT:LBOTTWTP151
Hsuehchia Branch	No.303, Zhongzheng Rd., Xuejia District, Tainan City 72641, Taiwan (R.O.C.)
	TEL:(06)7832166                      FAX:(06)7836743                      SWIFT:LBOTTWTP085
Hsinying Branch	No.79, Zhongshan Rd., Xinying District, Tainan City, 73045, Taiwan (R.O.C.)
	TEL:(06)6322441                      FAX:(06)6322270                      SWIFT:LBOTTWTP030
Paiho Branch	No.395, Sanmin Rd., Baihe District, Tainan City 73242, Taiwan (R.O.C.)
	TEL:(06)6855301                      FAX:(06)6852545                      SWIFT:LBOTTWTP089
Hsinshih Branch	No.10, Fusing Rd., Xinshi District, Tainan City 74444, Taiwan (R.O.C.)
	TEL:(06)5997373                      FAX:(06)5990799                      SWIFT:LBOTTWTP104

Kaohsiung City

Chungcheng Branch	No.158, Zhongzheng 3rd Rd., Xinxing District, Kaohsiung City 80052, Taiwan (R.O.C.)
	TEL:(07)2352156                      FAX:(07)2352140                      SWIFT:LBOTTWTP059
Hsinhsing Branch	No.480, Qixian 1st Rd., Xinxing District, Kaohsiung City 80053, Taiwan (R.O.C.)
	TEL:(07)2355111                      FAX:(07)2355118                      SWIFT:LBOTTWTP054
Chungshan Branch	No.87, Wufu 3rd Rd., Qianjin District, Kaohsiung City 80148, Taiwan (R.O.C.)
	TEL:(07)2519406                      FAX:(07)2518154                      SWIFT:LBOTTWTP048
Lingya Branch	No.18, Zhongxiao 2nd Rd., Lingya District, Kaohsiung City 80241, Taiwan (R.O.C.)
	TEL:(07)3328477                      FAX:(07)3356471                      SWIFT:LBOTTWTP078
Kaohsiung Branch	No.131, Dayong Rd., Yancheng District, Kaohsiung City 80343, Taiwan (R.O.C.)
	TEL:(07)5515231                      FAX:(07)5510428                      SWIFT:LBOTTWTP033
Chiencheng Branch	No.241, Yixin 1st Rd., Qianzhen District, Kaohsiung City 80606, Taiwan (R.O.C.)
	TEL:(07)3329755                      FAX:(07)3313296                      SWIFT:LBOTTWTP069
Poi Branch	No.300, Bo-ai 1st Rd., Sanmin District, Kaohsiung City 80757, Taiwan (R.O.C.)
	TEL:(07)3150301                      FAX:(07)3226961                      SWIFT:LBOTTWTP105
Chienkuo Branch	No.458, Jianguo 1st Rd., Sanmin District, Kaohsiung City 80760, Taiwan (R.O.C.)
	TEL:(07)2250011                      FAX:(07)2250077                      SWIFT:LBOTTWTP097

## DOMESTIC BRANCHES

### Kaohsiung City

Shanming Branch	No.657, Jiangong Rd., Sanmin District, Kaohsiung City 80778, Taiwan (R.O.C.)		
	TEL:(07)3861301	FAX:(07)3891941	SWIFT:LBOTTWTP065
Shiaokang Branch	No.336, Hongping Rd., Xiaogang District, Kaohsiung City 81268, Taiwan (R.O.C.)		
	TEL:(07)8065606	FAX:(07)8018837	SWIFT:LBOTTWTP117
Zuoying Branch	No.1237, Huaxia Rd., Zuoying District, Kaohsiung City 81361, Taiwan (R.O.C.)		
	TEL:(07)3436168	FAX:(07)3433321	SWIFT:LBOTTWTP130
Renwu Branch	No.85 Renyong Rd., Renwu Dist., Kaohsiung City 81458, Taiwan (R.O.C.)		
	TEL:(07)7322678	FAX:(07)7327978	
Tashe Branch	No.369, Zhongshan Rd., Dashe District, Kaohsiung City 81547, Taiwan (R.O.C.)		
	TEL:(07)3520779	FAX:(07)3529804	SWIFT:LBOTTWTP067
Kangshan Branch	No.285, Gangshan Rd., Gangshan District, Kaohsiung City 82041, Taiwan (R.O.C.)		
	TEL:(07)6216102	FAX:(07)6213119	SWIFT:LBOTTWTP034
Luzhu Branch	No.18, Guochang Rd., Luzhu District, Kaohsiung City 82150, Taiwan (R.O.C.)		
	TEL:(07)6972131	FAX:(07)6973834	SWIFT:LBOTTWTP070
Cingnian Branch	No.281, Sec. 2, Qingnian Rd., Fengshan District, Kaohsiung City 83048, Taiwan (R.O.C.)		
	TEL:(07)7808700	FAX:(07)7805166	SWIFT:LBOTTWTP038
Fengshan Branch	No.15, Caogong Rd., Fengshan District, Kaohsiung City 83064, Taiwan (R.O.C.)		
	TEL:(07)7460121	FAX:(07)7436569	SWIFT:LBOTTWTP051
Wuchia Branch	No.256, Wujia 2nd Rd., Fengshan District, Kaohsiung City, 83083, Taiwan (R.O.C.)		
	TEL:(07)7715176	FAX:(07)7715170	SWIFT:LBOTTWTP071
Dafa Branch	No.272, Fonglin 4th Rd., Daliao District, Kaohsiung City 83150, Taiwan (R.O.C.)		
	TEL:(07)7869169	FAX:(07)7869189	SWIFT:LBOTTWTP153
Nanzi Branch	No.318, Lanchang Rd., Nanzi District, Kaohsiung City 81168, Taiwan (R.O.C.)		
	TEL:(07)3621199	FAX:(07)3621099	SWIFT:LBOTTWTP149
Meinung Branch	No.65, Sec. 1, Zhongshan Rd., Meinong District, Kaohsiung City 84348, Taiwan (R.O.C.)		
	TEL:(07)6813211	FAX:(07)6813111	SWIFT:LBOTTWTP035

### Pingtung County

Pingtung Branch	No.78, Fongjia Rd., Pingtung City, Pingtung County 90075, Taiwan (R.O.C.)		
	TEL:(08)7325131	FAX:(08)7322236	SWIFT:LBOTTWTP036
Kaoshu Branch	No.99, Nanxing Rd., Gaoshu Township, Pingtung County 90641, Taiwan (R.O.C.)		
	TEL:(08)7963399	FAX:(08)7966333	SWIFT:LBOTTWTP125

DOMESTIC BRANCHES

Pingtung County

Chaozhou Branch	No.12, Xinsheng Rd., Chaozhou Township, Pingtung County 92046, Taiwan (R.O.C.)		
	TEL:(08)7884111	FAX:(08)7881972	SWIFT:LBOTTWTP046
Donggang Branch	No.27, Sec. 2, Guangfu Rd., Donggang Township, Pingtung County 92847, Taiwan (R.O.C.)		
	TEL:(08)8332255	FAX:(08)8325399	SWIFT:LBOTTWTP132
Fangliao Branch	No.111, Longshan Rd., Fangliao Township, Pingtung County 94049, Taiwan (R.O.C.)		
	TEL:(08)8781533	FAX:(08)8786282	SWIFT:LBOTTWTP126

Yilan County

Ilan Branch	No.31,Sec.2, Zhongshan Rd., Yilan City, Yilan County 26046, Taiwan (R.O.C.)		
	TEL:(03)9361101	FAX:(03)9323692	SWIFT:LBOTTWTP011
Lotung Branch	No.158, Gongzheng Rd., Luodong Township, Yilan County 26550, Taiwan (R.O.C.)		
	TEL:(03)9571111	FAX:(03)9571117	SWIFT:LBOTTWTP012
Suao Branch	No.17, Taiping Rd., Su'ao Township, Yilan County 27048, Taiwan (R.O.C.)		
	TEL:(03)9961100	FAX:(03)9965334	SWIFT:LBOTTWTP053

Hualien County

Hualien Branch	No.356, Zhongshan Rd., Hualien City, Hualien County 97050, Taiwan (R.O.C.)		
	TEL:(03)8312601	FAX:(03)8320482	SWIFT:LBOTTWTP018
Yuli Branch	No.51, Sec.2, Zhongshan Rd., Yuli Township, Hualien County 98142, Taiwan (R.O.C.)		
	TEL:(03)8886181	FAX:(03)8882320	SWIFT:LBOTTWTP019

Taitung County

Taitung Branch	No.357, Sec. 1, Zhonghua Rd., Taitung City, Taitung County 95046, Taiwan (R.O.C.)		
	TEL:(089)310111	FAX:(089)310100	SWIFT:LBOTTWTP037

Penghu County

Penghu Branch	No.20, Sanmin Rd., Magong City, Penghu County 88050, Taiwan (R.O.C.)		
	TEL:(06)9262141	FAX:(06)9278371	SWIFT:LBOTTWTP040

Kinmen County

Kinmen Branch	No.34, Minsheng Rd., Jincheng Township, Kinmen County 89345, Taiwan (R.O.C.)		
	TEL:(082)327301	FAX:(082)327305	SWIFT:LBOTTWTP039
Kincheng Branch	No.6, Minsheng Rd., Jincheng Township, Kinmen County 89345, Taiwan (R.O.C.)		
	TEL:(082)311981	FAX:(082)311986	SWIFT:LBOTTWTP128

## OVERSEAS BRANCH

Los Angeles Branch	Suite1900, 811 Wilshire Boulevard Los Angeles, California 90017 U.S.A. TEL:(1)-213-532-3789      FAX:(1)-213-532-3766      SWIFT:LBOTUS66
Hong Kong Branch	Unit 3101-6 & 12, Tower 1, The Gateway, 25 Canton Road, Tsimshatsui, Kowloon., H.K. TEL:(852)2581-0788      FAX:(852)2581-0777      SWIFT:LBOTKHH
Singapore Branch	80, Raffles Place,#34-01 UOB Plaza 1, Singapore TEL:(65)6349-4555      FAX:(65)6349-4545      SWIFT:LBOTSGSG
Shanghai Branch	Unit1203-04, 12F, Aurora Plaza, 99 Fu Cheng Road, Pudong Shanghai, China 200120 TEL:(86)-21-5037-2495      FAX:(86)-21-5037-2497      SWIFT:LBOTCNBH
New York Branch	100 Wall Street, 14F New York, New York 10005 U.S.A. TEL:(1)-917-542-0222      FAX:(1)-917-542-0288      SWIFT:LBOTUS33
TianJin Branch	Room 3701-3702, Xin Silver Building, No.28, Zeng Jin Dao, Hexi District, TianJin, China.300201 TEL:(86)22-2837-1115      FAX:(86)22-2837-1113      SWIFT:LBOTCNBT
Wuhan Branch	Unit 01-03, 41F, Wuhan Wanda Center, No.96 Linjiang Avenue, Jiyuqiao, Wuchang District, Wuhan, China 430062 TEL:(86)27-5960-6939      FAX:(86)27-5960-6936      SWIFT:LBOTCNBW

(English Translation of Consolidated Financial Statements and Report Originally Issued in Chinese)  
LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

For the years ended December 31, 2017 and 2016

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

**(1) Company history**

Land Bank Of Taiwan Co., Ltd. (the "Bank") is a wholly-owned government bank of the Republic of China ("R.O.C."). The government of the R.O.C. decided to take over the Nippon Kangyo Bank's Taipei branch along with other branches in Hsinchu, Taichung, Tainan and Kaohsiung to facilitate the implementation of such land policies as land-rights equalization and the land-to-tiller program. On September 1, 1946, these branches were reorganized and formed the Bank. According to the Banking Law, the Bank obtained the qualification of the legal person in May 1985. With the downsizing of the Taiwan Provincial Government on December 21, 1998, the Bank was transferred to the jurisdiction of the central government. On June 9, 2003, the Land Bank of Taiwan was approved by the Ministry of Finance, R.O.C. to change its organization to a limited Bank – Land Bank of Taiwan Co., Ltd., effective July 1, 2003. On May 21, 2004, it was further approved by authority to be a public Bank. The Bank is engaged mainly in the following operations:

- (a) Accepting deposits and handling remittances;
- (b) Issued credit debentures;
- (c) Extending loans and discounts;
- (d) Other related financial operations authorized by the Banking Law.

The Bank's head office is in Taipei, in addition to Department of Business, Department of Finance, Department of International Banking, Department of Trusts and Department of Securities, the Bank also has many domestic branches and overseas branches to expand various banking services. As of December 31, 2017 there were 150 domestic branches, an offshore banking branch and 7 overseas branches.

Land Bank Insurance Brokers Co., Ltd., (the "Subsidiary") is a wholly-owned company of the Bank. The Subsidiary was incorporated in June 30, 2013 according to The Company Law and Regulations Governing the Supervision of Insurance Agents, Brokers and Adjusters. The Subsidiary has started operating since October 31, 2013. The main businesses of the Subsidiary are the personal and property insurance broker business.

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

These consolidated financial statements were authorized for issuance by the Banks' board of directors on March 23, 2018.

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

**(3) New standards, amendments and interpretations adopted:**

- (a) The impact of the International Financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) which have already been adopted.

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

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

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

- (b) The impact of IFRS endorsed by FSC but not yet effective

The following new standards, interpretations and amendments have been endorsed by the FSC and are effective for annual periods beginning on or after January 1, 2018 in accordance with Ruling No. 1060025773 issued by the FSC on July 14, 2017. In addition, based on the announcement issued by the FSC on December 12, 2017, the Bank can, and therefore, elected to early adopt the amendments to IFRS 9 "Prepayment features with negative compensation":

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 "Prepayment features with negative compensation"	January 1, 2019
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Statement of Cash Flows -Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Income Taxes- Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
Annual Improvements to IFRS Standards 2014–2016 Cycle:	
Amendments to IFRS 12	January 1, 2017
Amendments to IFRS 1 and Amendments to IAS 28	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Except for the following items, the Bank believes that the adoption of the above IFRSs would not have any material impact on its consolidated financial statements. The extent and impact of signification changes are as follows:

(i) IFRS 9 "Financial Instruments"

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

1) Classification- Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial assets in the scope of the standard are never bifurcated. Instead, the hybrid financial instrument as a whole is assessed for classification. In addition, IAS 39 has an exception to the measurement requirements for investments in unquoted equity instruments that do not have a quoted market price in an active market (and derivatives on such an instrument) and for which fair value cannot therefore be measured reliable. Such financial instruments are measured at cost. IFRS 9 removes this exception, requiring all equity investments (and derivatives on them) to be measured at fair value.

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The Bank estimated the application of IFRS 9's classification requirements on January 1, 2018 resulting in the increase of \$3,393,996 thousand, \$21,061 thousand, and \$3,372,935 thousand in assets, retained earnings and other equity, respectively.

#### 2) Impairment-Financial assets and contract assets

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

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

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

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

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.

The Bank believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model. The Bank estimated the application of IFRS 9's impairment requirements on January 1, 2018 resulting in the increase of \$229,053 thousand and \$12,310 thousand in retained earnings and liabilities, respectively, as well as the decrease of \$225,697 thousand and \$15,666 thousand in allowance for impairment and reserves and other equity, respectively.

#### 3) Disclosures

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

#### 4) Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- The Bank will take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognized in retained earnings and reserves as at January 1, 2018.
- The new hedge accounting requirements should generally be applied prospectively. However, the Bank has decided to apply the accounting for the forward element of forward contracts retrospectively.
- The following assessments have to be made on the basis of the facts and circumstances that exist at the date of initial application.
  - The determination of the business model within which a financial asset is held.
  - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
  - The designation of certain investments in equity instruments not held for trading as at FVOCI.

In summary, the assets, liabilities, retained earnings, and other equity as of December 31, 2017 could be increased by \$3,619,693 thousand, \$12,310 thousand, \$250,114 thousand, and \$3,357,269 thousand, respectively.

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

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

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

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective date per IASB</u>
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets Between an Investor and Its Associate or Joint Venture"	Effective date to be determined by IASB
IFRS 16 "Leases"	January 1, 2019
IFRS 17 "Insurance Contracts"	January 1, 2021
IFRIC 23 "Uncertainty over Income Tax Treatments"	January 1, 2019
Amendments to IAS 28 "Long-term interests in associates and joint ventures"	January 1, 2019
Annual Improvements to IFRS Standards 2015–2017 Cycle	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

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

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

**(4) Summary of significant accounting policies:**

**(a) Statement of compliance**

These consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Criteria Governing the Preparation of Financial Reports by Securities Firms, the related laws, and International Financial Reporting Standards, International Accounting Standards, and Interpretations endorsed by the FSC (hereinafter referred to as the IFRS endorsed by the FSC).

**(b) Basis of consolidation**

**(i) Principle of preparation of the consolidated financial statements**

The consolidated financial statements comprise the Bank and its subsidiary. The financial statement of the subsidiary is included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Name of activity	Shareholding		Description
			December 31, 2017	December 31, 2016	
Land Bank of Taiwan	Land Bank Insurance Brokers	Life and property insurance broker	100 %	100 %	Since 2015, the Subsidiaries' financial statement started to include in the consolidated financial statements

(c) Basis of preparation

(i) Basis of measurement

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

- 1) Financial instruments measured at fair value through profit or loss are measured at fair value (Derivative financial instruments included);
- 2) Available-for-sale financial assets are measured at fair value;
- 3) The defined benefit liability is recognized as the present value of the defined benefit obligation, less, the net value of pension plan assets after adjusting the unrecognized actuarial gains and losses and unrecognized past service costs;
- 4) Parts of the properties and investment properties are recognized as deemed costs using the ROC Generally Accepted Accounting Principles (ROC GAAP) revaluations.

(ii) Functional and presentation currency

The functional currency of each Bank entities is determined based on the primary economic environment in which the entities operate. The Banks' financial statements are presented in New Taiwan Dollar, which is the Banks' functional currency. All financial information presented in New Taiwan Dollar has been rounded to the nearest thousand.

(iii) General accounting affairs

The Banks are wholly-owned government bank, and its accounting practices mainly follow the Budget Act, Financial Statement Act, and Uniform Regulations of Accounting System for Financial Institutions by the Ministry of Finance. The annual financial statements are audited by the Ministry of Audit to ensure that the Bank complies with the budget approved by the Legislative Yuan. The Bank's financial statements have been finalized after such an audit.

The accounts of the Banks as of and for the year ended December 31, 2015, have been examined by the Ministry of Audit, Control Yuan of R.O.C., and adjustments from this examination have been recognized in the accompanying financial statements for 2015, which have been restated. Please refer to note 12(b).

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (iv) Basis of Preparation

The accompanying financial statements include the accounts of the head office, the OBU, and all domestic and overseas branches. All inter-branch and inter-office accounts and transactions have been eliminated.

#### (d) Foreign currency

##### (i) Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Bank entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortized cost in the functional currency at the beginning of the year adjusted for the effective interest and payments during the year, and the amortized cost in foreign currency translated at the exchange rate at the end of the year.

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

Foreign currency differences arising on retranslation are recognized in profit or loss, except for the following differences which are recognized in other comprehensive income arising on the retranslation:

- 1) available-for-sale equity investment;
- 2) a financial liability designated as a hedge of the net investment in a foreign operation to the extent that the hedge is effective; or
- 3) qualifying cash flow hedges to the extent the hedge is effective.

##### (ii) Foreign operations

The assets and liabilities of foreign operations are translated to the Banks' the functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to the Banks' the functional currency at exchange rates at the transaction dates. Foreign currency differences are recognized in other comprehensive income.

#### (e) Cash and Cash Equivalents

Cash and cash equivalents in the statements of financial position comprise cash on hand, demand deposits, checking deposits, unrestricted time deposits that are readily convertible to known amounts of cash without impairing the principal, and highly liquid investments that are subject to an insignificant risk of changes in value. Due from the Central Bank, call loans to banks, and notes and bonds purchased under resell agreements which meet the definition in the International Accounting Standard 7 ("IAS 7"), are included as components of cash and cash equivalents for the purpose of stating the cash flows.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(f) Financial Instruments

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

(i) Financial assets

1) Initially recognized and subsequent measurement

The Banks classify financial assets into the following categories: financial assets at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, loans and receivables. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using trade date accounting.

a) Financial assets measured at fair value through profit or loss

Financial asset is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are classified as held-for-trading if they are acquired principally for the purpose of selling in the short term. The Banks designate financial assets, other than ones classified as held-for-trading, as at fair value through profit or loss at initial recognition under one of the following situations:

- i) Designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise;
- ii) Performance of the financial asset is evaluated on a fair value basis;
- iii) A hybrid instrument contains one or more embedded derivatives.

Financial assets in this category are measured at fair value at initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein, which take into account any dividend and interest income, are recognized in profit or loss.

The Banks could reclassify financial assets which were originally classified as financial assets measured at fair value through profit or loss (excluding derivatives and those assets originally classified as financial assets designated to be measured at fair value). If it would have met the definition of loans and receivables and the Banks have the intention and ability to hold the financial asset for the foreseeable future or until maturity. The Banks shall reclassify the financial asset, and the fair value of the financial asset on the date of the reclassification becomes its new cost or amortized cost. Any gain or loss already recognized in profit or loss shall not be reversed.

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the fair value reserve in equity. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss.

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

The Banks could reclassify financial assets which were originally classified as available-for-sale financial assets. If it would have met the definition of loans and receivables and the Banks have the intention and the ability to hold the financial asset for the foreseeable future or until maturity. The Banks shall reclassify the financial assets and the fair value of the financial asset when the date of the reclassification becomes its new cost or amortized cost.

Dividend income is recognized in profit or loss on the date that the Banks' right to receive payment is established.

#### c) Held-to-maturity financial assets

The Banks have the positive intent and ability to hold debt securities to maturity, such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses.

If a change in intention or ability has caused the investments to be inappropriate in classifying as held-to-maturity financial assets, such investments should be reclassified to available-for-sale financial assets and should be measured at fair value on the date of reclassification. The difference between the fair value and carrying amount is recognized in equity. When the financial asset is derecognized, the cumulative gain or loss is recognized in profit or loss of that period.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

d) Loans and Receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables comprise trade receivables, other receivables, loans and other financial instruments. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method.

Overdue loans represent outstanding loans whose principal or interest payments are more than three months past due and are not extended, or whose principal or interest payments are not past due but for which the Banks are engaged in litigation or have disposed of the collateral.

The overdue receivables are classified as delinquent receivables when they are overdue for more than six months. When the principal and the related interest receivable are transferred to delinquent receivables, interests accrual are ceased internally but continue to accrue externally and are recorded in the memo account. Interest received after the interest accrual is ceased and is recognized as revenue.

