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# *Annual Report 2016*

## *LAND BANK OF TAIWAN*



Website : <http://newmops.tse.com.tw>

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

Time of Publication : July 2017

## ● Spokesman

Name : He,Ying-Ming

Title : Executive Vice President

Tel : (02)2348-3366

E-Mail : lbev2@landbank.com.tw

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## ● First Substitute Spokesman

Name : Chu,Yu-Feng

Title : Executive Vice President

Tel : (02) 2348-3686

E-Mail : lbev4@landbank.com.tw

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## ● Second Substitute Spokesman

Name : Huang,Cheng-Ching

Title : Executive Vice President

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

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## ● Credit rating agencies

Name : Moody's Investors Service

Address : 24/F One Pacific Place 88 Queensway Admiralty, Hong Kong.

Tel : (852)37581330 Fax : (852)37581631

Web Site : <http://www.moody.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.,No7,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>

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## ● Stock transfer agency

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>

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

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

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

# 105 年報

## 臺灣土地銀行

Annual Report 2016



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# 數位變革 智慧引航

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## Financial Highlights

Unit: NTD in millions;%

	2016		2015		2014		(2016/2015)	(2015/2014)
	NT\$	US\$	NT\$	US\$	NT\$	US\$	%	%
Assets	2,672,937	82,959	2,483,467	77,078	2,515,322	78,067	107.63	98.73
Deposits	2,247,043	69,741	2,098,647	65,135	2,050,349	63,636	107.07	102.36
Loans and Discounts	1,770,689	54,956	1,724,903	53,535	1,868,479	57,991	102.65	92.32
Investments	552,953	17,162	394,352	12,239	305,527	9,483	140.22	129.07
Net Worth	134,727	4,181	127,143	3,946	116,717	3,623	105.96	108.93
Interest Income	41,841	1,299	43,718	1,357	43,313	1,344	95.71	100.94
Interest Expenses	17,096	531	19,385	602	20,162	626	88.19	96.15
Net Income	10,417	323	9,982	310	9,462	294	104.36	105.50
ROA	0.40%		0.40%		0.38%			
ROE	7.69%		8.19%		8.34%			
NPL Ratio	0.18%		0.19%		0.19%			
Capital Adequacy Ratio	11.58%		11.43%		11.06%			

Note: 1.The adjusted figures in line with International Financial Reporting Standards from year 2014 to year 2015 which were certified by the public accountants and accredited by the Department of Audit. The numbers in year 2016 were audited and attested by the certified public accountants.