The transfer of delinquent receivables from loans are recorded as discount and loans while the transfer of other delinquent receivable from other assets, such as guarantees, acceptances, accounts receivables factoring without recourse and credit card charge are recorded as other financial assets.

e) Debt investments without active market

Debt investments without active market are investments with fixed or determinable payments that are not quoted in an active market. To recognize as debt investments without active market, the following conditions should be met:

- i) It is not classified as assets measured at fair value through profit or loss.
- ii) It is not designated as available-for-sale.
- iii) The majority of the investments held by the holders are irrecoverable as a result of factors other than credit defaults.

If there is an objective evidence that an impairment loss on held-to-maturity investments carried at amortized cost exists, the amount of the loss shall be recognized in profit or loss. If, in a subsequent period, the amount of 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 shall be reversed through profit or loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the amortized costs prior to the recognition of impairment loss.

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

f) Repo and reverse repo transactions with notes and bonds

Repo and reverse repo transactions with notes and bonds are treated as financing transactions based on its transaction in practice. Interest revenue and expense are recognized on an accrual basis on the transaction date (when the notes and bonds are sold and purchased) and the agreed repurchased and resell date. Investments on repo and reverse repo transactions with notes and bonds are recognized on the date it is sold and purchased.

2) Impairment of financial assets

A financial asset is impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be estimated reliably.

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

The Banks first assesses whether any objective evidence of impairment exists for loans that are individually significant. It then assesses individually and collectively for loans that are not individually significant. If no objective evidence of impairment exists in an individual financial asset, regardless of whether the financial assets are significant, it shall be included in a portfolio of financial assets with similar credit risk characteristics and collectively assess for impairment. Financial assets that are individually assessed for impairment or continued to recognize impairment loss are not required to adopt the former impairment assessment as impairment is or continued to be recognized. If there is an objective evidence of impairment loss, it should be recognized as impairment loss. An impairment loss in respect of a financial asset is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of financial assets is reduced through provision for bad debt account and the impairment loss is recorded as bad debt expense and provisions for guarantee liabilities or asset impairment loss. On deciding the impairment loss, the estimated future cash flows includes the recoverable amount on collaterals. If, in a subsequent period, the amount of the impairment loss of a financial asset measured at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the decrease in impairment loss is reversed through adjustment in the provisions for bad debt account to the extent that the carrying value of the asset does not exceed its amortized cost before the impairment was recognized at the reversal date. The reversed amount is recognized as profit or loss for that period.

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

An impairment loss in respect of a financial asset measured at cost is calculated as the difference between its 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. Such impairment loss is not reversible in subsequent periods.

Impairment losses on available-for-sale financial assets are recognized by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. If, in a subsequent period, any impairment loss, including parts attributable to changes in exchange rates, are reclassified from equity to profit or loss prior to asset derecognition. Impairment losses on an available-for-sale equity security that are initially recognized in profit or loss are not reversed through profit or loss. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is recognized in other comprehensive income, and accumulated in other equity. If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognized, then the impairment loss is reversed with the amount of the reversal recognized in profit or loss.

(ii) Financial liabilities

The financial liabilities held by the Banks include financial liabilities measured at fair value through profit or loss and other financial liabilities.

1) Financial liabilities at fair value through profit or loss

A financial liability classified in this category includes held-for-trading and financial liabilities measured at fair value through profit or loss. Held-for-trading financial instruments are acquired principally for the purpose of selling or repurchasing in the short term. Derivative instruments are classified as financial instrument, except for derivative instruments that are designated as effective hedging instrument. This type of financial liability is measured at fair value at the time of initial recognition. Attributable transaction costs are recognized in profit or loss as incurred. Subsequent to initial recognition, financial liabilities measured at fair value, and changes therein, which take into account any interest expense, are recognized in profit or loss. A regular way purchase or sale of financial assets shall be recognized and derecognized, as applicable, using the trade-date accounting.

2) Other financial liabilities

Financial liabilities not classified as held-for-trading or designated as at fair value through profit or loss (which comprise of due from banks, deposits, accounts payable and other payables) are measured at fair value, plus, any directly attributable transaction cost at the time of initial recognition. Subsequent to initial recognition, they are measured at amortized cost calculated using the effective interest method.

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- (iii) Derecognition of financial assets and liabilities
- 1) Derecognition of financial assets  
The Banks derecognize financial assets when the contractual rights of the cash inflow from the asset are terminated, or when the Banks transfer substantially all the risks and rewards of ownership of the financial assets. When the Bank pledged bonds as collateral for repurchase agreement, such financial assets are not derecognized as the majority of ownership risks and rewards are remained within the Banks.
  - 2) Derecognition of financial liabilities  
The Banks derecognize a financial liability when its contractual obligation has been discharged or cancelled, or expires. The difference between the carrying amount of a financial liability removed and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognized in profit or loss.
- (iv) Offsetting of financial assets and liabilities
- The Banks present financial assets and liabilities on a net basis when the Banks have the legally enforceable right to offset and intend to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.
- (g) Property and equipment
- (i) Recognition and measurement  
Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost of property and equipment includes the acquisition price and expenditure that directly attributable to bringing the asset to the location and condition necessary for it to be capable of reaching its expected operations, initial estimate costs of dismantling and removing the item and restoring the site on which it is located.  
  
When property and equipments comprised of different components, it is more appropriate to separately depreciate each component with a cost that is significant in relation to the total cost of the item using different depreciation rate and methods and considered each component (significant component) as individual item.  
  
The difference between the net disposal proceeds and the carrying amount of the item shall be recognized as net profit or loss of property transactions.
  - (ii) Reclassification to investment property  
When there is a change in use, the Banks treat the owner occupied property as investment property; the property shall be reclassified to investment property at carrying amount from then on.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iii) Subsequent cost

When there is a change in use, the Banks treat the owner occupied property as investment property; the property shall be reclassified to investment property at carrying amount from then on.

(iv) Depreciation

Except for land, each significant part of an item of property and equipment is depreciated separately, unless, the useful life and the depreciation method of an item of property and equipment are the same as the useful life and depreciation method of another significant part of that same item. Leasehold improvements are depreciated based on its useful lives, as well as the shorter of lease terms by using the straight-line methods. The Banks will assess the remaining useful lives, depreciation methods, residual value and changes in remaining useful lives. The depreciation methods and residual value are accounted for as a change in an accounting estimates and are adjusted using deferral method.

The estimated useful lives of property and equipment are as follows:

- (i) Buildings:10 to 65 years
  - (ii) Machinery and equipment:3 to 25 years
  - (iii) Transportation equipment:3 to 25 years
  - (iv) Miscellaneous equipment:3 to 25years
  - (v) Land improvements:5 to 15 years
  - (vi) Leasehold improvements:The asset is depreciated over the shorter of the lease term and its useful life.
  - (vii) Air conditioning engineering:8 years
  - (viii) Escalator engineering:15 years
  - (ix) Renovation project:10 years
- (h) Investment in Real Estate

Investment property is the property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, for use in the production or supply of goods or services, or for administrative purposes. Investment property is measured at cost on initial recognition and measured at cost, less, accumulated depreciation and accumulated impairment loss subsequently. Subsequent to initial recognition, depreciation charge of investment property, except for land, is calculated using the depreciable amount on a straight-line basis over its useful lives of 10~65 years. Cost includes expenditure that is directly attributable to the acquisition of the investment property. The cost of self-constructed investment property includes the cost of raw materials and direct labor, and any other costs directly attributable to bringing the investment property to a working condition for its intended use and capitalized borrowing costs.

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

When the use of a property changes such that it is reclassified as plant and equipment, its fair value on the date of reclassification becomes its cost for subsequent accounting.

#### (i) Leases

Leases are classified as finance lease 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.

##### (i) Lessor

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

##### (ii) Lessee

A lease is classified as operating lease if it retains substantially all the risks and rewards of ownership.

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

#### (j) Intangible Assets

The Banks' intangible assets are initially recognized at cost. Subsequently, the intangible assets shall be carried at the costs, less, accumulated amortization and accumulated impairment losses. The depreciable amount is determined by the original cost, less, its residual value. Amortization is recognized as an expense on a straight-line basis over the estimated useful lives of intangible assets from the date that they are available for use.

Intangible asset is computer software which is amortized by using the straight-line method over 3-5 years. The useful lives of intangible assets are as follows:

Computer software: 3~5 years

The residual value, amortization period, and amortization method for an intangible asset with a finite useful life shall be reviewed at least annually at each fiscal year-end. Any change shall be accounted for as changes in accounting estimates and adjusted by using deferral methods.

#### (k) Impairment of non-financial assets

The Banks assess at the end of each reporting period whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the Banks shall estimate the recoverable amount of that asset and an impairment loss is recognized if the recoverable amount of an asset is less than its carrying value. The accumulated impairment loss recognized in prior periods for an asset other than goodwill shall be reversed if the impairment loss is no longer exists or may have decreased. If this is the case, the carrying amount of the asset shall be increased to its recoverable amount, as a

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

reversal of a previously recognized impairment loss. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount, less depreciation and amortization in prior years.

(l) Provision for bad debts and provision for guarantee liabilities

The ending balance of allowance for bad debts and guarantee liability provision on all credit assets in the balance sheets and off-balance sheets is in accordance with the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans, with considerations of the status of loan collaterals and the length of time overdue. The Banks classify credit assets into normal credit assets, assets that require special mention, assets that are substandard and assets that are doubtful. The allowance for doubtful debt for each credit assets are 0.5%, 2%, 10%, 50% and 100%, respectively. The allowance for doubtful debt on credit card receivables is in accordance with the Regulations Governing Institutions Engaging in Credit Card Business. The abovementioned regulations are the minimum standards on allowance for doubtful debts for credit assets in the balance sheets and off-balance sheets.

In addition, the Banks adopt the assessment of IAS 39, which conforms to the definition of impairment loss in loans and receivables.

(m) Provisions

A provision is recognized if, as a result of a past event, the Banks have a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the liability. The discounted amortization is recognized as interest expense.

(n) Interest income and interest expense

Except for financial assets and liabilities reported at fair value through profit or loss, all interests of bearing financial assets and interest-bearing financial liabilities are accrued using the effective interest rate method and are accounted for as interest revenue and interest expense in profit or loss. The effective interest rate refers to the interest rate used to discount the estimated future cash paid or received for the expected duration and the shorter of period, which is equivalent to the carrying amount of financial assets or liabilities. To calculate the effective interest rate, the Banks consider all the conditions in the contracts of financial instruments to estimate cash flows, except for future credit loss. The abovementioned calculation includes all expenses, transaction costs and other discounts or premiums that are received from and paid to the counterparty and which belong to parts of effective interest rates. Transaction costs include incremental costs that are attributable to acquisition, issuance or disposal of financial assets or financial liabilities.

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

(o) Commission fee revenue and expenses

Commission fee revenue and expenses are recognized when loans or other services are provided. Service fees on significant projects are recognized on project completion. Commission revenue and fees relating to subsequent loan services are amortized through service periods or included in the effective interest rate for loans and receivables. Whether to adjust the agreed interest rate of loans and receivables to its effective interest rate, the Banks should first consider the materiality of this effect. If it is insignificant, the Banks should use the original amount of loans and receivables for measurement.

(p) Employee benefit

(i) Short term employee benefit

When an employee has rendered service to an entity during an accounting period, the Banks shall recognize the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service.

(ii) Definite benefit plan

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Banks' net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value. Any unrecognized past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on bonds (market yields of high quality corporate bonds or government bonds) that have maturity dates approximating the terms of the Banks' obligations and that are denominated in the same currency in which the benefits are expected to be paid.

The calculation is performed annually by a qualified actuary using the projected unit credit method. At each reporting date, the defined benefit liability is recognized as the present value of the defined benefit obligation, less, the net value of pension plan assets after adjusting the unrecognized actuarial gains and losses and unrecognized past service costs.

Remeasurements of the net defined benefit liability or asset comprise: a) actuarial gains and losses; b) return on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and c) any change in the effect of the asset ceiling, excluding amounts included in net interest on the net defined benefit liability (asset). The remeasurements of the net defined benefit liability or asset are recognized in other comprehensive income. The Bank and its subsidiary have elected to transfer the amount arising from remeasurement to retained earnings.

(iii) Defined contribution benefit

In accordance with the labor pension systems, the Banks have contributed 6% of salaries to individual pension accounts managed by the Bureau of Labor Insurance and recognized as employee benefit expenses for that period.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(iv) Preferential interest deposits

The Banks provide their employees the preferential interest deposits, including that for current employees and retired employees. The difference between the preferential interest rate and the market rate belongs to the employee benefit.

In accordance with the Regulations Governing the Preparation of Financial Reports by the Public Banks, for the preferential interest deposits paid for current employees, the Banks shall calculate the interest monthly on accrual basis. The different amount of the preferential interest rate and market interest rate is recognized under the preferential interest account in the comprehensive Income statement. When the employees retired, the Banks shall calculate the excess interest using actuarial method by adopting the IAS 19. However the actuarial assumptions shall follow the government's related regulations.

(v) Civil servant and teacher insurance excess annuity benefit plans

According to the "Civil Servant and Teacher Insurance Act" (the CSTI Act) that took effect on May 29, 2015 and Tui-Yi-Zi No. 10440257582 issued on Oct 14, 2016, by the Ministry of Finance, the Company's employees who are not qualified for preferential interest deposits are entitled to receive annuity when retiring or getting laid off if they meet the requirements prescribed in Article 16 and 18 of the CSTI Act. The sum of the monthly payments from this annuity and the total amount of the defined benefit plan shall not exceed 80% of twice the amount of the employee's salary at the time of retirement. Moreover, if the payment rate of the annuity is lower than the basic rate of annuity, the annuity will be calculated using the latter rate. However, if the payment rate is higher than the upper limit, the annuity is calculated based on 1.3%.

The Company is responsible for the portion of the annuity payments that exceeds 0.75% and the calculation is reviewed by the insurance carrier on a monthly basis in accordance with the CSTI Act.

(q) Income Tax

Income tax expenses include both current taxes and deferred taxes. Except for expenses that are related to other comprehensive income directly or expenses recognized in equity and other related expenses, all current and deferred taxes shall be recognized in profit or loss.

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

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the 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 loss carry forward to the extent that it is probable to receive income tax in the future. Deferred income tax assets and liabilities are offset if they are related to income taxes levied by the same tax authorities or different tax authorities but intend to offset using the net settlement of current income tax liabilities and assets or the simultaneous realization in income tax liabilities and assets.

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Current taxes and deferred tax for the year are calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as the tax adjustments related to prior years.

The Banks review the carrying amount of deferred tax assets at each reporting date. The carrying value of deferred tax asset is reduced if it is unlikely that there is sufficient income tax provided to profits realized in parts or entire deferred tax assets. If it is likely that there is sufficient income tax provided, the amount that is originally reduced in deferred tax asset is reversed within the range in which the profit is realized.

(r) Earnings per Share

The Banks disclose the Banks' basic earnings per share attributable to ordinary equity holders of the Banks. The calculation of basic earnings per share is based on the profit attributable to the ordinary shareholders of the Banks divided by the weighted-average number of ordinary shares outstanding.

(s) Operating Segments Information

An operating segment is a component of an entity that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity), whose operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

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

The preparation of the financial statements in conformity with Regulations Governing the Preparation of Financial Reports by Public Banks, requires management to make judgments, estimates and assumptions that affect the application of the accounting policies and the reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Management continued to monitor the accounting assumptions, estimates and judgments. Management recognized the changes in the accounting estimates during the period, and the impact of the changes in the accounting estimates in the next period.

Determining the book value of the assets and the liabilities as the following that have significant effect on amounts recognized in the financial statements are influenced by accounting assumptions and judgments.

(a) Impairment loss on loans

The Bank and its subsidiary review loan portfolios to assess impairment periodically. In determining whether an impairment loss should be recorded in the income statement, the Bank makes judgments as to whether there is any observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers (e.g. payment delinquency or default), or economic conditions that correlate with defaults on assets. The management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when estimating expected future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly in order to decrease the difference between estimated loss and actual loss.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(b) Fair value of financial instruments

The fair value of non-active market or non-quoted financial instruments is determined using valuation techniques. Such fair value is based on observable data of similar financial instruments or valuation model. If there are no observable market parameters, the fair value of financial instruments is evaluated based on appropriate assumptions. If fair value is determined by the valuation model, the model is calibrated to ensure that all output data and the results are reflected in the actual market price. This valuation model use only observable data as much as possible. As for credit risk (self-owned and the contractual parties), the managements shall estimate its correlations and its fluctuations.

(6) Explanation of significant accounts:

(a) Cash and cash equivalents

	December 31, 2017	December 31, 2016
Cash on hand	\$ 11,190,035	11,236,238
Checks for clearing	13,982,493	13,990,270
Due from banks	<u>24,120,659</u>	<u>20,388,214</u>
	<u>\$ 49,293,187</u>	<u>45,614,722</u>

The balance details of cash and cash equivalents in cash flow statement are as follow:

	December 31, 2017	December 31, 2016
Cash and cash equivalents in the statement of financial position	\$ 49,293,187	45,614,722
Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	133,325,284	122,719,507
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	<u>8,029,166</u>	<u>3,763,733</u>
Total	<u>\$ 190,647,637</u>	<u>172,097,962</u>

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

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

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Reserves for deposits - a/c B	\$ 59,861,201	57,653,397
Reserves for deposits - a/c A	52,090,360	41,154,753
Deposits in the Central Bank	36,000,000	56,000,000
Call loans to banks	1,414,835	1,398,337
Deposits in the authorities in the oversea	79,820,089	80,166,418
Less: Allowance for doubtful accounts (note 6(f))	<u>(4,749)</u>	<u>(8,842)</u>
Net	<b><u>\$ 229,181,736</u></b>	<b><u>236,364,063</u></b>

As required by law, the reserves for deposits in the Central Bank are calculated by applying the prescribed rates to the average monthly balances of various types of deposit accounts. The use of reserves for deposits - a/c B is restricted by the Central Bank.

As of December 31, 2017 and 2016, the due from the Central Bank and call loans to banks were not pledged as collateral for business reserves and guarantees to other parties. Please see note 8.

(c) Financial assets and liabilities at fair value through profit or loss (FVTPL)

(i) Financial assets measured at fair value through profit or loss were as follows:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Held-for-trading financial assets		
Listed companies' stocks	\$ 3,592	122,631
Commercial papers	532,563	979,404
Government bonds	73,557	43,743
Corporate bonds	126,974	85,308
Future margin	166	166
Acceptance Bill	49,915	9,565
Negotiable certificate of deposited	66,988	-
Forward exchange contracts	13,214	49,423
Foreign-currency swap contracts	120,313	159,538
Interest rate swap contracts	9,936	9,261
Asset swap	43,105	81,261
Options	<u>714</u>	<u>244</u>
Subtotal	<u>1,041,037</u>	<u>1,540,544</u>
Designation as at fair value through profit or loss		
Corporate bonds	\$ 903,575	801,928
Financial institution bonds	<u>1,298,806</u>	<u>1,131,084</u>
Subtotal	<u>2,202,381</u>	<u>1,933,012</u>
Total	<b><u>\$ 3,243,418</u></b>	<b><u>3,473,556</u></b>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

- (ii) Financial liabilities at fair value through profit or loss (FVTPL):

	December 31, 2017	December 31, 2016
Held-for-trading financial liabilities		
Forward exchange contracts	\$ 20,788	23,636
Foreign-currency swap contracts	193,422	94,965
Interest rate swap contracts	5,182	3,314
Gross-currency swap	-	71,606
Asset swap	7,493	70,462
Options	621	766
subtotal	<u>227,506</u>	<u>264,749</u>
Financial liabilities at fair value through profit or loss		
Financial debentures (note 6(q))	<u>3,319,072</u>	<u>8,400,862</u>
Total	<u>\$ 3,546,578</u>	<u>8,665,611</u>

- (iii) The contracts amount of derivative financial instruments is summarized as follows:

	December 31, 2017	December 31, 2016
Forward exchange contracts	\$ 3,455,485	4,806,717
Foreign-currency swap contracts	28,283,164	15,216,842
Interest rate swap contracts	1,892,030	1,228,454
Gross-currency swap	-	966,600
Options	3,561,600	9,182,700
Asset swap	59,360	64,440

- (iv) The net gains on financial assets held for trading for the years ended December 31, 2017 and 2016 were \$94,417 thousand dollars and \$198,756 thousand dollars, respectively. The net losses on financial liabilities held for trading for the years ended December 31, 2017 and 2016 were losses of \$331,425 thousand dollars and \$155,702 thousand dollars, respectively.

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**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(d) Notes and bonds issued under repurchase/resell agreement

There is no note and bond issued under resell agreement in 2017 and 2016. Securities sold under repurchase agreements, and their buyback amounts using determined price were as follows:

December 31, 2017				
Items	Bond Book Value	Repurchase agreement	Repurchase Price	Repurchase Date
Resell agreement:				
Commercial papers	\$ <u>8,040,000</u>	<u>8,029,166</u>	<u>8,031,971</u>	Resell gradually before February 2, 2017
Repurchase agreement:				
Government bonds	<u>13,968,300</u>	<u>15,157,816</u>	<u>15,174,237</u>	Repurchase gradually before July 2, 2017
	<u>\$ 13,968,300</u>	<u>15,157,816</u>	<u>15,174,237</u>	

December 31, 2016				
Items	Bond Book Value	Repurchase agreement	Repurchase Price	Repurchase Date
Repurchase agreement:				
	<u>\$ 3,770,000</u>	<u>3,763,733</u>	<u>3,765,235</u>	Repurchase gradually before February 2, 2017
Repurchase agreement:				
Government bonds	\$ 200,000	199,823	199,902	Repurchase gradually before January 26, 2017
	<u>7,057,900</u>	<u>7,513,269</u>	<u>7,520,418</u>	Repurchase gradually before July 18, 2017
Government bonds	<u>\$ 7,257,900</u>	<u>7,713,092</u>	<u>7,720,320</u>	

(e) Receivables, net

	December 31, 2017	December 31, 2016
Accounts receivable	\$ 1,547,496	1,414,843
Client's Position - Debit	938,725	377,827
Earned income receivable	10,207	8,477
Interest receivable	4,742,941	3,994,824
Acceptances receivable	1,296,457	1,479,482
Other receivables	<u>417,559</u>	<u>154,248</u>
Total	8,953,385	7,429,701
Less: Allowance for doubtful accounts (note 6(f))	<u>(85,354)</u>	<u>(66,902)</u>
Net	<u>\$ 8,868,031</u>	<u>7,362,799</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(f) Discounts and loans, net

	December 31, 2017	December 31, 2016
Import and export bills negotiated	\$ 250,412	186,284
Account receivables financing	56,000	3,700
Margins loans receivables	1,221,533	994,479
Accounts receivable secured financing	-	11,900
Discounted bills	619,304	739,182
Overdrafts	1,345,775	2,142,438
Secured overdrafts	1,604,066	1,820,121
Short-term loans	168,485,834	128,763,752
Short-term secured loans	33,402,749	30,336,098
Medium-term loans	235,611,866	239,880,257
Medium-term secured loans	381,196,940	355,385,955
Long-term loans	24,148,020	33,986,894
Long-term secured loans	1,056,101,870	1,002,624,510
Overdue loans	<u>2,902,728</u>	<u>2,678,876</u>
Total	1,906,947,097	1,799,554,446
Less: Allowance for doubtful accounts	(27,846,235)	(28,864,151)
Less: Adjustment for discounts and premiums	<u>3,287</u>	<u>(846)</u>
Net	<u>\$ 1,879,104,149</u>	<u>1,770,689,449</u>

- (i) As of December 31, 2017 and 2016, the balances of loans for which accrual of interest revenues was discontinued were \$3,348,823 thousand, and \$2,684,545 thousand, respectively. The unrecognized interest revenues on these loans were \$31,646 thousand and \$52,437 thousand for the years ended December 31, 2017 and 2016, respectively.
- (ii) The changes in allowance for doubtful accounts on loans, receivables and call loans to banks were as follows:

	For the years ended December 31	
	2017	2016
Loans:		
Beginning balance	\$ 28,864,151	27,166,450
Provision for loan losses and doubtful accounts	(211,855)	2,086,320
Write-off	(1,522,258)	(2,181,988)
Recoveries	839,357	2,060,365
Effects of changes in exchange rates and others	<u>(123,160)</u>	<u>(266,996)</u>
Ending balance	<u>\$ 27,846,235</u>	<u>28,864,151</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

	For the years ended December 31	
	2017	2016
Receivables (including other financial assets):		
Beginning balance	\$ 109,028	539,722
Provision (reversal of provision) for receivable losses and doubtful accounts	675,242	(326,758)
Write-off	(233,843)	(126,160)
Recoveries	21,491	19,274
Effects of changes in exchange rates and others	(2,087)	2,950
Ending balance	<u>\$ 569,831</u>	<u>109,028</u>
Call loans to banks:		
Beginning balance	\$ 8,842	-
Provision (reversal of provision) for possible losses and doubtful accounts	(3,398)	8,842
Effects of changes in exchange rates and others	(695)	-
Ending balance	<u>\$ 4,749</u>	<u>8,842</u>

(iii) Allowance for doubtful accounts in related accounts are as follows:

	December 31, 2017	December 31, 2016
Receivables	\$ 85,354	66,902
Discounts and loans	27,846,235	28,864,151
Other financial assets	484,477	42,126
Call loans to banks	4,749	8,842
Total	<u>\$ 28,420,815</u>	<u>28,982,021</u>

(iv) The summary of the provision for loan losses and credit related losses in comprehensive income statement for the years ended December 31, 2017 and 2016 were as follows:

	For the years ended December 31	
	2017	2016
Provision for losses on discounts and loans	\$ 459,989	1,768,404
Provision (reversal of provision) for losses on guarantees	33,003	(143,907)
Total	<u>\$ 492,992</u>	<u>1,624,497</u>

(v) The analysis of impairment for financial assets is disclosed in note 6(ah) (iii) (8).

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

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

	December 31, 2017	December 31, 2016
Stocks	\$ 6,776,385	7,936,207
Beneficiary certificates	10,177	228,808
Commercial papers	9,353,040	23,530,764
Negotiable certificates of time deposits	305,934,469	304,285,260
Government bonds	43,167,269	45,128,777
Corporate bonds	4,206,349	3,558,520
Financial institution bonds	38,048,032	22,657,106
Total	<u>\$ 407,495,721</u>	<u>407,325,442</u>

As of December 31, 2017 and 2016, the available-for-sale financial assets were pledged to other parties as collateral for business reserves and guarantees for \$26,073,706 thousand and \$25,108,005 thousand, respectively. Please refer to note (8).

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

	December 31, 2017	December 31, 2016
Government bonds	\$ 98,411,278	56,658,001
Corporate bonds	6,050,000	3,550,000
Negotiable certificates of deposits	131,670,000	76,555,000
Treasury bill	1,991,702	-
Financial bonds	-	47,088
Total	<u>\$ 238,122,980</u>	<u>136,810,089</u>

As of December 31, 2017 and 2016, the Held-to-maturity financial assets were pledged to other parties as collateral of business reserves and guarantees for \$3,175 thousand and \$3,203 thousand, respectively. Please refer to note (8).

(i) Other financial assets, net

	December 31, 2017	December 31, 2016
Financial assets carried at cost	\$ 1,590,135	1,590,135
Less: accumulated impairment - financial assets carried at cost	(10,404)	(10,404)
Overdue loans	446,095	5,669
Less: allowance for bad debt - Overdue loans (note 6(f))	(443,255)	(3,689)
Others	92,034	103,388
Less: allowance for bad debt - others (note 6(f))	(41,222)	(38,437)
Total	<u>\$ 1,633,383</u>	<u>1,646,662</u>

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

The financial assets carried at cost are stocks not listed on the Exchange and OTC in Taiwan and other chattels held by the Banks. As there is no quoted price in an active market and the fair value cannot be reliably measured, the financial assets are carried at cost.

(j) Property and Equipment, net

(i) The cost, the accumulated depreciation, and the accumulated impairment of property and equipment were as follows:

Asset	December 31, 2017			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land	\$ 14,690,310	-	(2,632)	14,687,678
Land improvements	11,847	(11,847)	-	-
Buildings	12,107,203	(5,716,660)	-	6,390,543
Machinery and computer equipment	2,409,614	(1,488,419)	-	921,195
Transportation equipment	461,663	(381,679)	-	79,984
Miscellaneous equipment	891,797	(690,935)	-	200,862
Leasehold improvements	232,119	(157,047)	-	75,072
Construction in progress	112,040	-	-	112,040
Machinery on order	487,139	-	-	487,139
Total	<u>\$ 31,403,732</u>	<u>(8,446,587)</u>	<u>(2,632)</u>	<u>22,954,513</u>

Asset	December 31, 2016			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land	\$ 14,781,532	-	(2,632)	14,778,900
Land improvements	11,847	(11,842)	-	5
Buildings	12,047,261	(5,459,660)	-	6,587,601
Machinery and computer equipment	2,721,682	(1,768,384)	-	953,298
Transportation equipment	476,151	(381,575)	-	94,576
Miscellaneous equipment	897,546	(700,336)	-	197,210
Leasehold improvements	203,105	(120,190)	-	82,915
Construction in progress	109,033	-	-	109,033
Machinery on order	436,326	-	-	436,326
Total	<u>\$ 31,684,483</u>	<u>(8,441,987)</u>	<u>(2,632)</u>	<u>23,239,864</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(ii) The change of property and equipment were as follows:

	Land	Buildings	Others	Total
Cost:				
Balance at January 1, 2017	\$ 14,781,532	12,047,261	4,855,690	31,684,483
Additions	-	2,023	482,079	484,102
Disposals	(40)	-	-	(40)
Write-offs	-	(7,060)	(668,883)	(675,943)
Reclassification	(91,182)	64,979	(57,761)	(83,964)
Effect of change in exchange rates	-	-	(4,906)	(4,906)
Balance at December 31, 2017	<u>\$ 14,690,310</u>	<u>12,107,203</u>	<u>4,606,219</u>	<u>31,403,732</u>
Balance at January 1, 2016	\$ 14,746,131	11,996,766	4,790,713	31,533,610
Additions	52,406	8,928	507,834	569,168
Disposals	-	-	(372,788)	(372,788)
Write-offs	(17,005)	-	(23,261)	(40,266)
Reclassified to Investment securities	-	41,567	(41,567)	-
Reclassification	-	-	(5,241)	(5,241)
Balance at December 31, 2016	<u>\$ 14,781,532</u>	<u>12,047,261</u>	<u>4,855,690</u>	<u>31,684,483</u>
Depreciation and Amortization:				
Balance at January 1, 2017	\$ 2,632	5,459,660	2,982,327	8,444,619
Depreciation	-	271,428	415,319	686,747
Disposals	-	(4,177)	(664,269)	(668,446)
Reclassification	-	(10,251)	-	(10,251)
Effect of change in exchange rates	-	-	(3,450)	(3,450)
Balance at December 31, 2017	<u>\$ 2,632</u>	<u>5,716,660</u>	<u>2,729,927</u>	<u>8,449,219</u>
Balance at January 1, 2016	\$ 2,632	5,194,467	2,959,114	8,156,213
Depreciation	-	265,193	422,346	687,539
Disposals	-	-	(372,761)	(372,761)
Transfer in at current period	-	-	(23,081)	(23,081)
Effect of change in exchange rates	-	-	(3,291)	(3,291)
Balance at December 31, 2016	<u>\$ 2,632</u>	<u>5,459,660</u>	<u>2,982,327</u>	<u>8,444,619</u>
Carrying amounts:				
December 31, 2017	<u>\$ 14,687,678</u>	<u>6,390,543</u>	<u>1,876,292</u>	<u>22,954,513</u>
December 31, 2016	<u>\$ 14,778,900</u>	<u>6,587,601</u>	<u>1,873,363</u>	<u>23,239,864</u>

(iii) No property and equipment was pledged at December 31, 2017 and 2016.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(k) Investment Property, net

(i) The cost, the accumulated depreciation, and the accumulated impairment of investment property were as follows:

Assets	December 31, 2017			
	Cost	Accumulated Depreciation	Accumulated impairment	Carrying amounts
Land	\$ 23,007,031	-	(99,937)	22,907,094
Buildings	1,720,885	(517,534)	-	1,203,351
Total	<u>\$ 24,727,916</u>	<u>(517,534)</u>	<u>(99,937)</u>	<u>24,110,445</u>

Assets	December 31, 2016			
	Cost	Accumulated Depreciation	Accumulated impairment	Carrying amounts
Land	\$ 22,940,901	-	(99,937)	22,840,964
Buildings	1,736,773	(475,632)	-	1,261,141
Total	<u>\$ 24,677,674</u>	<u>(475,632)</u>	<u>(99,937)</u>	<u>24,102,105</u>

(ii) The changes of investment property were as follows:

	Land	Buildings	Total
Cost:			
Balance at January 1, 2017	\$ 22,940,901	1,736,773	24,677,674
Additions	-	1,106	1,106
Sales	(25,052)	(3,848)	(28,900)
Reclassification	91,182	(7,218)	83,964
Disposals	-	(5,928)	(5,928)
Balance at December 31, 2017	<u>\$ 23,007,031</u>	<u>1,720,885</u>	<u>24,727,916</u>
Balance at January 1, 2016	\$ 22,996,414	1,735,284	24,731,698
Additions	-	1,489	1,489
Sales	(55,513)	-	(55,513)
Balance at December 31, 2016	<u>\$ 22,940,901</u>	<u>1,736,773</u>	<u>24,677,674</u>
Depreciation and Amortization:			
Balance at January 1, 2017	\$ 99,937	475,632	575,569
Depreciation	-	38,011	38,011
Sales	-	(1,820)	(1,820)
	-	10,251	10,251
	-	(4,540)	(4,540)
Balance at December 31, 2017	<u>\$ 99,937</u>	<u>517,534</u>	<u>617,471</u>
Balance at January 1, 2016	\$ 99,937	435,991	535,928
Depreciation	-	39,641	39,641
Balance at December 31, 2016	<u>\$ 99,937</u>	<u>475,632</u>	<u>575,569</u>
Carrying amounts:			
December 31, 2017	<u>\$ 22,907,094</u>	<u>1,203,351</u>	<u>24,110,445</u>
December 31, 2016	<u>\$ 22,840,964</u>	<u>1,261,141</u>	<u>24,102,105</u>

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (iii) The investment property of the Bank is revalued every half year, starting from 2013. Buildings are revalued by professional valuer of each branch and land is assessed based on the land value set by the Department of Land Administration, M.O.I. As of December 31, 2017 and 2016, the fair values of investment properties are \$46,278,618 thousand and \$46,036,294 thousand, respectively.
- (iv) The rental revenues of investment property for the years ended 2017 and 2016 were \$302,746 thousand and \$302,908 thousand, respectively.
- (v) No investment property was pledged at December 31, 2017 and 2016.
- (l) Intangibles assets, net

Assets	December 31, 2017			Carrying amounts
	Cost	Accumulated Amortization	Accumulated Impairment loss	
Computer Software	\$ 2,053,139	(1,183,983)	-	869,156

Assets	December 31, 2016			Carrying amounts
	Cost	Accumulated Amortization	Accumulated Impairment loss	
Computer Software	\$ 1,807,535	(913,367)	-	894,168

The changes in intangible assets were as follows:

	Computer Software
Costs:	
Balance at January 1, 2017	\$ 1,807,535
Additions	246,398
Effect of change in exchange rates	(794)
Balance at December 31, 2017	\$ 2,053,139
Balance at January 1, 2016	\$ 1,368,870
Additions	439,034
Effect of change in exchange rates	(369)
Balance at December 31, 2016	\$ 1,807,535
Accumulated Amortization:	
Balance at January 1, 2017	\$ 913,367
Amortization	271,311
Effect of change in exchange rates	(695)
Balance at December 31, 2017	\$ 1,183,983
Balance at January 1, 2016	\$ 708,509
Amortization	205,171
Effect of change in exchange rates	(313)
Balance at December 31, 2016	\$ 913,367
December 31, 2017	\$ 869,156
December 31, 2016	\$ 894,168

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**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(m) Other assets, net

	December 31, 2017	December 31, 2016
Prepayment	\$ 5,033,871	5,035,243
Guarantee deposits paid	2,491,993	2,915,569
Operating guarantee deposits, net	29,504	29,207
Temporary payments and suspense accounts	58,809	31,218
Other	25	4,819
<b>Total</b>	<b>\$ 7,614,202</b>	<b>8,016,056</b>

As of December 31, 2017 and 2016, the due from the Central Bank and call loans to banks amounted to \$2,233,737 thousand and \$2,745,804 thousand, respectively. For the and their use in reserves of business, please see note 8.

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

	December 31, 2017	December 31, 2016
Due to the Central Bank	\$ 670,413	675,062
Due to other banks	7,034,295	5,058,684
Due to Taiwan Post Co., Ltd.	117,965,151	44,214,660
Overdrafts from banks	270,918	516,473
Call loans from banks	74,393,491	91,626,515
<b>Total</b>	<b>\$ 200,334,268</b>	<b>142,091,394</b>

(o) Payable

	December 31, 2017	December 31, 2016
Accounts payable	\$ 100,073	53,420
Brokering transactions credit balance	926,034	377,914
Accrued expenses	2,195,240	2,160,312
Accrued interest	3,516,963	3,184,538
Acceptances	1,576,338	1,663,425
Collection received on behalf of customers	966,707	1,162,667
Deposits received from securities borrowers	80,587	61,154
Guaranteed price deposits received from securities borrowers	88,092	66,625
Checks for clearing	14,082,192	14,281,579
Payable of compensation to land prices	75,743	150,574
Payable of short-term compensated absences	420,055	432,185
Other payables	816,584	865,044
<b>Total</b>	<b>\$ 24,844,608</b>	<b>24,459,437</b>

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(p) Deposits and remittances

	December 31, 2017	December 31, 2016
Check deposits	\$ 24,120,676	26,522,938
Government deposits	152,052,791	167,231,271
Demand deposits	320,653,923	327,024,545
Time deposits	901,800,651	751,181,513
Savings deposits	1,001,382,088	975,191,572
Remittances under custody	433	2,502
Remittances outstanding	12,708	114,074
Total	<u>\$ 2,400,023,270</u>	<u>2,247,268,415</u>

(q) Financial debentures

	December 31, 2017	December 31, 2016
Subordinated financial debentures	\$ 66,700,000	79,700,000
Less: unamortized issuance costs	(8,360)	(5,659)
Total	<u>\$ 66,691,640</u>	<u>79,694,341</u>

- (i) According to the approval letter Jin-Guan-Yin-Guo-Zi No. 09900405930 published by Banking Bureau, Financial Supervisory Commission in 2010, the Bank can issue a seven-year annual-interest-payment, and a principle-payment-at-maturity financial debentures several times with a maximum amount of \$38,000,000 thousand. The Bank issued various seven-year subordinated financial debentures totaling \$7,100,000 thousand during the year 2011. The interest rate is based on the fixed rate of 1.64%. The subordinated financial debentures are repayable at the maturity in October 2018.
- (ii) According to the approval letter Jin-Guan-Yin-Guo-Zi No. 10000402490 published by Banking Bureau, Financial Supervisory Commission in 2011, the Bank can issue a seven-year annual-interest-payment, and a principle-payment-at-maturity subordinated financial debentures several times with a maximum amount of \$31,000,000 thousand. The Bank issued various seven-year subordinated financial debentures totaling \$8,000,000 thousand, \$2,100,000 thousand, \$2,900,000 thousand and \$2,100,000 thousand on December 2011, April 2012, June 2012 and October 2012, respectively. The interest rate is based on the fixed rate from 1.43% to 1.60%. The subordinated financial debentures are repayable at the maturity in December 2018 and April to October 2019, respectively.
- (iii) According to the approval letter Jin-Guan-Yin-Guo-Zi No. 10100346720 published by the Banking Bureau, Financial Supervisory Commission in 2012, the Bank can issue an annual-interest-payment, and a principle-payment-at-maturity subordinated financial debentures several times with a maximum amount of \$38,000,000 thousand. The Bank issued seven-year and ten-year subordinated financial debentures totaling \$2,700,000 thousand and \$10,300,000 thousand during the year 2012, respectively. The interest rate is based on the fixed rate of 1.43% and 1.55%. The subordinated financial debentures are repayable at the maturity in December 2019 and December 2022, respectively.

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

- (iv) According to the approval letter Jin-Guan-Yin-Guo-Zi No. 10200314700 published by the Banking Bureau, Financial Supervisory Commission in 2013, the Bank can issue an annual-interest-payment, and a principle-payment-at-maturity subordinated financial debentures several times with a maximum amount of \$38,000,000 thousand. The Bank issued seven-year subordinated financial debentures totaling \$3,000,000 thousand in December 2013. The interest rate is based on the fixed rate of 1.72%. The subordinated financial debentures are repayable at the maturity in December 2020.
- (v) According to the approval letter Jin-Guan-Yin-Guo-Zi No. 10300306340 published by the Banking Bureau, Financial Supervisory Commission in 2014, the Bank can issue an annual-interest-payment, and a principle-payment-at-maturity subordinated financial debentures several times with a maximum amount of \$38,000,000 thousand. The Bank issued ten-year subordinated financial debentures totaling \$18,000,000 thousand on December 2014. The interest rate is based on the fixed rate of 1.98%; The Bank issued ten-year subordinated financial debentures totaling \$7,500,000 thousand in December 2014. The interest rate is based on the fixed rate of 3.5%. The subordinated financial debentures are repayable at the maturity on December 2024. The Bank issued ten-year subordinated financial debentures totaling \$4,000,000 thousand in December 2014.
- (vi) According to the approval letter Jin-Guan-Yin-Guo-Zi No. 10400037690 published by the Banking Bureau, Financial Supervisory Commission in 2015, the Bank can issue a principal-payment-and-interest-at-maturity senior unsecured financial debentures several times with a maximum amount of USD500,000 thousand. The Bank issued thirty-year unsecured senior financial debentures totaling USD110,000 thousand on April 10, 2015. The Banks engaged in interest swap contracts in order to hedge their interest risk. The Banks designated the debenture as at fair value through profit or loss in order to eliminate or significantly reduce a measurement or recognition inconsistency that would otherwise arise, please see note 6(c).
- (vii) According to the approval letter Jin-Guan-Yin-Guo-Zi No. 10400262760 published by the Banking Bureau, Financial Supervisory Commission in 2015, the Bank can issue a ten-year term annual-interest-payment, and principle-payment-at-maturity subordinated financial debentures several times with a maximum amount of \$35,000,000 thousand. The Bank issued ten-year subordinated financial debentures totaling \$5,000,000 thousand in December 2015. The interest rate is based on the fixed rate of 1.70%. Bond to maturity is in December 2025.
- (viii) According to the approval letter Jin-Guan-Yin-Guo-Zi No. 10500271640 published by the Banking Bureau, Financial Supervisory Commission in 2016, the Bank can issue a no maturity on non-cumulative, and annual-interest-payment subordinated financial debentures several times with a maximum amount of \$40,000,000 thousand. The Bank issued the subordinated financial debentures totaling \$7,500,000 thousand and \$4,500,000 thousand in December 2016 and June 2017, respectively.. The interest rate is based on the fixed rate of 3.15% and 2.95%.
- (r) Other financial liabilities

	December 31, 2017	December 31, 2016
Cumulative earnings on appropriated loan fund	\$ 146,198	175,111

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(s) Provision

	December 31, 2017	December 31, 2016
Employee benefit (note 6(u))	\$ 16,891,775	16,208,874
Reserve for guarantee liabilities	759,567	728,904
Total	<u>\$ 17,651,342</u>	<u>16,937,778</u>

(t) Employee benefit

The Bank adopt pension costs actuarial decided on December 31, 2015 and 2016 since there is no significant one-off matters such as market volatility, reduce and pay off appears in previous year.

(i) Defined Contribution Plan:

The Banks set aside 6% of the contribution rate of the employee's monthly wages to the Labor Pension personal account of the Bureau of the Labor Insurance in accordance with the provisions of the Labor Pension Act. The Bank set aside a fixed amount to the Bureau of the Labor Insurance without the payment of additional legal or constructive obligations.

The Banks' pension expenses under defined contribution pension plan were as \$2,497 thousand and \$1,920 thousand for the years ended 2017 and 2016, respectively. Payment was made to the Bureau of the Labor Insurance.