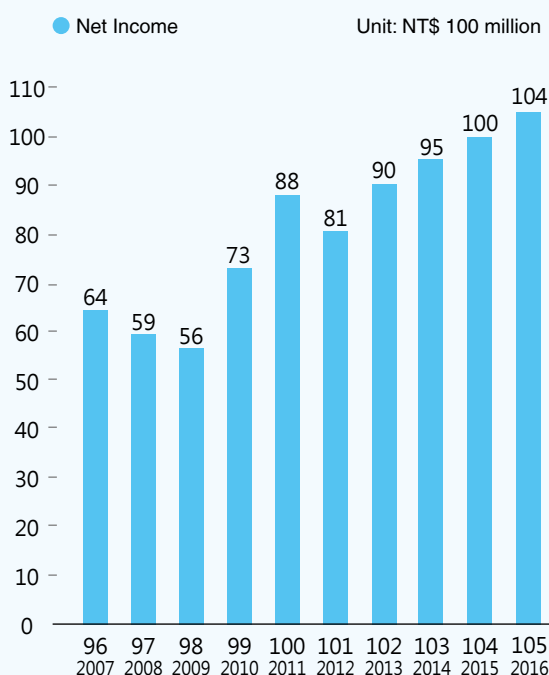
2.ROE=Net income/ Average net worth

3.ROA=Net Income/ Average assets

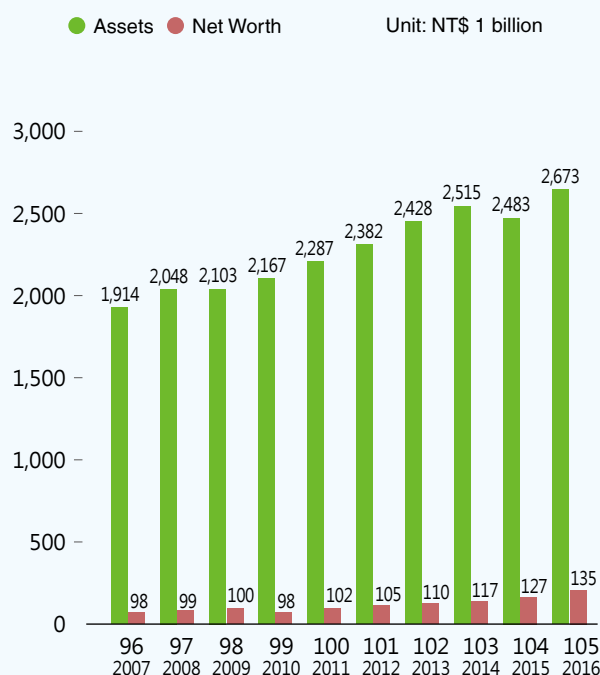
4.US dollar amounts are converted solely for convenience at NT\$32.22=US\$1.00, the Central Bank's closing exchange rate as of December 31, 2016.

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 2007~2016



Assets and Net Worth 2007~2016



Note: These figures are in accordance with the period from 2007 to 2011 version of the Domestic Financial Accounting Standards. The figures are in accordance with the period from 2012 to 2015 version of the International Financial Reporting Standards. The combined figures for the period of 2016 have been audited and certified by CPAs.

# 領先

數位金融 智慧領先

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- 010 Brief Business Plan for 2017
- 011 Future Development Strategies
- 012 Influences on the Environment of External Competition, Acts and Comprehensive Management
- 013 Credit Ratings











chairperson

*Joanne Ling*

## Business Reports

Although the economy in 2016 was recovering, each country's economic growth was still weak and the extent of economic recovery in each country was inconsistent. Many countries tried to use monetary policy to sustain their economic activities. The report of Organization for Economic Co-operation and Development (OECD) pointed out that the economic growth rate in the world was still below the average level, which reflected insufficient demand. The risk variables which influenced the worldwide economy in 2017 included the orientation of economy and trade policy of the new government of the United States, the slow economic growth in China, the major elections held throughout the European Union, the effect of the United Kingdom leaving European Union, the price change of crude oil and bulk commodities, the fluctuation of global financial markets and the rise of trade protectionism. These variables effected the performance of the global economy.

In Taiwan, the international economic recovery was beneficial to the rise of our export momentum. The domestic demand, benefited by investment in advanced process of semi-conductors, was expected to continue. The government aggressively promoted policies such as improving investment environment, implementing the scheme of Five Plus Two Innovative Industry Development, and the New Southward Policy, as well as promoting Urban Renewal 168 Plan Version 2.0, which could help maintain the investment growth momentum. According to the estimation by Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C. in February, 2017, the domestic economy growth rate rose to 1.5 percent in 2016, and it is expected to rise to 1.92 percent in 2017.

In compliance with government policies, and due to the excellent leadership of the management team and the dedication of its staff, the before-tax profit accumulated was NTD12.799 billion, which resulted in profits of more than NTD 10 billion for six consecutive years. The before-tax earnings per share was NTD 2.04. The non-performing loans ratio was 0.18 percent and the coverage rate of allowance for uncollectable accounts was 875.41 percent. These figures show that the Bank could retain its excellent quality when it made efforts to gain its profits and achieve the target of each business. The business review of 2016 and business plan and the strategies for future development in 2017 are outlined below:

## I. Business Review for the year 2016

### (I) Bank Organization and Change

1. In compliance with digital trends in banking and the related need of managing digital finance, the Department of Electronic Banking newly added the new Electronic Finance Business Section. In order to follow the claim of money laundering control from the administration authority, the Money Laundering Control Section was newly added to the Department of Legal Affairs and Compliance. Moreover, in compliance with the manpower adjustment of the creditor's rights management, the Bank abolished the Consumer Debt Clearance Section of the Department of Loan Management.
2. The Bank's Regional Centers added a new function in order to promote the Bank's business development in 2016, and thus changed their organization rank from task force into formal unit in the head office to benefit clear division of powers and responsibilities.
3. In response to business demands, layered responsible schedules have been modified and set for departments including Department of Treasury, Department of Loan Management, Department of Auditing; Department of Information Management, and Department of Electronic Banking.
4. In compliance with the financially digital trend, the ratio of online orders was increased gradually. The Bank adjusted entity business bases of securities brokerage business, abolished Hukou branch, the number of domestic securities broker bases was decreased from 15 to 14.

### (II) Business Plan and Operating Strategies Achievements

Unit: NTD in millions; USD in millions (foreign exchange); %

Major Operation Category	Year	2016	2015	Growth Rate Compared to Preceding Year (%)
Deposits		2,230,576	2,101,840	6.12
Loans		1,781,660	1,821,388	-2.18
Foreign Exchange		81,883	74,867	9.37
Scale of Trust Property		378,430	380,551	-0.56
Guaranties		59,265	79,757	-25.69
Securities Brokerage		147,475	168,431	-12.44
Before-tax profit		12,799	12,251	4.47

### (III) Status of Budget Execution

In the year 2016, the total accumulated average deposit operation volume amounted to NTD\$2,230,576,450,000, achieving 106.47% of the budget target. The accumulated average loan outstanding operation volume amounted to NTD\$1,781,659,810,000, reaching 95.15% of the budget target. The accumulated volume of foreign exchange transactions undertaken amounted to USD\$81,883,360,000, reaching 119.02% of the budget target. The before-tax net income amounted to NTD\$12,799,000,000, reaching 150.47% of the budget target.

### (IV) Income, Expense and Profitability Analysis

After audit and attestation by the CPAs, the main categories of increasing and decreasing in income, expense and profitability for the year 2016 as compared to final accounts for the preceding year (2015) restated by the CPAs, are analyzed below:

Unit: NTD in millions; %

Category		Year 2016	Year 2015	Increase/Decrease Comparison (%)
Net Interest Income		24,745	24,333	1.69
Net Non-Interest Income		5,978	4,641	28.81
Total Net Income		30,723	28,974	6.04
NPL Expense		1,624	408	298.04
Operating Expense		16,300	16,315	-0.09
Before-Tax Net Income		12,799	12,251	4.47
Net Profit for the Period		10,417	9,982	4.36
Return on Assets	Before-Tax	0.50	0.49	0.01
	After-Tax	0.40	0.40	-
Return on Equity	Before-Tax	9.78	10.05	-0.27
	After-Tax	7.96	8.19	-0.23
Net Income Ratio		33.91	34.45	-0.54
Before-Tax Earnings Per Share (NT\$)		2.04	1.96	0.08

Note: 1. The figures contained within the table follow the International Financial Reporting Standards (IFRSs) and are verified by certified public accountants.

2. Net non-interest income for the year 2016 increased when compared to the year 2015, due mainly to the available-for-sale financial assets increase on the preceding year.

3. Before-tax net income for 2016 increased when compared to 2015, mainly due to the financial operating revenue when compared to the year 2015.

4. The amount of capital in the bank has increased to 62.594 billion since October 31st of year 2016. The retroactive adjustment list displays earnings per share (EPS) in each year period of time.

## (V) Status in Research and Development

The Bank had a unit specially designated for periodical and non-periodical analysis of economic and financial situations, study of industry development and trends, special topic research in banking business etc. Important R&D achievements for the year 2016 included: 13 R&D reports, domestic and foreign economic and financial situation reports (weekly and monthly), industry reports (monthly and quarterly), industry development status reports (bi-monthly), 9 special economic and financial topic research reports, and 12 domestic real estate market status survey reports for business reference.

## II. Brief Business Plan for 2017

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

1. Continuously improve asset quality, enlarge the capital scale, lower operational risk, exercise organizational efficiency, and boost information service capacity in order to consolidate the Bank's operating form.
2. Follow financial policies, continuously expand the operating scale, develop multi-core niche businesses, and increase operating synergy.
3. Enlarge the deposit/loan spread, improve interest income, expand businesses for administrative fee income, increase investment income, strengthen benefits from use of own property, and reward employees for active marketing in order to enhance profitability.
4. In alignment with digital financial trends, promote digital financial services, integrate the service of brick-and-mortar and virtual channels, focus on customer demand, provide excellent digital service, enhance customer experience, develop and establish good customer relations, use big data analysis and build up innovation in digital financial services.
5. Grasp internationally financial business opportunities, build a worldwide corporate banking service network, and advance overseas operating performance.
6. Nurture professional talents, pay attention to customer rights and interests, implement corporate governance, and fulfill corporate social responsibility.

### (II) Projected Operating Goals

The 2017 main operating business items are decided as below by following the administration authority's





President

*Huang, Chung-Min*

approved business plan, referring to the business performance in 2016, current business promotion performance, and predicting the development trend in the future:

1. Average deposit: NTD\$2,110 billion
2. Average loan outstanding: NTD\$1,880 billion
3. Foreign exchange undertaken: USD\$70 billion
4. Before-tax net income: NTD\$8.88465 billion

※ The above-mentioned average deposit and loan outstanding were calculated as cumulative average balance, foreign exchange undertaken calculated as notional amount, and before-tax net income calculated as cumulative number.

### III. Future Development Strategies

- (I) Strengthen capital, adjust structures of assets and liabilities, increase functions of risk management and liquidity management, solidify risk information disclosure on a periodical and quantifiable basis and build up an internationalized risk management mechanism.
- (II) Solidify the division of labor between the head office, regional centers and business unit and the horizontal connection between the departments of the head office in order to develop organizational efficiency.
- (III) Enlarge business loans, strive for organizing the business of syndicated loans and securities underwriting services, assist businesses to raise funding and plan their finances, reinforce financial services for small and medium enterprises, supply miscellaneous electronic money flow services and expand our corporate banking territory.
- (IV) Bring into line with the market trend, carry out “knowing your customer”, and supply appropriate and multiple financial instruments. Through professional marketing assistance, integrate marketable securities, funds, mortgages, mortgage life insurances, consumer loans, credit cards, gold passbooks, life insurances, property insurances, comprehensive insurance of industry and commerce, etc. Provide complete financial services and create business opportunities for digital wealth management.

- (V) Develop a new payment service, promote internal and external cash flow in order to create a cross-industry alliance to provide convenient customers' payment options, expand and serve more customer groups, and create more win-win situations in cross-border e-commerce.

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

### (I) The External Competition Environment

- Accompanying the rise of mobile network era and the application of financial technology has become an important trend in the financial industry. In order to encourage the innovative development of financial technology, the Financial Supervisory Commission, R.O.C set the special law and proposed the "The Innovative Experiment Regulations of Financial Technology", built experimental mechanism of financial technology, provided a safe environment for the pilot run of the research and development of financial technology, and gave it a special grant to exempt from legal liability and related governance regulations.
- In order to expand the domestic financial industry to other areas and build a service circle step by step, the Financial Supervisory Commission, R.O.C was in compliance with the New Southward Policy to provide multiple channels for capital flows as a whole financial support. It was expected that this could boost industry development and southward development, creating the win-win situation between financial and industry development. Moreover, the specific measures which the Financial Supervisory Commission, R.O.C assisted the domestic banks to add new overseas bases included continuing to strengthen the international banking supervisory cooperation, enriching the financial industry's overseas database, loosening regulations and training internationally financial professionals, in this way the financial industry could access to the national target markets of the New Southward Policy and provide services to Taiwanese businessmen there.
- The Financial Supervisory Commission, R.O.C removed the real estate loan's intensively classified installations and let the banks manage them without restrictions. The Central Bank of the Republic of China has carried out real estate targeted prudent measures since June, 2010 and it has made progress. The financial institutions had continued to strengthen the risk management of the real estate credits until The Financial Supervisory Commission, R.O.C got rid of the credit control of land mortgages. After the two previous restrictions were removed, the competitors in the financial industry competed for land financing and construction financing more fiercely.