(ii) Provision for employee benefit:

The Banks' employee benefits were as follows:

	December 31, 2017	December 31, 2016
Defined benefit plans	\$ 11,168,361	10,839,052
Employee benefit savings account	5,707,045	5,364,011
Three important festivals bonus	14,783	5,107
— Exceeding Annuity	1,586	704
Total	<u>\$ 16,891,775</u>	<u>16,208,874</u>

1) Defined benefit plans

The Banks set pension and severance pay to its employees that have retention year prior to December 31, 1981 and salaries between January 1, 1982 and April 31, 1997 in compliance with the Regulations Governing the pension and severance pay on personnel of Government-owned Financial Insurance Business. In accordance with the Regulations Governing the pension and severance pay on personnel of Government-owned Financial Insurance Business, the Banks will contribute 4%~8.50% of salaries and the employees will contribute an additional 3% of the salaries to the employees' personal accounts. Employees served after May 1, 1997 adopt the Labor Standard Act, where the Banks will contribute 8% of the monthly salaries to its employees' pension accounts.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

In order to increase its pension fund, beginning from May 2017, the Bank raised the contribution rate from 8% to 10%, and the excess of 8% of the salaries would be contributed by the Bank's head office. Since 2017, the pension fund is contributed by the head office and each business unit, at 10% of salaries.

Employees who are employed after May 1, 1997 adopts the Labor Standard Act, and contribute pension funds based on this Act. Employees adopt Management Affairs of Executive Yuan Act prior to the adoption of the Labor Standard Act, where both acts are considered as defined contribution plan which contribute 8% of the salaries to pension account in Bank of Taiwan.

The present value of defined benefit obligations and the fair value adjustments of the plan assets for the Banks were as follows:

a) Composition of plan assets

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Total present value of obligations	\$ 12,130,084	12,057,830
Fair value of plan assets	<u>(961,723)</u>	<u>(1,218,778)</u>
Recognized liabilities for defined benefit obligations	<u>\$ 11,168,361</u>	<u>10,839,052</u>

i) Composition of plan assets

As of December 31, 2017, the Banks' Employee Retirement Fund Management Committee was \$623,842 thousand.

The Banks allocates pension funds in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, and such funds are managed by the Labor Pension Fund Supervisory Committee. With regard to the utilization of the funds, minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with interest rates offered by local banks.

The Bank's Bank of Taiwan labor pension reserve account balance amounted to \$337,881 thousand at the end of the reporting period. For information on the utilization of the labor pension fund assets, including the asset allocation and yield of the fund, please refer to the website of the Bureau of Labor Funds, Ministry of Labor.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

ii) Movements in the present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended 2017 and 2016 were as follows: :

	<u>2017</u>	<u>2016</u>
Defined benefit obligations on January 1	\$ 12,057,830	11,786,020
Current service costs and interests	705,697	700,013
Remeasurement of net defined benefit liabilities		
— Movements in financial assumption	306	203,768
— Experience adjustment	96,472	85,322
Benefits paid by the plan	<u>(730,221)</u>	<u>(717,293)</u>
Defined benefit obligations on December 31	<u>\$ 12,130,084</u>	<u>12,057,830</u>

iii) Movements in the present value of the plan assets

The movements in the present value of defined benefit plan assets for the years ended 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Fair value of plan assets on January 1	\$ 1,218,778	1,384,210
Interest revenue	18,323	22,261
Remeasurement of net defined benefit liabilities (assets)		
— Expected returns on plan assets(exclude current interest)	(6,869)	(7,585)
Contributions made	445,815	520,558
Benefits paid by the plan	<u>(714,324)</u>	<u>(700,666)</u>
Fair value of plan assets on December 31	<u>\$ 961,723</u>	<u>1,218,778</u>

iv) Expense recognized in profit or loss

Expense recognized in profit or loss for the years ended 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Current service costs and interest cost	<u>\$ 687,374</u>	<u>677,752</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- v) Remeasurement of the net defined benefit liabilities (assets) - recognized in other comprehensive income

The remeasurements of the net defined benefit liability or asset recognized in other comprehensive income are as follows:

	<u>2017</u>	<u>2016</u>
Accumulated balance at January 1	\$ 663,709	367,034
Recognition	<u>103,647</u>	<u>296,675</u>
Accumulated balance at December 31	<u>\$ 767,356</u>	<u>663,709</u>

- vi) Actuarial assumptions

	<u>2017.12.31</u>	<u>2016.12.31</u>
Discount rate	1.625 %	1.625 %
Expected return on plan assets	1.625 %	1.625 %
Future salary increases	2.000 %	2.000 %

The expected allocation payment made by the Banks to the defined benefit plans for the one year period after the reporting date was \$460,709 thousand.

The weighted average duration of the defined benefit plan is 5.5 to 16.90 years.

- vii) Sensitivity analysis

When calculating the present value of the defined benefit obligations, the Company uses judgments and estimations to determine the actuarial assumptions, including the employee turnover rates and the future salary changes as of the reporting date. Any changes in the actuarial assumptions may significantly impact on the amount of the defined benefit obligations.

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

	<u>Impact of defined benefit obligations</u>	
	<u>Add1.00%</u>	<u>Less1.00%</u>
December 31, 2017		
Discount rate	\$ (1,634,069)	1,842,071
December 31, 2016		
Discount rate	(2,812,520)	3,245,393

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The above sensitivity analysis is based on the static risk structure of discount rate. The calculation methodology of sensitivity analysis is the same as the net defined benefit obligations of the balance sheet. The method and the assumption of the current sensitivity analysis is the same as the previous period.

b) Employee benefit savings account

The present value of defined benefit obligations and the fair value adjustments of the employee benefit savings account plan assets for the Banks were as follows:

i) Movements in the present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit obligations on January 1	\$ 5,364,011	4,995,641
Current service cost and interest cost	1,609,605	1,238,756
Remeasurement of net defined benefit liabilities		
— Experience adjustment	8,727	318,415
Benefits paid by the plan	<u>(1,275,298)</u>	<u>(1,188,801)</u>
Defined benefit obligations on December 31	<u>\$ 5,707,045</u>	<u>5,364,011</u>

ii) Expense recognized in profit or loss

Expense recognized in profit or loss for the years ended 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Current service cost and interest cost	<u>\$ 1,609,605</u>	<u>1,238,756</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii) Actuarial assumptions

The main actuarial assumptions in financial reporting ending date were as follow:

1.

	<u>2017.12.31</u>	<u>2016.12.31</u>
Discount rate	4.00 %	4.00 %
Expected rate of return on funds deposited	1.625 %	1.625 %
Probability of preferential deposit system changing (cancellation)	50.00 %	50.00 %
Pension preferential deposit withdraw ratio	1.00 %	1.00 %
Future salary increases	2.00 %	2.00 %

iv) Sensitivity analysis

When calculating the present value of the defined benefit obligations, the Company uses judgments and estimations to determine the actuarial assumptions, including the employee turnover rates and the future salary changes as of the reporting date. Any changes in the actuarial assumptions may significantly impact on the amount of the defined benefit obligations.

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

	<u>Impact of defined benefit obligations</u>	
	<u>Add 1.00%</u>	<u>Less1.00%</u>
December 31, 2017		
Discount rate	\$ (366,456)	418,422
December 31, 2016		
Discount rate	(687,386)	788,473

The above sensitivity analysis is based on the static risk structure of discount rate. The calculation methodology of sensitivity analysis is the same as the net defined benefit obligations of the balance sheet. The method and the assumption of the current sensitivity analysis is the same as the previous period.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) Three important festivals bonus

i) Movements in the present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit obligations on January 1	\$ 5,107	341,719
Current service costs and interests	80	5,729
Remeasurement of net defined benefit liabilities		
— Movements in financial assumption	-	2,994
— Experience adjustment	11,047	5,328
Past service cost	-	(339,046)
Benefits paid by the plan	<u>(1,451)</u>	<u>(11,617)</u>
Defined benefit obligations on December 31	<u>\$ 14,783</u>	<u>5,107</u>

ii) Expense recognized in profit or loss

Expense recognized in profit or loss for the years ended 2017 and 2016 were as follows:

	<u>2017</u>	<u>2016</u>
Current service costs and interests costs	<u>\$ 80</u>	<u>5,729</u>

iii) The remeasurements of net defined benefit liabilities (assets) recognized as other comprehensive income are as follows:

	<u>2017</u>	<u>2016</u>
Accumulated balance at January 1	\$ 21,863	13,541
Recognition	<u>11,047</u>	<u>8,322</u>
Accumulated balance at December 31	<u>\$ 32,910</u>	<u>21,863</u>

iv) Actuarial assumptions

	<u>2017.12.31</u>	<u>2016.12.31</u>
Discount rate	1.625 %	1.625 %

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

v) Sensitivity analysis

When calculating the present value of the defined benefit obligations, the Company uses judgments and estimations to determine the actuarial assumptions, including the employee turnover rates and the future salary changes as of the reporting date. Any changes in the actuarial assumptions may significantly impact on the amount of the defined benefit obligations.

	<u>Impact of defined benefit obligations</u>	
	<u>Add1.00%</u>	<u>Less1.00%</u>
December 31, 2017		
Discount rate	\$ 897	1,030
December 31, 2016		
Discount rate	(562)	647

The above sensitivity analysis is based on the static risk structure of discount rate. The calculation methodology of sensitivity analysis is the same as the net defined benefit obligations of the balance sheet. The method and the assumption of the current sensitivity analysis is the same as the previous period.

d) Civil servant and teacher insurance excess annuity benefit plans

The present value of defined benefit obligations and the fair value adjustments of the employee benefit savings account plan assets for the Banks were as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
The present value of defined benefit	\$ 1,586	704
Fair value of plan assets	-	-
Defined benefit obligations on December 31	<u>\$ 1,586</u>	<u>704</u>

According to the "Civil Servant and Teacher Insurance Act" (the CSTI Act) that took effect on May 29, 2015 and Tui-Yi-Zi No. 10440257582 issued by the Ministry of Finance, the Company's employees who are not qualified for preferential interest deposits are entitled to receive annuity when retiring or getting laid off if they meet the requirements prescribed in Article 16 and 18 of the CSTI Act. The sum of the monthly payments from this annuity and the total amount of the defined benefit plan shall not exceed 80% of twice the amount of the employee's salary at the time of retirement. Moreover, if the payment rate of the annuity is lower than the basic rate of annuity, the annuity will be calculated using the latter rate. However, if the payment rate is higher than the upper limit, the annuity is calculated based on 1.3%.

The Company is responsible for the portion of the annuity payments that exceeds 0.75% and the calculation is reviewed by the insurance carrier on a monthly basis in accordance with the CSTI Act.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

i) Movements in the present value of the defined benefit obligations

The movements in the present value of the defined benefit obligations for the years ended 2017 was as follows:

	<u>2017</u>	<u>2016</u>
Defined benefit obligations on January 1	\$ 704	-
Current service cost and interest cost	839	704
Remeasurement of net defined benefit liabilities		
— Movements in financial assumption	<u>43</u>	<u>-</u>
Defined benefit obligations on December 31	<u>\$ 1,586</u>	<u>704</u>

ii) Expense recognized in profit or loss

Expense recognized in profit or loss for the years ended 2017 was as follows:

	<u>2017</u>	<u>2016</u>
Current service cost and interest cost	<u>\$ 839</u>	<u>704</u>

iii) Remeasurement of the net defined benefit liabilities- recognized in other comprehensive income

The remeasurement of net defined benefit liabilities recognized as other comprehensive income are as follows:

	<u>2017</u>	<u>2016</u>
Accumulated balance at January 1	-	-
Recognition	<u>43</u>	<u>-</u>
Accumulated balance at December 31	<u>\$ 43</u>	<u>-</u>

iv) Actuarial assumptions

The main actuarial assumptions in the financial reporting ending date were as follows:

	<u>2017.12.31</u>	<u>2016.12.31</u>
Discount rate	1.70 %	1.85 %
Future salary increases	2.00 %	2.00 %

The weighted average duration of the defined benefit plan is 23 years.

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(u) Other Liabilities

	<u>December 31,</u> <u>2017</u>	<u>December 31,</u> <u>2016</u>
Revenue received in advance	\$ 386,428	397,387
Guarantee deposits	774,575	712,926
Temporary receivers	20,994	56,651
Deferred revenue	34,054	44,373
Others	119	-
Total	<u>\$ 1,216,170</u>	<u>1,211,337</u>

(v) Income Tax Expenses

- (i) The statutory tax rate is 17%, and the Bank calculated the basic tax amount in accordance with the Income Basic Tax Act. The taxable income is contributed by domestic and foreign incomes. Since foreign income has been taxed by the local government, the Bank can apply for a foreign tax credit in light of the law. The amount of the foreign tax credit cannot exceed the tax increments that generated after including the foreign source income to calculate the income tax using the domestic income tax rate.

- (ii) The components of the income tax expenses were as follows:

	<u>2017</u>	<u>2016</u>
Current income tax expense		
current period	\$ 1,236,702	1,680,640
Overseas branches' income tax expense	342,313	326,286
Deferred income tax expense		
Recognition and reversal of temporary differences	611,826	423,160
Overseas branches' income tax expense	57,065	(48,042)
Income tax expense	<u>\$ 2,247,906</u>	<u>2,382,044</u>

The income tax expenses (benefits) computed at the statutory tax rate that were reconciled with the income tax expense were as follows:

	<u>2017</u>	<u>2016</u>
Net income before income tax	<u>\$ 11,881,529</u>	<u>12,798,957</u>
Income tax expense before income tax at statutory rate 17%	\$ 2,019,859	2,175,823
Overseas branches' income tax expense	399,378	278,244
Tax-exempt gains and other	(171,331)	(72,023)
Income tax expense	<u>\$ 2,247,906</u>	<u>2,382,044</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(iii) Deferred income tax assets and liabilities

1) Changes in the amount of deferred tax assets and liabilities for the years ended December 31, 2016 and 2015 were as follows:

a) Deferred Tax Assets:

	<u>Defined benefit plans</u>	<u>Allowance for bad debts</u>	<u>Others</u>	<u>Total</u>
Balance at January 1, 2017	\$ 2,023,971	1,314,601	231,435	3,570,007
Recognized in profit or loss	(2,656)	(625,913)	(40,426)	(668,995)
December 31, 2017	<u>\$ 2,021,315</u>	<u>688,688</u>	<u>191,009</u>	<u>2,901,012</u>
Balance at January 1, 2016	\$ 2,018,877	1,660,194	246,625	3,925,696
Recognized in profit or loss	5,094	(345,593)	(15,190)	(355,689)
December 31, 2016	<u>\$ 2,023,971</u>	<u>1,314,601</u>	<u>231,435</u>	<u>3,570,007</u>

b) Deferred Tax Liabilities:

	<u>Reserve for land value increment tax</u>
Balance at January 1, 2017	\$ 6,926,134
Recognized in profit or loss	(105)
December 31, 2017	<u>\$ 6,926,029</u>
Balance at January 1, 2016	\$ 6,935,227
Recognized in profit or loss	(9,093)
December 31, 2016	<u>\$ 6,926,134</u>

2) Unrecognized deferred income tax assets

As of December 31, 2017 and 2016 the Unrecognized deferred income tax assets were \$1,567,353 thousand and \$946,915 thousand, respectively.

(iv) Imputed tax credits are summarized as follows:

	<u>December 31, 2017</u>	<u>December 31, 2016</u>
Unappropriated earnings	(Note)	<u>\$ 5,467,558</u>
Balance of deductible tax account	(Note)	<u>\$ 6,467,246</u>
	<b>For the years ended December 31</b>	
	<u>2017 (estimated)</u>	<u>2016 (actual)</u>
Tax deduction ratio for earnings distribution to ROC	(Note)	<u>20.48 %</u>

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

The abovementioned, information was prepared in accordance with the information letter No. 10204562810 announced by Ministry of Finance of R.O.C. on October 17, 2013.

Note: Amendment issued by the president on February 7, 2018 has canceled the set-up, recording, calculations, and allocations of ICA. Tax creditable ratio above is not applicable since January 1, 2018.

- (v) The income tax returns for the year 2011 have been assessed by the Tax Authorities.
- (w) Stockholders' Equity

- (i) Capital stock

On August 26, 2016, the Bank's board of directors decided to transfer the special reserve of \$3,644,925 thousand and accumulated earnings of \$849,075 thousand to issue common stocks; the registration process had been completed. \$4,494,000

On December 31, 2017 and 2016, authorized and outstanding capital were both \$62,594,000 thousand.

The Ministry of Finance is the single shareholder of the Bank. According to the Bank Act and the Bank's articles of incorporation, any resolution to be made during the shareholders' meeting shall be decided and approved by the Bank's board of directors.

- (ii) Capital reserve

According to the ROC Bank Act amended in January 2012, the Bank shall use the capital reserve first to cover a deficit (or loss), and then, it may raise its capital or distribute cash dividends by using the capital reserve of the premium derived from the issuance of new shares received by the Bank. According to the "Regulations Governing the Offering and Issuance of Securities by Securities Issuers," the combined amount of any portions capitalized in any one year may not exceed 10% of issued common stock, and this shall not be executed in the registration year approved by the Ministry of Economics Affairs, which is to raise the Bank's capital.

At July 1, 2003, the former Land Bank of Taiwan, approved by the Ministry of Finance, R.O.C., changed its organization to a limited Bank-Land Bank of Taiwan, Co, Ltd. According to the regulations, the legal reserve, special reserve and capital reserve of the former Bank was transferred to the capital reserve-premium of the Land Bank of Taiwan Co., Ltd. at that day.

On November 6, 2009, the board of directors resolved to transfer capital surplus in the amount of \$25,000,000 thousand to common capital stock. After this transition, the capital reserve of premium amounted to \$21,748,869 thousand.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(iii) Retained earnings and appropriation of earnings

1) Legal reserve

Under the ROC Bank Act, the Bank must retain its earnings as legal reserve until such retention equals the amount of the total capital. According to the amendment of the ROC Bank Act as of January 2012, the Bank may, in pursuant to a resolution by a shareholders' meeting, capitalize the amount of its reserve that exceeds 25% of the share capital by issuing new shares or by distributing a cash dividend when it incurs no loss. In addition, under the ROC Banks Act, the Bank shall retain 30% of its after-tax earnings as the legal reserve before distributing them. Before the amount of legal reserves reaches the amount of the total capital, the maximum amount of distributing earnings in cash shall not exceed 15% of the total capital. Also, according to the amendment of the ROC Banking Act article 50 item 2, the legal reserve after distribution has to exceed 75% of total capital in order to meet with the criterion of a bank in a sound financial condition. This restriction is not applied if the amount of legal reserves equals the amount of the total capital, or if the Bank is in a sound financial condition and when it complies the ROC Bank Act.

2) Special reserve

a) The special reserves are summarized as follows:

	December 31, 2017	December 31, 2016
Provision for the purpose of strengthening the self-owned capital	\$ 10,771,641	6,964,087
Reserve for losses on trading securities and default losses transferred to special reserve	246,298	246,298
First-time application of IFRS for provision of special reserve	6,914,954	6,914,954
Revisal of the disposed land to special reserve	(72,985)	(61,100)
	<u>\$ 17,859,908</u>	<u>14,064,239</u>

On August 26, 2016, the board of directors decided to transfer the special reserve of \$3,644,925 thousand to issue common stocks.

b) Reserve for losses on trading securities and default losses

In compliance with the Jin Guan Zheng Quan Zi No. 0990073857 issued by Securities and Futures Bureau of the FSC dated January 11, 2011, regarding the revision of the "Regulations Governing Securities Firms", the reserve for losses on trading securities and the reserve for default losses are no longer required since January 1, 2011. The remaining balance should be reclassified as special reserve in 2011 according to the Jin Guan Zheng Quan Zi No. 09900738571 issued by Securities and Futures Bureau of the FSC dated January 13, 2011. The special reserve may be used at any time to offset the accumulated deficit, if any. Once the

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

legal reserve reaches one-half of the paid-in capital, up to 50% of the special reserve may be transferred to capital stock. The Bank reclassified the reserve for losses on trading securities and the reserve for default losses amounting to \$246,298 thousand to special reserve according to the abovementioned modification of regulations.

- c) First-time adoption of IFRS for provision of special reserve and reversal of the disposed land to special reserve

In compliance with the Jin Guan Zheng Fa Zi No. 1010012865 issued by FSC dated on April 6, 2012, the Bank elected not to apply IFRS 1 in recognizing reserve for assets revaluation and credit balance of cumulative translation adjustments under the stockholders' equity. In addition, the Bank reclassified the above accounts amounts to retained earnings, which was also the special reserve's provision amounts the Bank could recognized. However, due to the first adoption of IFRSs, if gain on retained earnings is less than the provision on the date of transition; the Bank can only increase the provision for retained earnings which is generated from the adoption IFRSs on the date of transition. Subsequently, the Bank can reverse the distribution surplus in proportion to the original provision for special reserve when using, disposing or reclassifying relating assets.

In accordance with IFRS 1 as agreed by the FSC, the Bank elected to apply the exemptions and reclassify the reserve for assets revaluation of \$7,870,779 thousand under stockholders' equity to unappropriated earnings on January 1, 2012. In addition, adjustments for IFRS 1, examined by MOA, used December 31, 2012 as the basis for calculation, where the unappropriated earnings as a results of this adjustment increased by \$6,914,954 thousand. The incremental unappropriated earning is contributed to special reserve.

For the year ended December 31, 2017 and 2016, the Bank disposed a part of the abovementioned assets so as to reverse the distribution surplus in proportion to the original provision for special reserve decreased by \$11,885 thousand and \$17,330 thousand, respectively.

According to Executive Yuan, the increase in retained earnings as a result of first adoption of IFRS in government-owned enterprises is recorded as adjustments in first adoption of IFRS. The originally accumulated loss should not be deducted and should not be presented in special reserve.

- 3) Appropriation of earnings

Annual net income, after making up prior years' losses, if any, shall be distributed in the following order:

- a) 30% as legal reserve and 20% to 40% as special reserve,
- b) Dividend, and extra-bonus to shareholders,
- c) Retained earnings.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

The Bank is a wholly-owned government bank of R.O.C. According to the Budget Act, its earnings have been appropriated to the government in the corresponding year. In order to enhance its capital structure in 2015, the earnings have not yet been appropriated to the government.