### (II) Acts Environment

- The Financial Supervisory Commission, R.O.C modified the Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries, Article 15A and Article 19 which indicate that financial institutions can set up the audit frequency of internal audit in accordance with its risk assessment result, in order to increase its risk identification and assessment ability to make more effective allocation of internal audit resources. The early stage of the risk-orientated internal audit system could be applicable to domestic banks.
- In line with the other domestic banks punished by the United States, the Ministry of Finance reformed the management mechanism of state-owned shares, continuously formulated and amended "Directions for management of the responsible persons, corporate directors, and supervisors of the public/private sectors appointed by the Ministry of Finance, R.O.C.", revised the notification mechanism of major incidents, examined in time the competence of public sector representative, planned how to solidify and make the board of directors perform well, stipulated and carried out that the overseas branches had to report to the board of directors, supervised the government-owned enterprises to improve the training of overseas employees, and to strengthen in dealing with foreign affairs, etc. Financial Supervisory Commission, R.O.C continuously promoted including solidifying anti-money laundering control and countering terrorism financing, supervising financial institutions to implement and enhance financial knowledge and abilities and strengthen training and propaganda to continue to strengthen some related mechanisms.

- In compliance with the government policies to develop innovative and key industrial policy, Financial Supervisory Commission, R.O.C planned “Rewarding the domestic banks to conduct loaning to the innovative and key industrials” and encouraged the banks to build long-term partner relations with innovative and key industrials in green energy technology, Asia Silicon Valley, bio-pharmaceuticals, national defense industry, artificial intelligence machinery, new agriculture, eco-efficient economy, and help them to gain business capitals.
- In order to follow the government to promote the plan of New Southward Policy, and satisfy the need of domestic businesses and the capital need which the local Taiwanese enterprisers there use to invest and expand businesses, Financial Supervisory Commission, R.O.C implemented the project of “New Southward Policy – Financial Support”, issued “The domestic banks reinforcing the implementation of small and medium enterprise loan program” and “Rewarding the domestic banks conducting the program of loaning to the innovative key industrials” to meet the need of investment or business capital in the target countries of the New Southward Policy. Also, Financial Supervisory Commission, R.O.C issued the “Rewarding the domestic banks to strengthen conducting the program of credit to the New Southward policy’s target countries”. The credit amounts and growth rate of the domestic banks in that country were graded in order to stimulate the banking industry to loan and create the win-win result between the finance industry and the other industrials.
- In order to follow the government’s Urban Renewal Policy, Financial Supervisory Commission, R.O.C promoted to revise the Article 75 of the Bank Law to remove the regulation which inhibits the urban renewal of the existing bank offices, in this way to make the bank offices renewal more flexible. If the new regulation could pass, it will benefit the state-owned banks which own a lot of self-use offices to develop large-scale urban renewal.

### (III) General Business Operation Environment

- Looking forward, even though the global economy booms gradually and steadily, international raw materials price stabilizes, and exports amounts can be expected to rise, we still have to pay attention to these uncertain factors including sluggish global economic recovery, the new economic and trade policy direction of the United States’ government, and the effect of the United Kingdom leaving the EU. For the banking industry, due to benefitting from the inflation trend caused by the rise of interest rates in the United States and rising material costs, the environment with low capital will be adjusted. Moreover, in compliance with our slow economic recovery, capital demand is expected to get higher, which will benefit the banks to expand the interest rate spread and increase the profitability momentum. However, the banks still need to face the challenge of low interest rates and low economy growth. The Bank will be in compliance with the government’s policy aimed at “Speeding up to transform the economy structure” and “Comprehensively expanding investment in infrastructure”, provide necessary financing support, and continue to keep an eye on the change in the international economy situation. The Bank will retain a steadfast business operation philosophy, solidify the domestic and overseas markets, provide our customers with innovative, multiple financing services, increase our profitability abilities, and strengthen risk management in order to move towards an excellent regional bank.

## V. Credit Ratings

Rating Company	Rating Date	Rating Results		Other Rating Information
		Long-Term Rating	Short-Term Rating	
Taiwan Ratings Corporation	June 30, 2016	twAA	twA-1+	Rating Outlook: Stable
Standard & Poor’s Ratings Services	June 29, 2016	A-	A-2	Outlook: Stable
Moody’s Investors Service	December 16, 2016	Aa3	P-1	Outlook: Stable

Chairperson



President



# 全球

## 深耕國際 全面布局

### 016 Bank Profile

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- 017 Land Bank of Taiwan Organization Chart
- 018 Employees
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### 019 Directors and Officers

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### 022 Status of Corporate Governance Practice

- 022 Status of the Bank's Corporate Governance Practice and its Deviations from the Corporate Governance Best-Practice Principles for Banks (with Respective Reasoning)
- 028 Status of Social Responsibility Performance
- 033 Status of implementing the integrity management system







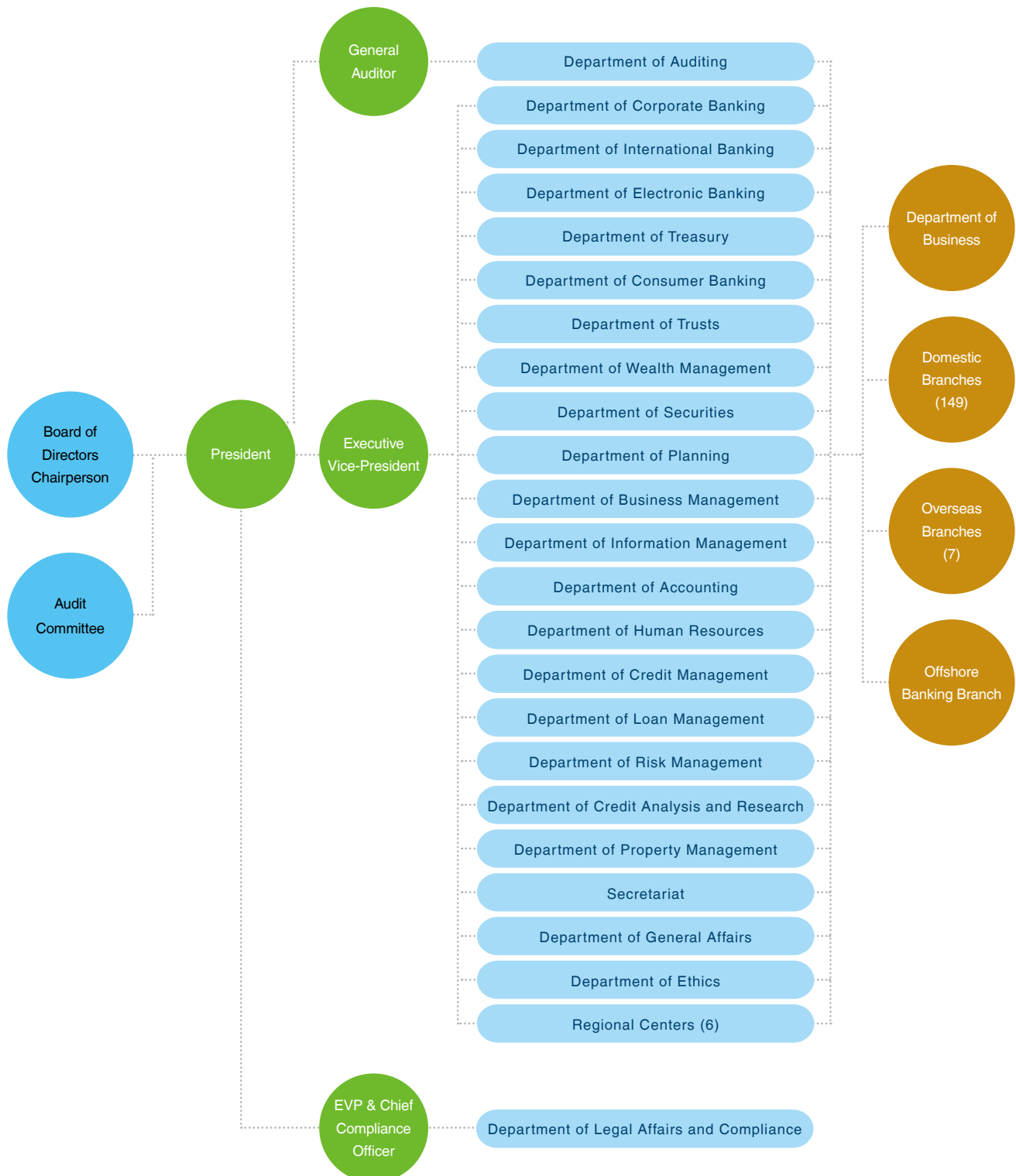
# Bank Profile

## 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

Year		2016	2015
Number of Employees	Staff	5,215	5,211
	Technicians	488	529
	Total	5,703	5,740
Average Age		44.74	44.83
Average Service Seniority		17.15	17.31
Distribution of Education Levels	Doctor of Philosophy	4	4
	Master	1,069	937
	College	4,066	4,192
	High School	458	494
	Below High School	106	113

### 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.2016	NT\$10	6.2594 billion	62.594 billion	6.2594 billion	62.594 billion	Appropriation from National Treasury and Capitalization over Years	



# Directors and Officers

## I. Directors

May.10.2017