(iv) Other equity

	Exchange differences on translation of foreign financial statements	Unrealized gains or losses on available for sale financial assets	Total
Balance as of January 1, 2017	\$ 114,710	2,357,707	2,472,417
Available-for-sale financial assets-adjustment to fair value	-	2,225,463 (647,536)	2,225,463 (647,536)
Exchange differences on translation of foreign financial statements	(1,182,010)	-	(1,182,010)
Balance as of December 31, 2017	<u>\$ (1,067,300)</u>	<u>3,935,634</u>	<u>2,868,334</u>
Balance as of January 1, 2016	\$ 1,103,764	3,896,287	5,000,051
Available-for-sale financial assets-adjustment to fair value	-	(69,262)	(69,262)
Reclassification of sold available-for-sale financial assets' accumulated adjustment	-	(1,469,318)	(1,469,318)
Exchange differences on translation of foreign financial statements	(989,054)	-	(989,054)
Balance as of December 31, 2016	<u>\$ 114,710</u>	<u>2,357,707</u>	<u>2,472,417</u>

(x) Earnings per share

Basic earnings per share (New Taiwan dollars):

	For the years ended December 31	
	2017	2016
Net income	\$ <u>9,633,623</u>	<u>10,416,913</u>
Weighted-average number of shares outstanding (thousand shares)	<u>6,259,400</u>	<u>6,259,400</u>
Basic earnings per share (New Taiwan dollars)	\$ <u>1.54</u>	<u>1.66</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(y) Net interest

	For the years ended December 31	
	2017	2016
Interest revenue:		
Discounts and loans	\$ 35,260,205	34,786,911
Due from the banks and call loans to banks	3,000,844	2,399,574
Bonds and notes	4,453,317	3,721,348
Others	735,326	932,911
Subtotal	<u>43,449,692</u>	<u>41,840,744</u>
Interest expenses:		
Deposits	(15,865,311)	(15,053,893)
Due to the Central Bank and call loans from banks	(1,208,422)	(660,664)
Bonds and notes	(1,551,005)	(1,295,683)
Others	(85,959)	(85,662)
Subtotal	<u>(18,710,697)</u>	<u>(17,095,902)</u>
Total	<u>\$ 24,738,995</u>	<u>24,744,842</u>

(z) Service fees income, net

	For the years ended December 31	
	2017	2016
Service fees income:		
Agency of housing loans	\$ 186,546	226,342
Agency of insurance	888,219	1,124,391
Guarantee	211,676	225,685
Syndicated Loans	532,490	517,533
Trust	462,521	380,467
Credit card	509,671	458,343
Others	873,388	868,121
Subtotal	<u>3,664,511</u>	<u>3,800,882</u>
Service fees:		
Credit card	(520,734)	(468,141)
Interbank	(130,059)	(125,030)
Foreign exchange	(51,024)	(50,422)
Trust	(37,392)	(33,538)
Others	(94,012)	(109,615)
Subtotal	<u>(833,221)</u>	<u>(786,746)</u>
Total	<u>\$ 2,831,290</u>	<u>3,014,136</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

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

	For the years ended December 31	
	2017	2016
Realized gains (losses) on financial assets and liabilities at fair value through profit or loss:		
Government bonds	\$ (1,231)	1,893
Corporate bonds	31,254	5,383
Listed companies' stocks	43,406	44,647
Forward exchange contracts	(85,301)	31,762
Foreign-currency swap contracts	53,136	137,957
Others	(1,730)	(58,312)
Subtotal	39,534	163,330
Revaluation gains (losses) on financial assets and liabilities at fair value through profit or loss:		
Government bonds	352	(2,422)
Corporate bonds	14,007	49,720
Listed companies' stocks	3,862	(14,834)
Forward exchange contracts	(33,362)	41,266
Foreign-currency swap contracts	(138,070)	96,078
Interest rate swap contracts	71,606	106,601
Cross currency swap	23,361	(98,512)
Unsubordinated financial bonds	(30,610)	42,417
Others	12,794	(9,902)
Subtotal	(76,060)	210,412
Interest revenue on financial assets at fair value through profit or loss	49,915	38,080
Dividend income on financial assets at fair value through profit or loss	69	240
Interest expense on financial assets at fair value through profit or loss	(250,466)	(369,008)
Total	\$ (237,008)	43,054

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(ab) Realized gains (losses) on the sale of available-for-sale financial assets

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Dividend income	\$ 189,167	300,523
Gains on disposal of available-for-sale financial assets		
Bonds	351,272	546,703
Stocks	466,902	729,474
Others	19,852	4,579
Subtotal	<u>1,027,193</u>	<u>1,581,279</u>
Losses on disposal of available-for-sale financial assets		
Bonds	(3,308)	(21,389)
Stocks	(372,644)	(90,572)
Others	(3,695)	-
Subtotal	<u>(379,657)</u>	<u>(111,961)</u>
Total	<u>\$ 647,536</u>	<u>1,469,318</u>

(ac) Other noninterest gains, net

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Gains on financial assets carried at cost	\$ 165,973	(67,817)
Brokerage	117,722	65,790
Lease (note 6(k))	377,296	374,130
Agency	(3,895)	(3,725)
Others	(133,473)	1,167,709
Total	<u>\$ 523,623</u>	<u>1,536,087</u>

(ad) Employee benefits expenses

	<b>For the years ended December 31</b>	
	<b>2017</b>	<b>2016</b>
Salaries	\$ 7,304,435	7,418,268
Labor and health insurance	339,986	338,554
Pension	692,802	638,573
Employee benefit savings account	1,912,783	1,852,381
Others	138,863	150,750
Total	<u>\$ 10,388,869</u>	<u>10,398,526</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(ae) Depreciation and amortization expenses

	For the years ended December 31	
	2017	2016
Depreciation- Property and Equipment	\$ 686,747	687,539
Depreciation- Investment property	38,011	39,641
Amortization	271,311	205,171
Total	\$ <u>996,069</u>	<u>932,351</u>

(af) Other general and administrative expenses

	For the years ended December 31	
	2017	2016
Taxes	\$ 2,448,737	2,463,489
Rental	649,603	643,686
Insurance	435,351	417,923
Marketing	224,310	217,880
Others	1,260,947	1,225,968
Total	\$ <u>5,018,948</u>	<u>4,968,946</u>

(ag) Fair value and hierarchy information of financial instruments

(i) Fair value information of financial instruments

Due to the relatively short period of time between the original and the expected realization, the carrying values of the short-term financial instruments approximate their fair values; and they include cash and cash equivalents, the one due from Central Bank and call loans to banks, Securities bought under resell agreements, receivables, refundable deposits, the one due to Central Bank and call loans from banks, funds borrowed from Central Bank and other banks, securities sold under repurchase agreements, payables, other financial liabilities and guarantee deposits received. Besides the above financial assets and liabilities, the other carrying amounts and estimated fair values on December 31, 2017 and 2016 are as follows:

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:	2,529,599,651	2,531,980,629	2,319,945,198	2,318,617,236
Derivative financial assets at FVTPL, net	187,448	187,448	299,893	299,893
Non-derivative financial assets at FVTPL, net	3,055,970	3,055,970	3,173,663	3,173,663
Discounts and loans, net	1,879,104,149	1,879,104,149	1,770,689,449	1,770,689,449
Available-for sale financial assets	407,495,721	407,495,721	407,325,442	407,325,442
Held-to-maturity financial assets	238,122,980	240,503,958	136,810,089	135,482,127
Other financial assets	1,633,383	1,633,383	1,646,662	1,646,662
Financial Liabilities:	70,384,416	70,384,416	88,535,063	88,535,063
Derivative financial liabilities at FVTPL	227,506	227,506	264,749	264,749
Non-derivative financial liabilities at FVTPL, net	3,319,072	3,319,072	8,400,862	8,400,862
Financial debentures	66,691,640	66,691,640	79,694,341	79,694,341
Other financial liabilities	146,198	146,198	175,111	175,111

(ii) The methodologies and assumptions used by the Banks to estimate the above fair value of financial instruments are summarized as following:

- 1) Quoted market price, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss, available-for-sale financial instruments and held-to-maturity financial assets. If no quoted market prices exist for certain of the financial instruments, the fair value of such instruments has been derived based on pricing models. A pricing model incorporates all factors that market participants would consider in setting a price.
- 2) Discounts and loans are interest-bearing financial assets, the book value is equivalent to the current fair value.
- 3) The value of debt securities with no active market and financial assets carried at cost are determined by pricing models. A pricing model incorporates all factors that market participants would consider in setting a price. If fair value of equity security could not reliable measurement, fair value is equal to carrying value.
- 4) Financial debentures refer to the convertible corporate bonds and financial bonds issued by the Bank and its subsidiary. Their coupon rates are almost equal to the market interest rate, so it is reasonable to use the discounted present values of the expected future cash flow to estimate their fair values. The present values are almost equal to the carrying amounts.
- 5) If there is a quoted market price in an active market, the quoted market price of derivative financial instruments is regarded as fair value. Otherwise, if the market for a derivative financial instrument is not active, the Bank assesses fair value by using pricing models.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

(iii) Determination of fair value and fair value hierarchy:

Financial instruments measured at fair value	December 31, 2017			
	Total	Level 1 (Note 1)	Level 2 (Note 2)	Level 3 (Note 3)
<b><u>Non-derivative financial instruments</u></b>				
<b>Assets:</b>				
Financial assets at fair value through profit or loss:				
Held-for-trading financial assets				
Stocks	\$ 3,592	3,592	-	-
Bonds	200,531	-	200,531	-
Others	649,466	-	649,466	-
Designation as at fair value through profit or loss				
	2,202,381	-	2,202,381	-
Available-for-sale financial assets:				
Stocks	6,776,385	6,776,385	-	-
Bonds	85,421,650	-	85,421,650	-
Others	315,297,686	10,177	315,287,509	-
<b>Liabilities:</b>				
Designation as at fair value through profit or loss				
	3,319,072	-	3,319,072	-
<b><u>Derivative financial instruments</u></b>				
<b>Assets:</b>				
Financial assets at fair value through profit or loss				
	187,448	-	187,448	-
<b>Liabilities:</b>				
Financial liabilities at fair value through profit or loss				
	227,506	-	227,506	-

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**

Financial instruments measured at fair value	December 31, 2016			
	Total	Level 1 (Note 1)	Level 2 (Note 2)	Level 3 (Note 3)
<b><u>Non-derivative financial instruments</u></b>				
<b>Assets:</b>				
Financial assets at fair value through profit or loss:				
Held-for-trading financial assets				
Stocks	\$ 122,631	122,631	-	-
Bonds	129,051	-	129,051	-
Others	988,969	-	988,969	-
Designation as at fair value through profit or loss	1,933,012	-	1,933,012	-
Available-for-sale financial assets:				
Stocks	7,936,207	7,936,207	-	-
Bonds	71,344,403	-	71,344,403	-
Others	328,044,832	228,808	327,816,024	-
<b>Liabilities:</b>				
Designation as at fair value through profit or loss	8,400,862	-	8,400,862	-
<b><u>Derivative financial instruments</u></b>				
<b>Assets:</b>				
Financial assets at fair value through profit or loss	299,893	-	299,893	-
<b>Liabilities:</b>				
Financial liabilities at fair value through profit or loss	264,749	-	264,749	-

Note 1: Fair value measurement for a financial instrument classified in Level 1 is determined as the quoted price for an identical financial instrument in an active market: The definition of active market includes all of the following conditions:

- 1) The products traded in the market are homogeneous;
- 2) willing parties are available anytime in the market;
- 3) price information is available for the public.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 2: Fair value measurement for a financial instrument classified in Level 2 is determined as the observable price other than quoted price in an active market including an observable input obtained in an active market, either directly (i.e., as prices) or indirectly (i.e., derived from prices). Examples of observable price are as follows:

- 1) The quoted price for an identical financial instrument in an active market; this means the fair value from the market transaction prices for an identical financial instrument should be determined by its characteristics and terms of transaction. The fair value of a financial instrument has to be adjusted according to the observable market price of the identical financial instrument. The reasons for adjustments include time lag of the market transaction prices for an identical financial instrument, wherein the quoted price does not represent the fair value at the measurement date. It also includes the difference in transaction terms for financial instruments, transaction prices involving related parties, and the relationship between the observable transaction prices of identical financial instruments and the market price of held financial instruments.
- 2) The quoted market price of the same or identical financial instruments in an inactive market.
- 3) The fair value is estimated on the basis of the results of a valuation technique, and the market inputs (i.e., interest rate, yield curve, and volatility rate) used were based on data obtainable from the market. An observable input can be derived from market data and reflects the expectation of market participants when it is used in evaluating the prices of financial instruments.
- 4) A majority of inputs derived from observable market data, or the input correlation can be tested based on observable market data.

Note 3: Input for a fair value measurement for a financial instrument classified in Level 3 is not based on obtainable data from the market. An unobservable input, such as volatility for a share option derived from the share's historical price, does not generally represent current market expectations about future volatility.

- (iv) For the years 2017 and 2016, the gains from changes in fair value of the Bank's financial instruments, for instance, derivative financial instruments that are determined using the valuation techniques amounting to losses \$799,922 thousand and \$225,246 thousand, respectively are recognized as profit or loss for that period.
- (v) As of December 31, 2017 and 2016, there was no transfer of financial instruments between Level 1 and Level 2. As of December 31, 2017 and 2016, there were no transfer to Level 3.

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## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (ah) Financial risk management

##### (i) Overview

The main risks in which the Bank is exposed to include credit risks, market risks (including interest rate risks, exchange rate risk and risks on equity securities), and liquidity risks in on- and off- balance sheet items. To build an independent effective risk management system, the Banks have set regulations such as Risk Management Policies and Procedures, Key Elements of Risk Management, Key Elements of Market Risk Management and Key Elements of Liquidity Risk Management to assess and control the ability of the Banks in sustaining risks, status of risks sustained, strategies to cope with the risks and the conformity with the risk management procedures.

##### (ii) Risk management structure

The Bank's risk management structure includes the board of directors, risk management committee, internal audit department, risk management department, executive of each business unit, all treasury departments, and all operating units.

The Bank defined the duties of each risk management using three-lines of defence model:

- 1) First line of defense (Risk production or bearing units):
  - a) Each business units and treasury department are responsible for compliance with risk principles, policies and limit established by the Bank.
  - b) All department executives in the head office should identify, assess and control the risk of existing and new businesses or financial instruments, establish and implement regulations and systems on risk management in all business units and conduct self-assessment on risk indices of all business units.
- 2) Second line of defense (Risk Controlling Units): The Risk Controlling Unit plays an independent and dedicated role, and is responsible for assessing, overseeing, controlling, reviewing and reporting the overall operating risks in the Bank.
- 3) Third line of defense (Internal Audit): Internal audit is responsible for auditing the design and implementation of risk management systems, providing independent assessment, reviewing the set-up process of the entire risk management model, the appropriateness, reliability and status of compliance act of the risk management information systems.

##### (iii) Credit risk

###### 1) Sources and definition of credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty fails to meet its contractual obligations. Credit risk arises from balance sheet and off- balance sheet items. The sources of credit risk balance sheet mainly comes from discounts and loans, credit card businesses, due from and call loans to banks, debt investments and derivative instruments, while the source of credit risk exposure from off-balance sheet items include letters of credit and loan commitments.

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

2) Management policy of credit risk

To ensure the credit risk is in a tolerable range, the Banks should analyze in details the products provided and its business operations to identify the existing and embedded credit risks. Prior to the release of new products and businesses, the Banks should examine and verify the related credit risk in compliance with the regulations on operations. For a more complex credit business, such as accounts receivable without resources, credit derivative instrument, the Bank should establish risk control systems based on the standards and operations of the related business management.

In addition, the assessment and provision loss of the asset quality in the OBU should be in compliance with the regulations of the Financial Supervisory Institute and the standards and operations of the related business management

a) Due from the Central Banks and call loans to banks

The Bank will assess the creditworthiness and the domestic and international credit rating of the financial institutions before entering into transactions with the counterparty, and set credit risk limits based on the level of creditworthiness.

b) Debt investments and financial derivatives instruments

In managing the credit risk of debt investment, the Bank identified its credit risk through the assessment of external institute on the credit rating, credit quality, geographical status and risk of counterparty of debt investment.

When the Bank trades derivative instruments with other bank, limits are granted based on the world ranking, capital adequacy ratio, credit ratings and other factors. When derivative instruments are traded with other counterparties, the Bank will only trade with counterparties if the credit rating of the counterparties has reached certain level.

3) Mitigation or hedging of risk

a) Collateral

In respect to credit business, the Bank has set a series of policies and procedures to mitigate credit risk, where one of the common methods used is the claim for collateral from borrowers. The Bank has established the range of permitted collateral provided, procedures on collateral valuation, management and disposals based on management of collateral assessment and calculation of secured loans to secure its debt. Also, the credit agreement has outline credit security, conditions of collateral, conditions for debt write-offs, which specifically defines that when a credit default has occurred, limits are reduced, terms on borrowings are shortened or considered as expired and all deposits within the Bank are offset against its debt in order to reduce credit risks.

Except for asset securitization and other similar assets, which are collateralized as one asset portfolio, collateral of other businesses, excluding the credit business are set based on the characteristics of financial instruments.

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

b) Credit risk limits and concentration of risk control

To prevent excessive concentration, the Bank has set limits on transaction with a single counterparty or single organization in credit-related standards. Also, to control the concentration of risk, the Bank has set credit limits by industry, corporation and country, monitor risk concentration in each asset and integrate in systems to monitor the risk concentration in a single counterparty, organization, related-party, industry, country and others.

4) Maximum exposure credit risk

Without taking collateral or other credit enhancement mitigation effect into account, the maximum exposure to credit risk of on-balance sheet financial assets is equal to their carrying values and the maximum exposure of credit risk of off-balance sheet financial instruments were as follows:

	December 31, 2017	December 31, 2016
Irrevocable loan commitments	\$ 55,867,381	34,359,775
Credit card commitments	24,348,928	21,742,590
Unused commercial letters of credit	12,010,929	11,708,696
Cash card commitments	94,649	113,728
Guarantees	41,349,567	43,609,186

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

5) Concentration of credit risk

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

Credit risk concentration can arise in a bank's assets, liabilities, or off-balance sheet items, through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. It includes credit, loan and deposits, call loan to banks, investment, receivables and derivatives. The Bank maintains a diversified portfolio, limits its exposure on a continuous basis. The Bank's most significant concentrations of credit risk are summarized as follows:

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

a) By industry (excluding inward and outward documentary bills and overdue loans)

(in thousands of New Taiwan dollars)

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Private enterprises	\$ 593,679,581	31.18	562,753,459	31.32
Government owned enterprises	71,339,044	3.75	33,428,778	1.86
Government owned enterprises	44,429,781	2.33	49,539,413	2.76
Non-profit organizations	373,676	0.02	539,997	0.03
Individual	1,076,372,372	56.54	1,015,537,736	56.52
Financial institutions	-	-	326,382	0.02
Others	117,599,503	6.18	134,563,521	7.49
Total	<u>\$ 1,903,793,957</u>	<u>100.00</u>	<u>1,796,689,286</u>	<u>100.00</u>

b) By geographic region (excluding inward and outward documentary bills and overdue loans)

(in thousands of New Taiwan dollars)

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Domestic	\$ 1,754,723,750	92.17	1,636,762,325	91.10
Foreign	149,070,207	7.83	159,926,961	8.90
Total	<u>\$ 1,903,793,957</u>	<u>100.00</u>	<u>1,796,689,286</u>	<u>100.00</u>

c) By collateral (including inward and outward documentary bills and overdue loans)

(in thousands of New Taiwan dollars)

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Non-collateral	\$ 355,989,434	18.67	329,215,119	18.29
Collateral				
Financial collateral	9,342,886	0.49	10,260,079	0.57
Receivables	837,471	0.04	1,742,708	0.10
Property	1,385,368,163	72.65	1,293,581,212	71.88
Guarantee	32,337,946	1.70	34,008,255	1.89
Other	123,071,197	6.45	130,747,073	7.27
Total	<u>\$ 1,906,947,097</u>	<u>100.00</u>	<u>1,799,554,446</u>	<u>100.00</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

6) The analysis of financial assets credit quality and impairment of overdue credit

Some financial assets such as cash and cash equivalents, due from Central Bank and call loan to banks, financial asset at fair value through profit or loss, reverse repo on notes and bonds investment, refundable deposits, operation guarantee deposits and clearing and settlement are regarded as very low credit risk owing to the good credit rating of counterparties.

Apart from the abovementioned, the analysis of remaining financial assets quality is as follows:

a) Discount, loans and receivables

(in thousands of New Taiwan dollars)

December 31, 2017	Neither overdue nor impaired amount(A)	Overdue but not impaired amount(B)	Impaired amount(C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net amount (A)+(B)+(C)-(D)
					With objective evidence of impairment	Without objective evidence of impairment	
Receivables							
— Credit card business	1,388,832	-	60,170	1,449,002	45,374	3,004	1,400,624
— Other	5,330,768	-	498,862	5,829,630	35,728	1,248	5,792,654
Discount and loans	1,859,123,053	22,486,213	25,337,831	1,906,947,097	7,080,151	20,766,084	1,879,100,862
Total	1,865,842,653	22,486,213	25,896,863	1,914,225,729	7,161,253	20,770,336	1,886,294,140

December 31, 2016	Neither overdue nor impaired amount(A)	Overdue but not impaired amount(B)	Impaired amount(C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net amount (A)+(B)+(C)-(D)
					With objective evidence of impairment	Without objective evidence of impairment	
Receivables							
— Credit card business	1,292,028	-	43,683	1,335,711	45,359	2,138	1,288,214
— Other	4,871,207	-	8,980	4,880,187	629	18,776	4,860,782
Discount and loans	1,742,746,329	28,257,864	28,550,253	1,799,554,446	6,988,430	21,875,721	1,770,690,295
Total	1,748,909,564	28,257,864	28,602,916	1,805,770,344	7,034,418	21,896,635	1,776,839,291

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- b) Discount and loans that were neither overdue nor impaired are listed as below by business:

(in thousands of New Taiwan dollars)

Business	December 31, 2017	December 31, 2016
Consumer banking		
— Mortgage loans	\$ 807,493,714	753,983,139
— Consumer loan — unsecured	32,854,200	28,293,219
— other	100,491,214	93,703,655
Corporate banking		
— secured	481,871,103	452,881,819
— unsecured	286,248,734	252,265,741
— other	150,164,088	161,618,756
Total	\$ <u>1,859,123,053</u>	<u>1,742,746,329</u>

- c) Credit analysis on securities investment

(in thousands of New Taiwan dollars)

December 31, 2017	Neither overdue nor impaired amount (A)	Overdue but not impaired amount (B)	Impaired amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)	Net amount (A)+(B)-(C)-(D)
Available-for-sale financial assets	407,495,721			407,495,721		407,495,721
— Investment in Bonds	85,421,650	-	-	85,421,650	-	85,421,650
— Investment in Stocks	6,776,385	-	-	6,776,385	-	6,776,385
— Other	315,297,686	-	-	315,297,686	-	315,297,686
Held-to-maturity financial assets	238,122,980			238,122,980		238,122,980
— Investment in Bonds	104,461,278	-	-	104,461,278	-	104,461,278
— Other	133,661,702	-	-	133,661,702	-	133,661,702
Other financial assets						
— Investment in Stocks	1,570,850	-	19,285	1,590,135	10,404	1,579,731

December 31, 2016	Neither overdue nor impaired amount (A)	Overdue but not impaired amount (B)	Impaired amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)	Net amount (A)+(B)-(C)-(D)
Available-for-sale financial assets	407,325,442			407,325,442		407,325,442
— Investment in Bonds	71,344,403	-	-	71,344,403	-	71,344,403
— Investment in Stocks	7,936,207	-	-	7,936,207	-	7,936,207
— Other	328,044,832	-	-	328,044,832	-	328,044,832
Held-to-maturity financial assets	136,810,089			136,810,089		136,810,089
— Investment in Bonds	60,255,089	-	-	60,255,089	-	60,255,089
— Other	76,555,000	-	-	76,555,000	-	76,555,000
Other financial assets						
— Investment in Stocks	1,570,850	-	19,285	1,590,135	10,404	1,579,731

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

7) Aging analysis of financial assets overdue but not yet impaired

Delays in processing payments by borrowers and other administrative reasons could result in financial assets overdue but not yet impaired. According to the Bank's assessment of impairment in loans and receivables, financial assets overdue within 90 days are not considered as impairment, unless other evidence supported.