Title	Name	Appointment Date	Term Duration	Institution Represented
Chairperson of the Board	Joanne Ling	09/12/2016	12/18/2017	Ministry of Finance
Managing Director	Huang, Chung-Min	04/06/2017	12/18/2017	Ministry of Finance
Managing Director	Chang, Chin-Oh	07/24/2015	12/18/2017	Ministry of Finance
Managing Director	Lee, Tsung-Pei	12/19/2014	12/18/2017	Ministry of Finance (Independent Director)
Managing Director	Chuang, Tsui-Yun	07/15/2016	12/18/2017	Ministry of Finance
Director	Hsu, Huo-Ming	12/19/2014	12/18/2017	Ministry of Finance (Independent Director)
Director	Tsai, Bi-Chen	06/16/2016	12/18/2017	Ministry of Finance
Director	Lee, Jih-Shyuan	12/19/2014	12/18/2017	Ministry of Finance
Director	Hwang, Jen-Te	12/19/2014	12/18/2017	Ministry of Finance
Director	Chen, Chih-Yuan	12/19/2014	12/18/2017	Ministry of Finance (Independent Director)
Director	Yang, Song-Ling	12/19/2014	12/18/2017	Ministry of Finance
Director	Jong, Jeng-Fang	12/19/2014	12/18/2017	Ministry of Finance
Director	Hsu, Ming-Chin	12/19/2014	12/18/2017	(Labor Director)
Director	Chen, Jong-Shan	04/18/2017	12/18/2017	(Labor Director)
Director	Sun, Hau-Zan	04/18/2017	12/18/2017	(Labor Director)

## II. Officers

May.10.2017

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	Shyn, Ming-Jeng	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

Predisident

Huang,  
Chung-Min

Executive Vice  
President

Huang,  
Cheng-Ching

Executive Vice  
President

Shyn,  
Ming-Jeng

Executive Vice  
President

He,  
Ying-Ming

# Status of Corporate Governance Practice

## I. Status of the Bank's Corporate Governance Practice and its Deviations from the Corporate Governance Best-Practice Principles for Banks (with Respective Reasoning)