(in thousands of New Taiwan dollars)

	December 31, 2017			December 31, 2016		
	Overdue for less than 1 month	Overdue for 1~3 months	Total	Overdue for less than 1 month	Overdue for 1~3 months	Total
Discount and loans						
Consumer banking						
— Mortgage loans	10,624,875	-	10,624,875	12,225,504	-	12,225,504
— Consumer loans	432,290	-	432,290	458,763	-	458,763
— Other	1,322,248	-	1,322,248	1,519,363	-	1,519,363
Corporate banking						
— secured	6,340,384	-	6,340,384	7,343,279	-	7,343,279
— unsecured	3,766,416	-	3,766,416	4,090,378	-	4,090,378
— other	-	-	-	2,620,577	-	2,620,577
Total	22,486,213	-	22,486,213	28,257,864	-	28,257,864

8) Analysis of impairment for financial assets

Analysis of impairment for discounts, loans and receivables and accumulated impairment are as follows:

(in thousands of New Taiwan dollars)

Items		Discounts and loans	
		December 31, 2017	December 31, 2016
With objective evidence of impairment	Individual assessment	17,643,575	20,934,369
	Collective assessment	7,694,256	7,615,884
Without objective evidence of impairment	Collective assessment	1,881,609,266	1,771,004,193
Total		1,906,947,097	1,799,554,446

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

Items		Allowance for possible losses	
		December 31, 2017	December 31, 2016
With objective evidence of impairment	Individual assessment	2,206,829	2,470,079
	Collective assessment	4,873,322	4,518,351
Without objective evidence of impairment	Collective assessment	20,766,084	21,875,721
Total		27,846,235	28,864,151

Items		Receivables	
		December 31, 2017	December 31, 2016
With objective evidence of impairment	Individual assessment	492,657	8,980
	Collective assessment	66,375	43,683
Without objective evidence of impairment	Collective assessment	6,719,600	6,163,235
Total		7,278,632	6,215,898

Items		Allowance for possible losses	
		December 31, 2017	December 31, 2016
With objective evidence of impairment	Individual assessment	35,649	629
	Collective assessment	45,453	45,359
Without objective evidence of impairment	Collective assessment	4,252	20,914
Total		85,354	66,902

Note: Receivable price of securities purchased for customers, and tax refundable and interest receivable from financial instruments that were excluded from IAS 39 as of December 31, 2017 and 2016 were \$1,674,753 thousand and \$1,213,803 thousand, respectively.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

9) Disclosures required in the Regulations Governing the Preparation of Financial Reports by Public Banks

a) Asset quality of non-performing loan and overdue credits

(in thousands of New Taiwan dollars)

Period		December 31, 2017				
Items		Non-performing Loans (Note 1)	Loans	Ratio of Non-performing Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate	Secured	1,196,916	549,130,644	0.22 %	9,427,346	787.64 %
Banking	Unsecured	154,634	398,466,800	0.04 %	1,309,386	846.76 %
	Mortgage loans (Note 4)	1,565,246	821,957,049	0.19 %	12,241,917	782.11 %
Consumer	Cash card	722	27,598	2.62 %	8,438	1,168.54 %
Banking	Small-scale credit loans (Note 5)	10,394	1,496,749	0.69 %	83,205	800.55 %
	Other					
	(Note 6)					
	Secured	566,651	103,941,139	0.55 %	4,419,584	779.95 %
	Unsecured	43,172	31,927,118	0.14 %	356,359	825.45 %
Total loans		3,537,735	1,906,947,097	0.19 %	27,846,235	787.12 %
Items		Non-performing Receivables	Receivables	Ratio of Non-performing Receivables	Allowance for Possible Losses	Coverage Ratio
Credit cards		4,240	1,240,078	0.34 %	51,032	1,203.58 %
Factored accounts receivable without recourse (Note 7)		-	-	-	-	-

Period		December 31, 2016				
Items		Non-performing Loans (Note 1)	Loans	Ratio of Non-performing Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate	Secured	1,120,544	525,522,345	0.21 %	9,793,422	873.99 %
Banking	Unsecured	88,009	377,572,839	0.02 %	847,235	962.67 %
	Mortgage loans (Note 4)	1,457,585	769,880,511	0.19 %	12,711,082	872.06 %
Consumer	Cash card	900	36,594	2.46 %	11,650	1,294.44 %
Banking	Small-scale credit loans (Note 5)	7,108	1,366,472	0.52 %	63,276	890.15 %
	Other					
	(Note 6)					
	Secured	589,470	97,353,732	0.61 %	5,125,529	869.52 %
	Unsecured	33,607	27,821,953	0.12 %	311,957	928.26 %
Total loans		3,297,223	1,799,554,446	0.18 %	28,864,151	875.41 %
Items		Non-performing Receivables	Receivables	Ratio of Non-performing Receivables	Allowance for Possible Losses	Coverage Ratio
Credit cards		5,316	1,202,781	0.44 %	49,959	939.79 %
Factored accounts receivable without recourse (Note 7)		-	-	-	-	-

Note 1: Non-performing 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."

Non-performing credit card receivables are reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 2: Ratio of non-performing loans: Non-performing loans ÷ Outstanding loan balance.

Ratio of non-performing credit card receivables: Non-performing credit card receivables ÷ Outstanding credit card receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.

Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Non-performing credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower or the spouse or the minor children of the borrower.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts, and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgages, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), factored accounts receivable without recourse are reported as non-performing receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

b) Exemption of non-performing loans and overdue receivables

(in thousands of New Taiwan dollars)

	December 31, 2017		December 31, 2016	
	Amount exempted from reporting as non-performing loans	Amount exempted from reporting as overdue account receivable	Amount exempted from reporting as non-performing loans	Amount exempted from reporting as overdue account receivable
Amounts of executed contracts on negotiated debts not reported (Note 1)	15,653	4,570	18,688	6,139
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	3,796	25,354	3,990	25,278
Total	19,449	29,924	22,678	31,417

Note 1: The disclosure of excluded NPLs and excluded overdue receivables resulting from debt negotiations and loan agreements is based on the Banking Bureau letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: The disclosure of excluded NPLs and excluded overdue receivables resulting from consumer debt clearance is based on the Banking Bureau letter dated September 15, 2008 (Ref. No. 09700318940)

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

c) Concentration of credit extensions

(in thousands of New Taiwan dollars)

December 31, 2017			
Rank	Business Banks' Standard Industrial Classification and Symbol	Total Amount of Credit Endorsement or Other Transactions	Percentage of the Bank's Equity (%)
1	A Bank- Rail Transportation Industry	34,457,176	23.82
2	B Bank- Air Transportation Industry	13,965,537	9.65
3	C Bank- Ocean Transportation Industry	10,241,430	7.08
4	D Bank- Petroleum and Coal products Manufacturing Industry	10,209,553	7.06
5	E Bank- Rolling and Extruding of Iron and Steel Industry	9,900,205	6.84
6	F Bank- Textile Products Manufacturing Industry	9,652,831	6.67
7	G Bank- Smelting and Refining of Iron and Steel Industry	8,060,490	5.57
8	H Bank- LCD and Components Manufacturing Industry	7,687,055	5.31
9	I Bank- Other Retail Sale of General Merchandise Industry	5,336,259	3.69
10	J Bank- Manufacture of Integrated Circuits	5,312,720	3.67

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

December 31, 2016			
Rank	Business Banks' Standard Industrial Classification and Symbol	Total Amount of Credit Endorsement or Other Transactions	Percentage of the Bank's Equity (%)
1	A Bank- Rail Transportation Industry	40,316,020	29.92
2	D Bank- Petroleum and Coal products Manufacturing Industry	18,402,769	13.66
3	B Bank- Air Transportation Industry	13,609,425	10.10
4	C Bank- Ocean Transportation Industry	13,098,168	9.72
5	G Bank- Smelting and Refining of Iron and Steel Industry	12,116,093	8.99
6	F Bank- Textile Products Manufacturing Industry	10,960,863	8.14
7	E Bank- Rolling and Extruding of Iron and Steel Industry	9,611,052	7.13
8	K Bank-LCD and Components Manufacturing Industry	9,489,235	7.04
9	H Bank- LCD and Components Manufacturing Industry	7,990,863	5.93
10	I Bank- Other Retail Sale of General Merchandise Industry	7,399,606	5.49

Note 1: Ranked by the total amount of credit, endorsement, or other transactions; list excludes government-owned or state-run enterprises. If the creditor is a Bank enterprise, the Bank would express the amount of credit by aggregating the total credit of this Bank enterprise, indicated with the symbol of the enterprise and industrial classification. The Bank would further identify the industry in which the Bank enterprise has the most exposure. The industrial classification refers to the Industrial Classification Standard of the Directorate General of Budget, Accounting and Statistics (DGBAS).

Note 2: Bank enterprise refers to a Bank of corporate entities as defined by Article 6 of the "Supplementary Provisions to the Taiwan Stock Exchange Corporation's Rules for Review of Securities Listings."

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## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

Note 3: The 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, factored accounts receivable without recourse, acceptances, and guarantees.

#### (iv) Liquidity risk

##### 1) The source and definition of liquidity risk

Liquidity risk refers to the risks of bearing financial loss because of the inability to liquidate assets or obtain financing to provide funds to meet the financial obligation, such as early termination of deposits, deteriorating of the source and condition of financing from banks influenced by specific market, abnormal recover of funds due to default from borrowers, inability to liquidate financial instruments. The aforementioned situation may reduce cash flows from loans, transactions and investment.

##### 2) Management policy of liquidity risk

- a) The aim of the liquidity risk management is to conduct appropriate allocation on assets and liabilities, and plan the source of fund in portfolio to cope with liquidity needs, ensure the liquidity of the Banks, accomplish a balance in retained earnings and risk, stabilize its development and continue as going concern after considering its cost benefit analysis.
- b) The principles of liquidity risk management are as follows:
  - i) The principles of the source of funds include diversification, stabilization, reliance and cost-effective to prevent excessive concentration on same maturities, same procurement instrument and same counterparty.
  - ii) The application of funds should be diversified and should pay attention to the 3 principles: liquidity, safety and profitability.
  - iii) The internal pricing, performance measurement and approval of new products launched by the main businesses should consider the liquidity costs, benefits and risks of each product and should be in consistent with the policies of liquidity risk management in the Banks.
- c) The Banks should maintain appropriate liquid funds and set a limit on liquidity risk management indices of funds denominated in New Taiwan Dollars and foreign currencies. Early warning system is designed for adoptions of appropriate measures when necessary.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- d) To strengthen the diversification of debt and the ability to adjust capital funding immediately, the Banks have maintained a close relationship with the Ministry of Finance, R.O.C., Central Bank and other large-scale bank, which benefit the Banks to raise capital funds when liquidity is insufficient. Also, procedures on capital movements during emergency (including back-up channels) and the related procedures are set to access to capital funds during emergency.
- 3) To manage liquidity risk and non-financial assets held by maturity analysis for derivative financial liabilities

- a) To manage liquidity risk of financial assets held

The financial assets include cash and assets that are of highly liquid and have high quality for the purpose of paying liabilities and accessing to capital in the market during emergency. The assets held for managing liquidity risk include cash and equivalents, CDs issued by CBC, government bonds, commercial paper and corporate bonds

- b) Maturity analysis for non-derivative financial liabilities

The tables below represent the cash outflow analysis of non-derivative financial liabilities according to the unexpired term of the contracts. The disclosed amounts presented are based on contractual cash flows, whereby parts of the disclosed items do not correspond to the accounts in the financial statements.

(in thousands of New Taiwan dollars)

December 31, 2017	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	75,461,596	77,902,774	38,504,203	8,465,695	-	200,334,268
Funds borrowed from the Central Bank and other banks	1,911,184	-	-	129,508	-	2,040,692
Non-derivative financial liability at fair value through profit or loss	-	-	-	-	3,319,072	3,319,072
Securities sold under repurchase agreements	8,382,834	3,266,508	1,108,062	2,400,412	-	15,157,816
Payables	2,591,275	1,663,512	2,282,456	5,738,364	12,569,001	24,844,608
Deposits and remittances	580,865,689	582,257,073	509,317,712	675,604,020	51,978,776	2,400,023,270
Financial debentures	-	-	-	15,099,869	51,591,771	66,691,640
Other financial liabilities	5,090	213	7,724	15,672	117,499	146,198
Total	669,217,668	665,090,080	551,220,157	707,453,540	119,576,119	2,712,557,564

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	61,337,696	30,467,131	35,321,655	7,598,695	7,366,217	142,091,394
Funds borrowed from the Central Bank and other banks	2,183,797	-	-	175,760	-	2,359,557
Non-derivative financial liability at fair value through profit or loss	-	-	-	-	8,400,862	8,400,862
Securities sold under repurchase agreements	5,500,996	1,845,292	361,451	5,353	-	7,713,092
Payables	2,325,475	1,691,760	2,190,116	5,755,928	12,496,158	24,459,437
Deposits and remittances	487,212,795	551,204,071	524,719,420	615,647,940	68,484,189	2,247,268,415
Financial debentures	-	-	4,200,000	13,300,000	62,194,341	79,694,341
Other financial liabilities	5,322	260	8,145	15,440	145,944	175,111
Total	558,566,081	585,208,514	566,800,787	642,499,116	159,087,711	2,512,162,209

4) Maturity analysis of derivative financial liabilities

a) The derivative instruments that are subject to master netting agreements

The derivative instruments that are subject to master netting agreements include:

- i) Foreign exchange derivatives: foreign exchange options, non-deliverable forwards;
- ii) Interest rate derivatives: interest rate swaps, forward rate agreements and other interest rate contracts.

The valuation of maturity date of a contract is essential for presenting the financial instruments on the balance sheet. The amount disclosed in the balance sheet is prepared based on the contractual cash flows, whereby parts of the disclosed amount deviate from the balance sheet. The maturity analysis of the derivative financial liabilities on a net settlement basis is as follows:

(in thousands of New Taiwan dollars)

December 31, 2017	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Derivative financial liabilities at FVTPL						
-- Foreign exchange derivatives	-	-	7,492	-	-	7,492
- Interest rate derivatives	-	-	-	-	5,182	5,182
Total	-	-	7,492	-	5,182	12,674

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Derivative financial liabilities at FVTPL						
– Foreign exchange derivatives	1,560,497	686,224	-	-	-	2,246,721
– Interest rate derivatives	-	-	13,618	23	60,136	73,777
Total	1,560,497	686,224	13,618	23	60,136	2,320,498

b) Gross settlement derivative instruments

The derivative instruments with gross settlement include:

- i) Foreign exchange derivatives: foreign exchange option, foreign exchange swap;
- ii) Interest rate derivatives: cross-currency swap, cash settled interest rate swaps and other interest rate contract.

The table below shows the gross settlement derivative instruments based on the remaining time between the reporting date and the contractual period.

The valuation of the maturity date of the contracts is essential for presenting the financial instruments on the balance sheet. The amount disclosed in the balance sheet is prepared based on the contractual cash flows, whereby parts of the disclosed amount deviate from the balance sheet. The maturity analysis of the derivative financial liabilities on a gross settlement basis is as follows:

(in thousands of New Taiwan dollars)

December 31, 2017	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Derivative financial liabilities at FVTPL						
– Cash inflow	-	203,175	-	-	-	203,175
Net cash flow	-	203,175	-	-	-	203,175

December 31, 2016	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Derivative financial liabilities at FVTPL						
–	2,237,513	5,090,562	2,816,775	1,030,503	-	11,175,353
–	2,914,598	2,940,008	1,377,424	1,506,499	-	8,738,529
Net cash flow	677,085	(2,150,554)	(1,439,351)	475,996	-	(2,436,824)

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

5) Maturity analysis of off-balance sheet items

The table below shows the maturity analysis of the off-balance sheet items based on the remaining time between the reporting date and the contractual period. For the issued financial guarantee contracts, the maximum guaranteed amount included in the guarantee may be required to be fulfilled in the earliest period. The disclosures in the table below are prepared based on the contractual cash flows. Therefore, the partial accounts illustrated below may not match with the corresponding accounts on the balance sheets.

(in thousands of New Taiwan dollars)

December 31, 2017	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Undrawn loan commitments	52,178,038	18,845	267,820	20,878	3,381,800	55,867,381
Undrawn letters of credit	1,300,979	5,930,038	1,257,383	2,326,820	1,195,709	12,010,929
Guarantees	3,730,477	2,856,772	2,699,994	5,772,104	26,290,220	41,349,567
Total	57,209,494	8,805,655	4,225,197	8,119,802	30,867,729	109,227,877

December 31, 2016	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Undrawn loan commitments	30,079,084	18,265	237,059	266,117	3,759,251	34,359,776
Undrawn letters of credit	2,383,703	5,543,871	858,207	765,649	2,157,266	11,708,696
Guarantees	2,730,679	3,631,012	4,973,886	8,041,441	24,232,168	43,609,186
Total	35,193,466	9,193,148	6,069,152	9,073,207	30,148,685	89,677,658

6) The maturity analysis of lease agreement

The lease contracts of the Bank are operating lease and financial lease. Operating lease commitment is the future minimum rental payment under irrevocable operating lease condition.

The maturity analysis of lease agreement is as follows:

(in thousands of New Taiwan dollars)

December 31, 2017	Less than 1 year	1~5 years	Over 5 years	Total
Lease agreement				
Operating lease payment(lessee)	335,817	656,072	10,053	1,001,942
Operating lease income (lessor)	350,370	719,968	-	1,070,338
Total	686,187	1,376,040	10,053	2,072,280

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

December 31, 2016	Less than 1 year	1~5 years	Over 5 years	Total
Lease agreement				
Operating lease payment(lessee)	340,415	564,641	2,813	907,869
Operating lease income (lessor)	326,475	880,749	-	1,207,224
Total	666,890	1,445,390	2,813	2,115,093

7) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

a) Maturity analysis of assets and liabilities

(in thousands of New Taiwan dollars)

December 31, 2017	0~10 days	11~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Main capital inflow on maturity	277,647,072	207,793,320	157,981,786	146,661,624	255,268,945	1,511,558,181	2,556,910,928
Main capital outflow on maturity	164,465,295	247,168,551	486,852,550	458,843,853	775,719,591	1,044,054,147	3,177,103,987
Gap	113,181,777	(39,375,231)	(328,870,764)	(312,182,229)	(520,450,646)	467,504,034	(620,193,059)

December 31, 2016	0~10 days	11~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Main capital inflow on maturity	238,960,424	239,092,869	217,434,136	222,109,638	332,722,373	1,107,544,149	2,357,863,589
Main capital outflow on maturity	121,397,423	211,121,954	396,561,569	461,763,329	716,328,806	996,959,154	2,904,132,235
Gap	117,563,001	27,970,915	(179,127,433)	(239,653,691)	(383,606,433)	110,584,995	(546,268,646)

b) Maturity analysis of assets and liabilities in US Dollars

(in thousands of New Taiwan dollars)

December 31, 2017	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Main capital inflow on maturity	3,827,530	2,165,155	757,084	772,260	4,378,516	11,900,545
Main capital outflow on maturity	3,382,660	4,789,046	2,231,709	986,772	1,244,227	12,634,414
Gap	444,870	(2,623,891)	(1,474,625)	(214,512)	3,134,289	(733,869)

December 31, 2016	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Main capital inflow on maturity	2,559,539	2,103,653	781,182	609,450	4,366,389	10,420,213
Main capital outflow on maturity	2,613,641	4,493,560	1,675,691	866,399	1,481,757	11,131,048
Gap	(54,102)	(2,389,907)	(894,509)	(256,949)	2,884,632	(710,835)

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### (v) Market risk

##### 1) Sources and definition of market risk

Market risk is defined as an unfavourable change in market prices (such as interest rates, stock prices and foreign exchange rates) which may cause a potential loss on or off balance sheets. This includes interest rate risks, equity investments risks, foreign exchange rate risks and product risks.

The main market risks of the Bank are equity investment risk, interest rate risk and exchange rate risk. The equity investment risks mainly arose from domestic public listed stocks and mutual funds; the interest rate risks mainly arose from notes and bonds; the exchange rate risks mainly arose from all position denominated in foreign currency held by the Bank.

##### 2) Management policies of market risk

When the Bank is engaged in businesses in relation to market risks, the Bank has to assess the severity of possible losses and adopt risk avoidance, risk mitigation or transfer, risk control and strategies on risk bearing, for instance, avoid financial instruments with high leverage, high fluctuation and incurred significant loss personally or adopt close out, selling or hedging strategies. The Bank should effectively control the market risk and oversee the entire risk exposure and results of risk measurement based on the related regulations on limits management, stop loss systems, treatment of limit-exceeding positions and status of risk sustained to ensure its effectiveness.

##### 3) Procedure of market risk management

###### a) Identification and Measurement

i) Identification: Personnel of treasury departments and risk management should fully understand all market risk factors of financial instruments held by the Bank. Personnel of risk management should identify all risk factors that may cause market risk and ensure the accuracy and appropriateness of the valuation methods on financial instruments.

ii) Measurement: Development of quantifiable models measured the market risk and is combined with daily management of risk limits. The valuation of financial instruments is assessed based on market valuation methods, model assessment, external sources and external or independent stock price verification.

###### b) Monitor and Report

i) Monitor: Treasury department will monitor the instant and entire transactions based on the limits of each department to ensure all transactions are conducted within the scope of authorization and limits. The Bank has to ensure that the contents, including transaction modes, purposes, processes, parts and movements in profit or loss of all financial instruments are in compliance with regulations and are traded with the scope of authorization and limits. The risk management department monitors and analyzes the

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

information produced from risk measurement models on a daily basis. If any significant risk exposure that affect the financial, business status or law compliant was found, it should be reported to general managers and BOD immediately.

- ii) Report: The risk management department reports the Bank's market risk management reports to the risk management committee on a regular basis, including the market risk exposure of the Bank, conditions of risk exposure, profit or loss status, the use of limits and the conformity with the regulations on market risk management. In addition, in compliance with principles of public disclosures, information of market risk management should be disclosed regularly based on the regulations of the authorities.

4) Management policies of trading book risk

The trading book refers to the financial instruments held for trading or hedging. The positions held for trading means the intention to sell the positions held in the short-term or the positions that are held to earn profit from the changes in actual or expected short-term pricing or arbitrage trading. The positions that are not classified in this category are classified as banking book.

a) Strategy

To conduct effective control on market risk and ensure that the trading strategies executed by all business units have sufficient flexibility, assessments and controls in all business units are implemented.

b) Policies and procedures

The Bank formulates "Key Element on Market Risk Management" as important guideline for holders of trading book to comply with.

c) Valuation policy

The positions that are directly attributable to trading book are evaluated on a daily basis and managed actively based on the limit of each unit.

d) Measurement method

The Bank adopts the  $\beta$  value, DVO1, Delta, duration, analysis on differences, scenarios simulation methods to present the market risk of financial assets denominated in New Taiwan Dollars and other foreign currencies, and implement stress testing on a regular basis.

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## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

#### 5) Interest rate risk management for trading book

##### a) Definition of interest rate risk

The interest rate risk includes factors in relation to the issuers and the changes of interest rate that lead to changes in price of securities. The former is classified as respective risk and the latter is classified as market risk.

##### b) Procedures of interest rate risk management

The Bank set quota and stop-loss points for the trading related to interest rate, including quota on trading personnel, trading instruments, etc that are based on operating strategies and market conditions should be reported to the top management and BoD for approval.

##### c) Measurement method

The Bank uses DVO1 and duration methods to measure the extent in which the investment portfolio will be affected by the interest rate risk. Stress testing is conducted and reported to the Risk Management Committee on a regular basis.

#### 6) Interest rate management for banking book

The main management purpose is to strengthen interest rate risk management, increase the effectiveness of capital usage and improve business operations.

##### a) Strategy

To conduct effective control on interest rate risk, the Bank reduced interest rate risk through the adjustments of asymmetry positions in the balance sheets, mainly on interest rate sensitive assets and liabilities, which allows the interest rates of assets and liabilities to correspond on repricing dates for the purpose of offsetting and hedging against interest rate risk. Also, the Bank adopts strategies in relations to risk management, for instance risk avoidance, risk mitigation or transfer, risk reduction or control and strategies on risk bearing, after considering the operational strategy and the contents of assets and liabilities portfolio.

##### b) Management procedures

i) a) Identification: The main source of interest rate risk is repricing risk that arises from assets and liabilities asymmetry when the assets and liabilities are repriced. This includes yield curve risks, basis risk and risks of embedded options.

ii) Measurement: The Banks adopt repricing gap analysis methods to measure repricing risks on interest rates and assess the impact of interest rate risk exposure on retained earnings and economic value on a monthly basis. The Bank also conducts scenario analysis and stress testing on a regular basis to assess the possible loss on future retained earnings and economic value.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

iii) Monitor: The Banks monitor the interest rate risk based on the limits of the interest rate risk management index on a monthly basis. The risk management department will monitor the Banks' interest rate risk based on the information provided by each business unit. If any significant limit-exceeding position is found, the risk management department will report to general managers immediately and the related departments (finance department, offshore operating units) have to provide improvements measures. If any significant risk exposure that affect the financial, business status or law compliant was found, it should be reported to the general managers and BoD immediately.

iv) Report: The risk management department reports the interest rate risk management reports to the asset-liability committee and BoD on a regular basis to communicate information on interest rate risk exposure and control, which enhances the decision-making on interest rate risk management.

c) Measurement method

The interest rate risk of the Bank mainly arise from repricing risk, that is caused as a results of differences in maturity dates or repricing dates of the banking book's assets, liabilities and off- balance sheet items. In order to stabilize long-term profitability and stimulate business growth, the Bank has set an index on interest rate sensitivity assets and liabilities for specific dates and implements stress testing.

7) Exchange rate risk management

a) Definition of exchange rate risk

Exchange rate risk refers to the profit or loss resulted from two different currencies transferred at different times. The main sources of exchange rate risk in the Bank include spot, forward exchange and FX swaps on derivative instruments. As the Bank adopts the principle of liquidating the customers' position on the same day for its FX transactions, exchange rate risk is insignificant.

b) Management policies and procedures and measurement method of exchange rate risk

To control the exchange rate risk, the Bank sets different quotas and stop-loss point for traders with different levels and ensures losses are controlled within tolerable range.

The Bank has set scenarios for the fluctuations of the main currencies, conduct stress testing and report to risk management committee on a monthly basis.

(Continued)

## LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

### Notes to the Consolidated Financial Statements

- 8) Management of equity security price risk
- a) Definition of equity security price risk
- The market risk of equity securities held includes the respective risk arising from the market price changes of respective equity security and general market risk, resulting from the entire market price changes.
- b) Purpose of equity security price risk management
- The purpose of equity security price risk management is to avoid high fluctuation in equity security price, which will worsen the financial status of the Banks and incur a loss in retained earnings. This management also increases the effectiveness of capital usage and improves the business operations.
- c) Procedures of equity security price risk management
- The Banks have set investment quotas and stop-loss points. The Banks use  $\beta$  value to measure the extent in which the investment portfolio will be affected by systematic risk. Investments that have reached the stop-loss points and are not for sale in each investing units should be approved by top management.
- d) Measurement method
- To control the equity security price risk, the Bank sets different quotas and stop-loss point for traders with different levels and ensures losses are controlled within tolerable range.
- The Banks have set scenarios for the fluctuations of the equity securities, conduct stress testing and report to risk management committee on a monthly basis.
- 9) Market risk valuation techniques
- a) Stress testing
- i) Stress testing is used to measure the maximum possible losses from a portfolio of risky assets under stressed conditions. The scenarios used in stress testing are in compliance with the Financial Supervisory Committee, for implementation of stress scenario set by Basel II Committee on Banking Supervision and significant events in domestic and international.
- ii) The market risk stress testing is executed by the risk management department and is included in the risk monitoring report, which is approved by the top management on the monthly basis.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Sensitivity analysis

i) Interest rate risk

The Bank assumes that if the yield curve of security market increases by 100bps, while other risk factors remain constant, the profit or loss as of December 31, 2017 and 2016 will decrease by \$12,318 thousand and \$3,747 thousand, respectively, while the other comprehensive statement of income will decrease by \$3,731,236 thousand and \$4,171,879 thousand, respectively. If the yield curve of security market decreases by 100bps, the profit or loss as of December 31, 2017 and 2016 will increase by \$13,182 thousand and \$3,785 thousand, respectively, while other comprehensive income or loss will increase \$4,210,105 thousand and \$4,958,104 thousand, respectively.

ii) Exchange rate risk

The Bank assumes other risk factors remain constant, if USD against TWD depreciates by 3%, the profit or loss as of December 31, 2017 and 2016 will decrease by \$2,439 thousand and \$1,308 thousand, respectively; if EUR against TWD depreciates by 3%, the profit or loss as of December 31, 2017 and 2016 will decrease by \$1,016 thousand and increase by \$154 thousand; if JPY against TWD depreciates by 5%, the profit or loss as of December 31, 2017 and 2016 will decrease by \$245 thousand and \$6 thousand, respectively; if CNY against TWD depreciates by 5%, the profit or loss as of December 31, 2017 and 2016 will decrease by \$1,440 thousand and \$779 thousand, respectively, and vice versa.

iii) Equity securities price risk

The Bank assumes that if the equity security price decreases by 15%, while other risk factors remain constant, the profit or loss as of December 31, 2017 and 2016 will decrease by \$19,585 thousand and \$25,277 thousand, respectively, while items other comprehensive income or loss will decrease by \$301,530 thousand, and \$573,306 thousand, respectively, and vice versa.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

iv) Summary of sensitivity analysis is as follows:

(in thousands of New Taiwan dollars)

December 31, 2017			
Main Risk	Sensitivity to change	Amount	
		Equity	Equity
Currency Risk	USD/TWD increase 3%	-	2,439
	EUR/TWD increase 3%	-	1,060
	JPY/TWD increase 5%	-	245
	CNY/TWD increase 5%	-	1,440
Currency Risk	USD/TWD decrease 3%	-	(2,439)
	EUR/TWD decrease 3%	-	(1,060)
	JPY/TWD decrease 5%	-	(245)
	CNY/TWD decrease 5%	-	(1,440)
Interest Risk	Yield curve increase 100BPS	(3,731,236)	(12,318)
Interest Risk	Yield curve decrease 100BPS	4,210,105	13,182
Equity securities price risk	Price of equity securities increase 15%	301,530	19,585
Equity securities price risk	Price of equity securities decrease 15%	(301,530)	(19,585)

December 31, 2016			
Main Risk	Sensitivity to change	Amount	
		Equity	Equity
Currency Risk	USD/TWD increase 3%	-	1,308
	EUR/TWD increase 3%	-	(154)
	JPY/TWD increase 5%	-	6
	CNY/TWD increase 5%	-	779
Currency Risk	USD/TWD decrease 3%	-	(1,308)
	EUR/TWD decrease 3%	-	154
	JPY/TWD decrease 5%	-	(6)
	CNY/TWD decrease 5%	-	(779)
Interest Risk	Yield curve increase 100BPS	(4,171,879)	(3,747)
Interest Risk	Yield curve decrease 100BPS	4,958,104	3,785
Equity securities price risk	Price of equity securities increase 15%	573,306	25,277
Equity securities price risk	Price of equity securities decrease 15%	(573,306)	(25,277)

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

10) Concentration of currency risk information

The table below summarized the carrying value of financial instruments in foreign currency assets and liabilities, which are being classified based on different currencies.

(in thousands of New Taiwan dollars)

December 31, 2017	(USD)	(JPY)	(EUR)	(AUD)	(CNY)	Other	Total
<b>Foreign currency financial assets</b>							
Cash and cash equivalents	15,892,276	179,124	369,186	56,792	10,747,976	289,856	27,535,210
Due from the Central Bank and call loans to banks	118,979,222	-	-	3,366,143	30,175,309	2,420,077	154,940,751
Financial assets at fair value through profit or loss	1,689,703	-	-	-	-	526,137	2,215,840
Available for sale financial assets	27,905,020	-	-	11,530,583	2,001,560	1,605,193	43,042,356
Loans and discounts	153,725,617	2,332,402	1,211,105	627,289	15,991,075	5,092,000	178,979,488
Receivables	6,781,079	228,514	28,395	51,928	679,088	72,338	7,841,342
Held-to-maturity financial assets	290,312	-	-	-	-	1,661,358	1,951,670
Other assets	13,329,296	7,836	36,432	43,115	3,225,995	184,110	16,826,784
<b>Total assets</b>	<b>338,592,525</b>	<b>2,747,876</b>	<b>1,645,118</b>	<b>15,675,850</b>	<b>62,821,003</b>	<b>11,851,069</b>	<b>433,333,441</b>
<b>Foreign currency financial liabilities</b>							
Due to the Central Bank and call loans to banks	107,426,938	58,438	283,600	8,414,200	23,016,450	4,242,087	143,441,713
Deposits and remittances	196,551,442	2,954,448	2,031,158	4,776,204	27,051,747	4,673,179	238,038,178
Financial liabilities at fair value through profit or loss	13,499	-	-	-	-	34,180	47,679
Payables	21,267,334	424,005	499,434	2,399,217	1,011,389	2,714,706	28,316,085
Other liabilities-Refundable deposits	13,499,639	57,695	71,382	43,115	3,215,360	169,778	17,056,969
<b>Total liabilities</b>	<b>338,758,852</b>	<b>3,494,586</b>	<b>2,885,574</b>	<b>15,632,736</b>	<b>54,294,946</b>	<b>11,833,930</b>	<b>426,900,624</b>

Note: As of December 31, 2017 the exchange rates of different currencies against the TWD are as follows: USD/TWD:29.68; JPY/TWD: 0.263; EUR/TWD: 35.45; AUD/TWD: 23.135; CNY/TWD: 4.549.

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**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

December 31, 2016	(USD)	(JPY)	(EUR)	(AUD)	(CNY)	Other	Total
Foreign currency financial assets							
Cash and cash equivalents	11,063,283	237,889	418,580	49,334	11,152,786	291,652	23,213,524
Due from the Central Bank and call loans to banks	105,056,319	-	577,660	-	18,850,959	3,174,522	127,659,460
Financial assets at fair value through profit or loss	1,364,476	-	-	-	-	510,152	1,874,628
Available for sale financial assets	15,270,598	-	-	7,109,229	1,710,880	1,153,754	25,244,461
Loans and discounts	167,657,011	2,841,245	1,457,538	402,862	10,158,615	457,525	182,974,796
Receivables	5,108,790	236,924	72,371	149,529	448,641	61,186	6,077,441
Held-to-maturity financial assets	-	-	-	-	46,880	1,447,768	1,494,648
Other financial assets	132	-	-	-	440	1	573
Other assets	277,923	-	22,666	-	11,294	86,728	398,611
<b>Total assets</b>	<b>305,798,532</b>	<b>3,316,058</b>	<b>2,548,815</b>	<b>7,710,954</b>	<b>42,380,495</b>	<b>7,183,288</b>	<b>368,938,142</b>
Foreign currency financial liabilities							
Due to the Central Bank and call loans to banks	98,293,329	622,484	679,600	1,099,550	12,598,767	4,282,539	117,576,269
Deposits and remittances	179,219,489	2,456,240	2,382,822	4,464,452	20,833,430	4,631,874	213,988,307
Financial liabilities at fair value through profit or loss	16,964	-	-	-	-	-	16,964
Payables	17,994,397	720,641	379,432	2,064,585	423,468	2,401,551	23,984,074
Other liabilities-Refundable deposits	13,429,367	15,298	53,730	82,367	3,322,163	77,051	16,979,976
<b>Total liabilities</b>	<b>308,953,546</b>	<b>3,814,663</b>	<b>3,495,584</b>	<b>7,710,954</b>	<b>37,177,828</b>	<b>11,393,015</b>	<b>372,545,590</b>

Note: As of December 31, 2016 the exchange rates of different currencies against the TWD are as follows: USD/TWD:32.220; JPY /TWD: 0.2770; EUR /TWD: 33.980; AUD /TWD: 23.345; CNY /TWD: 4.624.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

11) Disclosure required by the Regulations Governing the Preparation of Financial Reports by Public Banks.

a) The analysis table of interest rate sensitivity in New Taiwan Dollars

(in thousands of New Taiwan dollars)

December 31, 2017					
Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 2,128,936,724	50,465,403	74,567,795	168,231,799	2,422,201,721
Interest-rate-sensitive liabilities	1,193,824,899	837,141,626	245,619,421	67,630,294	2,344,216,240
Interest rate sensitivity gap	935,111,825	(786,676,223)	(171,051,626)	100,601,505	77,985,481
Net worth					144,642,263
Ratio of interest-rate-sensitive assets to liabilities (%)					103.33
Ratio of interest rate sensitivity gap to net worth (%)					53.92
December 31, 2016					
Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 2,035,155,552	50,539,746	31,609,453	121,039,087	2,238,343,838
Interest-rate-sensitive liabilities	994,195,679	846,251,450	222,524,220	95,848,400	2,158,819,749
Interest rate sensitivity gap	1,040,959,873	(795,711,704)	(190,914,767)	25,190,687	79,524,089
Net worth					134,727,460
Ratio of interest-rate-sensitive assets to liabilities (%)					103.68
Ratio of interest rate sensitivity gap to net worth (%)					59.03

Note 1: The above amounts included only New Taiwan dollar amounts held by the Bank excluded contingent assets and contingent liabilities.

Note 2: Interest-rate-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues or costs affected by interest rate changes.

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

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).

b) The analysis table of interest rate sensitivity in U.S. Dollars

(in thousands of U.S. dollars)

December 31, 2017					
Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 9,879,112	725,834	517,397	196,708	11,319,051
Interest-rate-sensitive liabilities	7,545,379	2,153,933	816,759	365,600	10,881,671
Interest rate sensitivity gap	2,333,733	(1,428,099)	(299,362)	(168,892)	437,380
Net worth					4,873,392
Ratio of interest-rate-sensitive assets to liabilities (%)					104.02
Ratio of interest rate sensitivity gap to net worth (%)					8.97

December 31, 2016					
Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 8,410,060	728,139	423,010	121,619	9,682,828
Interest-rate-sensitive liabilities	6,475,882	1,569,253	680,782	497,000	9,222,917
Interest rate sensitivity gap	1,934,178	(841,114)	(257,772)	(375,381)	459,911
Net worth					4,182,447
Ratio of interest-rate-sensitive assets to liabilities (%)					104.99
Ratio of interest rate sensitivity gap to net worth (%)					11.00

Note 1: The above amounts included only U.S. dollar amounts held by the Bank, excluded contingent assets and contingent liabilities.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 2: Interest-rate-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with revenues or costs 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).

12) Offsetting of financial assets and liabilities

The Bank holds the financial instruments which meet Section 42 of the IAS 32 endorsed by the FSC. Therefore, the financial instrument will be offset on the balance sheet.

Although the Bank do not engage in transactions that meet the offsetting condition in IFRSs, they have signed the net settlement contracts of similar agreements with their counterparties, such as global master repurchase agreement, global securities lending agreement and similar repurchase agreement or reverse-repurchase agreement. If both parties choose to net settle, the abovementioned executable net settlement contracts or similar agreements will be allowed to be settled in net amount after offsetting the financial assets and liabilities. Otherwise, the transaction will be settled in gross amount. However, if one party defaults, the other party could opt for net settling.

The offsetting information of financial assets and liabilities is shown below:

December 31, 2017						
Financial assets regulated by offset or enforceable net settlement agreement or similar agreement						
	Total amount of recognized financial assets (a)	Total amount of recognized offsetting financial liabilities in balance sheet (b)	Net amount of recognized financial assets in balance sheet (c)=(a)-(b)	The related amount not set off in balance sheet (d)		net amount (e)=(c)-(d)
				Financial instrument (Note)	cash collateral received	
Derivative financial assets	\$ 801,600	758,494	43,106	-	-	43,106
Reverse and Securities lending agreement	8,029,166	-	8,029,166	-	-	8,029,166
Total	\$ 8,830,766	758,494	8,072,272	-	-	8,072,272

December 31, 2017						
Financial liabilities regulated by offset or enforceable net settlement agreement or similar agreement						
	Total amount of recognized financial assets (a)	Total amount of recognized offsetting financial liabilities in balance sheet (b)	Net amount of recognized financial assets in balance sheet (c)=(a)-(b)	The related amount not set off in balance sheet (d)		net amount (e)=(c)-(d)
				Financial instrument (Note)	cash collateral received	
Derivative financial assets	\$ -	-	-	-	-	-

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

December 31, 2016

Financial assets regulated by offset or enforceable net settlement agreement or similar agreement						
	Total amount of recognized financial assets (a)	Total amount of recognized offsetting financial liabilities in balance sheet (b)	Net amount of recognized financial assets in balance sheet (c)=(a)-(b)	The related amount not set off in balance sheet (d)		net amount (e)=(c)-(d)
				Financial instrument (Note)	cash collateral received	
Derivative financial assets	\$ 1,543,536	1,486,805	56,731	-	64,762	(8,031)
Reverse repurchase and securities borrowing agreement	3,763,733	-	3,763,733	3,763,733	-	-
<b>Total</b>	<b>\$ 5,307,269</b>	<b>1,486,805</b>	<b>3,820,464</b>	<b>3,763,733</b>	<b>64,762</b>	<b>(8,031)</b>

December 31, 2016

Financial liabilities regulated by offset or enforceable net settlement agreement or similar agreement						
	Total amount of recognized financial assets (a)	Total amount of recognized offsetting financial liabilities in balance sheet (b)	Net amount of recognized financial assets in balance sheet (c)=(a)-(b)	The related amount not set off in balance sheet (d)		net amount (e)=(c)-(d)
				Financial instrument (Note)	cash collateral received	
Derivative financial assets	\$ 1,635,380	1,578,114	57,266	-	202,664	(145,398)

Note: Including net settlement contracts and non-cash collateral.

13) Transfers of Financially Assets

The transferred financial assets of the Bank that are not qualified for de-recognition in the daily operation are mainly debt securities under repurchase agreements. Since the right to receive cash flow is transferred and it reflects the associated liabilities to repurchase transferred financial assets at a fixed price in the future period, the Bank and its subsidiary cannot use, sell or pledge these transferred financial assets during the valid transaction period. However, since the Bank still bears the interest rate risk and credit risk, their transferred financial assets are not completely derecognized. The analysis of the financial assets that are not completely derecognized and the associated liabilities are as follows:

December 31, 2017

Financial asset classes	Book value of transferred financial assets	Book value of associated financial liabilities	Fair value of transferred financial assets	Fair value of associated financial liabilities	Fair value net position
Available-for-sale financial assets					
Repurchase agreement	\$ -	15,157,816	-	-	-

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

Financial asset classes	December 31, 2016				
	Book value of transferred financial assets	Book value of associated financial liabilities	Fair value of transferred financial assets	Fair value of associated financial liabilities	Fair value net position
Available-for-sale financial assets					
Repurchase agreement	\$ -	7,713,092	-	-	-

(ai) Capital management

(i) Introduction

Objectives for managing capital are as follows:

- 1) The objective of capital management is to ensure there is sufficient capital to support the overall operating risks in accordance with Risk Management Policies and Procedures.
- 2) If the self-owned capital is sufficient to buffer the risk exposure of businesses, using ratio of regulatory capital to risk-weighted assets (common equity Tier 1 ratio, Tier 1 capital ratio and capital adequacy ratio) as a measurement index.

The abovementioned ratio should not be lower than the minimum ratio set in Article 5 of Regulations Governing the Capital Adequacy and Capital Category of Banks. The capital adequacy ratio of the Banks has reached the legal ratio and an additional 2% is set as an objective to the Banks.

(ii) Capital management procedures

According to the Regulations Governing the Capital Adequacy and Capital Category of Banks, the minimum requirements of ratio of regulatory capital to risk-weighted assets (common equity Tier 1 ratio, Tier 1 capital ratio and capital adequacy ratio) are 5.75%, 7.25%, and 9.25%, respectively. The Banks monitored these ratios and report to competent authorities quarterly.

The self-owned capital of the Banks is managed by risk management department. Based on Regulations Governing the Capital Adequacy and Capital Category of Banks, the self-owned capital is classified into Tier 1 and Tier 2 capital:

- 1) Tier 1 capital comprises of common equity and other Tier 1 capital.
  - a) Common equity: The common equity of the Banks includes common stock, capital reserve (stock premium on common stock), legal reserve, special reserve, unappropriated earnings and other equities and should be deducted from the project, including intangible assets, prepaid pension plan or employee benefit liabilities (in the case of insufficient defined benefit plan), fair value or revalued amounts (the costs incurred to increase the number of retained earnings of the real estate that applied the IAS for the first time), unrealized interest of the available-for-sale financial assets, and financial-related business investments (classified as the book value of the bank) of 25%.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

b) Other Tier 1 capital: There is no capital in this category.

- 2) Tier 2 capital comprises of long-term subordinated debts, increase in retained earnings as a result of revaluation surplus of real estate in the first-time adoption of IFRS, 45% of unrealized gains (losses) on available-for-sale financial assets, provisions for operations and provision for bad debts and excludes 50% of investments in financing activities (classified as banking book).

(iii) Capital adequacy ratio

The following table shows the Banks' capital, risk-weighted assets and the calculation of capital adequacy ratio. The calculation of capital adequacy ratio is in accordance with the Banking Bureau letter No. 10200362920 Regulations Governing the Capital Adequacy and Capital Category of Bank. The capital adequacy ratio as of December 31, 2017 and 2016 are in compliance with regulations of local authorities.

(in thousands of New Taiwan dollars)

Items		Year	December 31, 2017	December 31, 2016
Eligible Capital	Common equity tier 1 capital		131,218,449	121,832,757
	Additional tier 1 capital		15,281,997	10,781,997
	Tier 2 capital		44,376,216	51,618,712
	Eligible capital		190,876,662	184,233,466
Risk- weighted Assets	Credit risk	Standardized approach	1,455,557,758	1,485,157,400
		Internal rating-based approach	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach	-	53,082,779
		Standardized approach/Alternative standardized approach	50,332,428	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	42,341,623	52,704,583
		Internal model approach	-	-
	Risk-weighted assets		1,548,231,809	1,590,944,762
Capital adequacy ratio			12.33	11.58
Ratio of common stock equity to risk-weighted assets (%)			8.48	7.66
Ratio of tier 1 capital to risk-weighted assets (%)			9.46	8.34
Leverage (%)			4.90	4.78

Note 1: Eligible capital and risk-weighted assets are calculated under the "Regulations Governing the Capital Adequacy Ratio of Banks" and the "Explanation of Methods for Calculating the Eligible Capital and Risk-Weighted Assets of Banks."

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 2: For the annual report, both current and last year's capital adequacy rates should be included. For the semiannual report, in addition to current and last six-month period's capital adequacy rates, last year's capital adequacy rate should also be included.

Note 3: Formulas used were as follows:

- 1) Eligible capital = Common equity capital + Other tier 1 capital excluding common stock equity + Tier 2 capital.
- 2) Risk-weighted assets = Risk-weighted assets for credit risk + Capital requirements for operational risk and market risk x 12.5.
- 3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.
- 4) Ratio of tier 1 capital to risk-weighted assets = (Common equity capital + additional tier 1 capital) ÷ Risk-weighted assets.
- 5) Ratio of common equity to risk-weighted assets = Common equity ÷ Risk-weighted assets.
- 6) Leverage = Tier 1 capital ÷ Exposure measurement.

(7) Related-party transactions:

(a) Name and relation of related parties

Name of related parties	Relationship
Others	Director, supervisors managers of the Bank and their relatives

(b) Transactions with Key Management Personnel

Key management personnel compensation comprised:

	2017	2016
Short-term employee benefits	\$ 26,171	20,247
Post-employment benefits	2,850	2,415
	<u>\$ 29,021</u>	<u>22,662</u>

(c) Significant account balances and transactions with the related parties

(i) Deposits

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Land Bank Insurance Brokerage Co., Ltd.	<u>\$ 1,022,961</u>	<u>0.04</u>	<u>765,756</u>	<u>0.03</u>

Interest rates charged on deposits with related parties are similar to those with third parties, except in the case of employees of the Bank where preferential rates are used within stipulated term and limit.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

(ii) Loans

	December 31, 2017		December 31, 2016	
	Amount	%	Amount	%
Land Bank Insurance Brokerage Co., Ltd.	\$ 492,425	0.02	449,660	0.02

Interest rates charged on loans with related parties are similar to those with third parties, except in the case of employees of the Bank where preferential rates are used within stipulated term and limit. The Banks' transactions with its related party are presented on an aggregate basis if the total transaction amounts with the individual related party do not exceed certain percentages of that transaction.

( in thousands of New Taiwan dollars)

December 31, 2017							
Type (Note 1)	Account Volume (Number of Names)	Highest Balance	Ending Balance	Loan classification		Collateral (note2)	Differences in Transaction Terms from Those for Unrelated Parties
				Normal Loans	Non- performing loans		
Consumer loans for employees	24	\$ 25,044	19,118	19,118	-	Credit etc.	None
Private housing mortgage loan	88	334,104	329,869	329,869	-	Real estate	None
Other loans	34	143,438	143,438	143,438	-	Real estate etc.	None

( in thousands of New Taiwan dollars)

December 31, 2016							
Type (Note 1)	Account Volume (Number of Names)	Highest Balance	Ending Balance	Loan classification		Collateral (note2)	Differences in Transaction Terms from Those for Unrelated Parties
				Normal Loans	Non- performing loans		
Consumer loans for employees	27	\$ 23,637	23,637	23,637	-	Credit etc.	None
Private housing mortgage loan	88	313,031	313,031	313,031	-	Real estate	None
Other loans	33	114,155	112,992	112,992	-	Real estate etc.	None

Note 1: The consumer loans for employees and the private housing mortgage loan can be disclosed by summary. In addition, the other loans are disclosed by the name of the related parties.

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Note 2: The types of collateral which were filled in the table are classified into different categories, such as real estate, short-term notes, government bonds, secured corporate bonds, unsecured corporate bonds, publicly quoted stocks, stocks not listed on the Exchange and OTC in Taiwan and other chattels, etc. If the category belongs to "other chattels", it shall further illustrate its contents.

(8) Pledged assets:

Pledged assets	December 31, 2017	December 31, 2016	Guarantee pledged
Government bonds (recorded as available-for-sale financial assets)	\$ 1,257,843	1,070,290	Guarantee deposits pledged with court and guarantees for tax litigation
Government bonds (recorded as available-for-sale financial assets)	261,540	257,529	Operating guarantees of securities department
Government bonds (recorded as available-for-sale financial assets)	313,539	296,137	Reserve for trust business losses
Negotiable certificate of time deposits (recorded as available-for-sale financial assets)	5,720,000	4,920,000	Guarantee for settlement funds from Central Bank and other banks
Negotiable certificate of time deposits (recorded as available-for-sale financial assets)	18,000,307	18,000,220	Guarantee deposits for Payment Versus Payment
Government bonds (recorded as available-for-sale financial assets)	53,545	55,913	Operating guarantees of securities
Government bonds (recorded as available-for-sale financial assets)	21,418	22,365	Reserve for the Electronic Bond Trading System
Government bonds (recorded as available-for-sale financial assets)	148,364	160,702	Operating guarantees of U.S. FINRA
Negotiable certificate of time deposits (recorded as available-for-sale financial assets)	297,150	324,849	Operating guarantees of U.S. FINRA
Government bonds (recorded as hold-to-maturity- financial assets)	3,175	3,203	Operating guarantees of the Central Bank
Asset exchange (recorded as other assets)	186,687	202,604	Guarantees for asset exchange valuation
Time deposits (recorded as other assets)	<u>2,047,050</u>	<u>2,543,200</u>	Guarantee deposits for CNY overdraft
Total	<u>\$ 28,310,618</u>	<u>27,857,012</u>	

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

**(9) Commitments and contingencies:**

- (a) As of December 31, 2017, the Bank has the following contingent liabilities and commitments, which are not included in the above-mentioned financial statements:

	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Loan commitments	\$ 55,867,381	34,359,775
Credit card lines commitments	24,348,928	21,742,590
Cash card lines commitments	94,649	113,728
Trust liabilities	376,993,025	378,161,399
Securities under custody for customers	14,556,536	17,688,967
Property under custody for customers	582,223	448,095
Travellers' checks consignment-in	110,392	136,956
Collections for customers	58,371,480	59,402,805
Agency loans	51,675,883	57,875,888
Government bond under custody for customers	141,597,100	100,309,400
Consigned manager of bills	28,067,257	47,073,713
Consigned sales of goods	9,996	10,268
Guarantees	41,349,567	43,609,186
Unused commercial letter of credits	12,010,929	11,708,696
Securities sold under repurchase agreement	15,174,237	7,720,320
Total	<u>\$ 820,809,583</u>	<u>780,361,786</u>

- (b) Balance sheet, income statement and details of assets under trust

According to rule 17 of the Trust Law, the balance sheets of trust accounts, trust property list, and statements of income on trust accounts shall be disclosed as follows:

**Trust Balance Sheet**

**December 31, 2017 and 2016**

(in thousands of New Taiwan dollars)

<u>Trust Assets</u>	<b>December 31, 2017</b>	<b>December 31, 2016</b>
Cash in bank	\$ 16,368,649	14,738,121
Investment	68,847,827	75,254,863
Receivable account	157,562	67,863
Prepaid account	19,244	19,771
Real property	195,026,338	191,948,943
Intangible assets	6,776,873	6,862,500
Other assets	862	17,145
Securities under custody	89,795,670	89,252,193
Total trust assets	<u>\$ 376,993,025</u>	<u>378,161,399</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

Trust Liabilities	December 31, 2017	December 31, 2016
Accounts payable	\$ 49,399	52,851
Borrowed	1,974,000	2,002,667
Advance receipts	6,945	6,220
Tax payable	133	147
Guarantee deposits received	1,519,990	1,773,722
Withholding	5,837	8,040
Other liabilities	1,106,350	1,150,736
Trust capital	280,827,902	282,853,917
Reserve account	383,033	408,192
Accumulated loss	(573,084)	(537,313)
Net income	1,896,850	1,190,027
Securities under custody	<u>89,795,670</u>	<u>89,252,193</u>
Total trust liabilities	<u>\$ 376,993,025</u>	<u>378,161,399</u>

Trust Property List

December 31, 2017 and 2016

(in thousands of New Taiwan dollars)

Trust Assets	December 31, 2017	December 31, 2016
Cash in bank	\$ 16,368,649	14,738,121
Investment	68,847,827	75,254,863
Mutual funds	157,562	67,863
Bond	19,244	19,771
Stock	195,026,338	191,948,943
Beneficial securities	6,776,873	6,862,500
Asset-backed securities	862	17,145
Accounts receivable	<u>89,795,670</u>	<u>89,252,193</u>
Total	<u>\$ 376,993,025</u>	<u>378,161,399</u>

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

Statements of Income on Trust Accounts  
For the years ended December 31, 2017 and 2016

(in thousands of New Taiwan dollars)

	For the years ended December 31	
	2017	2016
Revenues		
Interest revenues	\$ 1,650,866	722,665
Rental revenues	1,639,519	1,662,553
Revenues from cash dividend	9,198	5,913
Other revenues		
Realized gains on investment	-	539
Others	<u>30,587</u>	<u>33,605</u>
Total	<u>3,330,170</u>	<u>2,425,275</u>
Expenses		
Interest fees	886,556	689,792
Insurance fees	23,726	27,202
Management and maintenance fees		
Management fees	141,309	133,552
Maintenance fees	93,179	93,754
Service charges	58,232	4,078
Levies	147,256	147,858
Other expenses		
Realized losses on investment	-	4,315
Others	<u>83,062</u>	<u>134,697</u>
Total	<u>1,433,320</u>	<u>1,235,248</u>
Income before income tax	1,896,850	1,190,027
Income tax expense	-	-
Net income	<u>\$ 1,896,850</u>	<u>1,190,027</u>

Note: The above statements of income are for the business of the trust division, and the amounts are not included in the profit and loss of the Bank.

The clients should bear the profit or loss generated from trusts which are provided by the Bank. The financial information above is summarized based on the statements provided by clients and audited by other accountants. As to foreign currency investments, partly are recognized at their book values which were suggested by other accountants in the audit report.

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES

Notes to the Consolidated Financial Statements

- (c) As of December 31, 2017, the Bank had various lawsuits, claims and proceedings from normal operation. The significant cases are summarized below:

Several clients (“plaintiffs”) claim to refund their money which was stolen by the Banks’ employees and the required payments were \$154,627 for the case of deposits reimbursement and \$143,627 for the case of compensation for damage by torts. In the case of deposits reimbursement, the District Court decided in favor of the Bank in the first trial, but for the second trial, the Bank partly lost the lawsuit and need to pay \$18,100 thousand for compensation along with its interest. The Supreme Court ordered the Taiwan High Court of Tainan Branch to conduct a new trial. The Court asked the Bank to pay a compensation of \$18,100 thousand along with its interest. However, the Bank and the plaintiffs both appealed again to the Supreme Court and the case is currently being reviewed by the Taiwan High Court of Tainan Branch. In the case of compensation for damage by torts, the District Court decided in favor of the Bank, but the plaintiffs appealed once more, and the case is currently being reviewed by the Supreme Court for the third trial.

The Banks considered the above lawsuits have no significant effects on its financial statements.

(10) Losses Due to Major Disasters:None

(11) Subsequent Events:

According to the amendments to the “Income Tax Act” enacted by the office of the President of the Republic of China (Taiwan) on February 7, 2018, an increase in the corporate income tax rate from 17% to 20% is applicable upon filing the corporate income tax return commencing FY 2018. This increase does not affect the amounts of the current or deferred income taxes recognized on December 31, 2017. However, it will increase the Bank’s current tax charge accordingly in the future. On the other hand, if the new tax rate is applied in calculating the taxable temporary differences and tax losses recognized on December 31, 2017, the deferred tax assets would increase by \$511,943 thousand.

(12) Other:

- (a) Personnel, depreciation, and amortization expenses are summarized by functions as follows:

	For the years ended December 31	
	2017	2016
	Operating expenses	Operating expenses
Personnel expenses		
Salaries	7,304,435	7,418,268
Insurance	339,986	338,554
Pension	692,802	638,573
Employee benefit saving account	1,912,783	1,852,381
Other employee benefits expenses	138,863	150,750
Depreciation expenses	724,758	727,180
Amortization expenses	271,311	205,171

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**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

(b) Government audit adjustments

The financial statements for 2016 have been examined by the DGBAS and MOA, and adjustments from this examination have been recognized accordingly in the financial statements; the details are as follows:

(c) Assets and liabilities-average balance and average interest rates

(i) Assets and liabilities-average balance and average interest rates

(in thousands of New Taiwan dollars)

	December 31, 2017		December 31, 2016	
	Average balance	Average rates (%)	Average balance	Average rates (%)
Interest-earning assets:				
Due from the Central Bank	\$ 142,666,866	0.48	147,286,714	0.54
Due from banks and call loans to banks	178,096,467	1.30	188,113,176	0.85
Loans	1,861,130,517	1.89	1,781,928,863	1.95
Financial assets at fair value through profit or loss	3,205,456	1.56	3,379,361	1.13
Securities bought under resale agreements	4,796,160	0.39	5,030,643	0.36
Available-for-sale financial assets	387,142,030	0.92	350,853,949	0.88
Held-to-maturity financial assets	172,868,606	0.50	105,514,592	0.58
Interest-bearing liabilities :				
Due to banks and call loans from banks	153,137,402	0.77	152,309,252	0.42
Funds borrowed from the Central Bank and other banks	2,179,321	1.38	2,427,062	0.89
Demand deposits	309,690,774	0.15	320,630,168	0.15
Time deposits	836,550,688	0.90	719,617,205	0.84
Due to Taiwan Post Co., Ltd.	66,889,290	0.73	42,429,937	0.93
Saving deposits	989,775,513	0.87	962,019,451	0.95
Government deposits	153,540,449	0.46	162,120,962	0.51
Financial debentures	79,233,425	1.91	72,261,475	1.75

(ii) Net Position of Main Foreign Currencies

(in thousands of New Taiwan dollars)

Currency	December 31, 2017		Currency	December 31, 2016	
	Original currency amount	TWD amount		Original currency amount	TWD amount
(USD)	\$ 437,089	12,972,812	(USD)	399,512	12,872,262
(CNY)	706,581	3,214,238	(CNY)	718,461	3,322,163
(SGD)	4,196	93,160	(AUD)	3,508	81,904
(AUD)	1,864	43,115	(EUR)	643	21,832
(EUR)	1,003	35,562	(JPY)	50,385	13,962

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LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

Note 1: All foreign currencies were translated into TWD currency. The currencies above have been selected based on the highest net position.

Note 2: All foreign currencies' positions were shown as absolute amounts.

(iii) Profitability

Items		December 31, 2017	December 31, 2016
Return on total assets	Before income tax	0.43	0.50
	After income tax	0.35	0.40
Return on equity	Before income tax	8.51	9.78
	After income tax	6.90	7.96
Net income ratio		33.48	33.91

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 was the income from January to the quarter's ending revenue amount.

Note 5: The above profitability ratios are expressed annually.

- (iv) The Bank has obtained approval from the FSC (Ruling No. 10400177950, issued on August 19, 2015) to engage in the business of electronic payment which started its operation in 2016. According to Article 4 of the Regulations Governing the Organization and Administration of Sinking Fund Established by Electronic Payment Institutions, the Bank shall appropriate \$2,000 thousand to be contributed to the Sinking Fund in the first fiscal year. The Bank's fee income generated from payment business for the year 2017 were \$2 thousand, as well as interest revenue and other revenue were both \$17 thousand. The Bank proposed to appropriate the amount of \$0 into the Sinking Fund before May 2018.

(13) Segment information:

For management purposes, the Banks are organized into business units based on its products and service. The Banks adopted IFRS8 "Operating Segments" to present its operating segment information as follows:

- (a) Department of Treasury: The department mainly manages the funds of New Taiwan dollars and foreign currencies used in operating, financing and investing activities.

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**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**

**Notes to the Consolidated Financial Statements**

- (b) Department of Corporate Banking: The department mainly provides plans for corporate banking; researching, developing and marketing of its products; and establishing and managing its own regulations.
- (c) Department of Consumer Banking: The department mainly provides plans for consumer banking; researching, developing and marketing of its products; and establishing and managing its own regulations.
- (d) Department of Business Management: The department mainly provides service of wealth management and deposits planning.
- (e) Other: The assets, liabilities, revenues and expenses which cannot be attributed to only one operating department may be Bank under this category.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the consolidated financial statements. The accounting policies of operating segments are the same as note 4 described in the significant accounting policies paragraph.

(i) Segment Financial Information

	For the year ended December 31, 2017						Total
	Department of Treasury	Department of Corporate Banking	Department of Consumer Banking	Department of Business Management	Other	Other Adjustment and Write- Off	
Net interest income (External customers)	\$ 3,240,730	13,639,934	15,386,113	(12,631,082)	5,103,300	-	24,738,995
Net segment profit (loss)	(9,579,219)	(6,639,124)	(10,208,924)	19,516,396	6,910,871	-	-
Net fee income (loss)	(18,519)	787,134	380,051	151,012	1,531,619	(7)	2,831,290
Net other income (loss)	731,058	-	-	(95,678)	660,624	(87,882)	1,208,122
Net operating income (loss)	(5,625,950)	7,787,944	5,557,240	6,940,648	14,206,414	(87,889)	28,778,407
Operating expenses	-	-	-	-	(16,407,917)	4,031	(16,403,886)
Provision for loan losses and credit related losses	-	-	-	-	(492,992)	-	(492,992)
Inter expenses allocated	(93,404)	(2,269,652)	(3,880,343)	(5,481,899)	11,725,298	-	-
Income tax expenses	-	-	-	-	(2,212,092)	(35,814)	(2,247,906)
	<u>\$ (5,719,354)</u>	<u>5,518,292</u>	<u>1,676,897</u>	<u>1,458,749</u>	<u>6,818,711</u>	<u>(119,672)</u>	<u>9,633,623</u>

(Continued)

LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES  
Notes to the Consolidated Financial Statements

	For the year ended December 31, 2016						Total
	Department of Treasury	Department of Corporate Banking	Department of Consumer Banking	Department of Business Management	Other	Other Adjustment and Write-Off	
Net interest income (External customers)	\$ 3,066,481	14,124,538	15,094,633	(13,049,671)	5,508,571	-	24,744,552
Net segment profit (loss)	(7,506,108)	(6,555,632)	(9,631,522)	18,153,945	5,539,317	-	-
Net fee income (loss)	(20,969)	766,961	423,709	149,646	1,483,468	(5)	2,802,810
Net other income (loss)	1,324,074	-	-	(97,125)	1,966,809	(17,843)	3,175,915
Net operating income (loss)	(3,136,522)	8,335,867	5,886,820	5,156,795	14,498,165	(17,848)	30,723,277
Operating expenses	-	-	-	-	(16,332,881)	33,058	(16,299,823)
Provision for loan losses and credit related losses	-	-	-	-	(1,624,497)	-	(1,624,497)
Inter expenses allocated	122,031	(2,218,757)	(3,660,813)	(5,335,101)	11,092,640	-	-
Income tax expenses	-	-	-	-	(2,382,044)	-	(2,382,044)
	<u>\$ (3,014,491)</u>	<u>6,117,110</u>	<u>2,226,007</u>	<u>(178,306)</u>	<u>5,251,383</u>	<u>15,210</u>	<u>10,416,913</u>

The Bank provides only the operation volume of deposits and loans for its measurable amount in assets and liabilities. As a result, the measurable amount of the asset is 0 in accordance with the regulations under IFRS 8.

(ii) Region

Areas type	For the years ended December 31	
	2017	2016
Net revenue:		
Taiwan	\$ 26,689,959	28,501,496
U.S.A	890,491	971,712
Singapore	220,758	283,519
Hong Kong	248,900	301,927
China	728,299	664,623
Total	<u>\$ 28,778,407</u>	<u>30,723,277</u>

(iii) Main customer information

There is no transaction with any individual consumer that constitutes 10% of the Banks' revenues.

臺灣土地銀行  
LAND BANK OF TAIWAN

*Joanne Ling*

Chairperson





GPN : 2005300018  
Price : NT \$600