Category	Status of Practice			Deviations from the Corporate Governance Best-Practice Principles for Banks and Respective Reasons
	Yes	No	Brief Description	
1. Bank ownership structure and shareholders equity				
(1) Did the Bank set up the internal procedure of handling shareholder's suggestions, questions, disputes, and lawsuit? And does the Bank follow up the procedure to implement?	√		There were specifically assigned personnel for handling related affairs and ensuring good channels of communication.	No deviation
(2) Did the Bank actually control the major controlling shareholders of the Bank, and their ultimate controllers?	√		The Ministry of Finance was the sole shareholder of the Bank, and the Bank specifically assigned personnel to handle stock affairs, so it was actually informed of its major shareholders and its ultimate controllers.	No deviation
(3) Did the Bank build the risk control mechanism and firewall with affiliated enterprises?	√		To reinforce control over its subsidiaries, the Bank had established the Subsidiaries Management Guideline and the Management Guideline for Appointing Personnel to Serve as Directors and Supervisors of Reinvested Businesses and Subsidiaries of the Land Bank of Taiwan in order to implement its supervision and management mechanism.	No deviation
2. Composition and duties of the Board of Directors				
(1) Did the Bank follow up it's legal requirements to set up the Remuneration Committee and voluntarily set up the other functional committees?		√	The Board of Directors set up the Audit Commission in compliance with legal regulations but did not set up the other functional committees.	No deviation
(2) Did the Bank periodically review the attesting CPA's independence?		√	Before the Bank retained its attesting CPA in accordance with the Government Procurement Act, it had to report the CPA to the Audit Commission and the Board of Directors for discussion and agreement, then submitted the decision of CPA to the Audit Commission to get its permission. The Bank achieved the accounting firm provisions regarding annual review, contract termination, and contract cancellation.	No deviation
3. If the Bank is a listed company, did it set up the company governance's full-time (part-time) unit or staff member in charge of the governance business (included, but not providing the related-business information to the directors and supervisors, abiding with the law and dealing with the meetings of board of directors and shareholders, dealing with company registry, and change registry, maintain minutes of board of directors' meetings, and shareholder meetings).		√	The Bank is not a listed company.	No deviation
4. Did the Bank establish communication channels with stakeholders (included, but not including shareholders, employees, clients, etc.)?	√		The Bank established a toll-free customer complaints hotline, and executive mailbox, customer complaints and e-mail on the opinion exchange section of the Bank's website, in which specifically-assigned personnel handled suggestions or disputes raised by customers and stakeholders.	No deviation



Category	Status of Practice			Deviations from the Corporate Governance Best-Practice Principles for Banks and Respective Reasons
	Yes	No	Brief Description	
5. Information disclosure				
(1) Did the Bank establish a website to disclose information regarding finance, business, and the Bank's corporate governance?	√		The Bank set up a global website and disclosed information about important financial and business affairs, and corporate governance every quarter in accordance with pertinent regulations of the Ministry of Finance, R.O.C.	No deviation
(2) Did the Bank adopt other means to disclose information (such as setting up an English website, specifically assigning personnel to collect and disclose bank information, implementing the spokesperson mechanism, and posting the taped investor conferences on the Bank website)?	√		The Bank had set up an English website and specifically assigned personnel to periodically collect important financial and business information, and disclose related information on the website. To implement the spokesperson mechanism completely, the Bank had established the Notice for News Release and Contact, where the General manager appointed one Executive Vice-President as the news spokesperson, and separately appointed another one Executive Vice-managers as the deputy spokespersons, to exclusively make public comments on major policies and business measures adopted by the Bank. The Secretariat's Public Relations Section was in charge of the collection of related information and news releases. It also posted taped investor conferences on the Bank website. The Ministry of Finance was the institutional representative of the Bank. We did not hold investor conferences for emerging stocks.	No deviation
6. Did the Bank have the other important information that enhances understanding of the Bank's corporate governance practice (but not including the rights and interests of employees, employee care, investor relations, rights and interests between related parties, the situation of directors and supervisors, continuing education policy, risk management policy, risk measurement criterion, the Bank purchasing insurances on behalf of directors and supervisors, donations to political parties, related parties, and public interest groups etc.) ?	√		<p>1. Rights and interests of employees and employee care:</p> <p>(1) Employees' welfare measures:</p> <p>(a) Welfare items implemented by the company: loan with preferential interest rates, sports activities, cultural and recreational activities, domestic vacation allowance, and on-the-job studying and training.</p> <p>(b) Welfare items implemented by Staff Welfare Committee: group insurance, three Chinese festival bonus, staff children's education subsidy, and hospitalization benefit for serious adverse events.</p> <p>(2) Retirement system: The Bank followed and implemented employees' retirement, survival relief and dismissal are in accordance with the "Retirement Pension and Dispatch Method of the State-run Financial and Insurance Business Owned by Ministry of Finance" and "Labor Standards Act" to deal with mandatory retirement and to implement mandatory retirement system controls.</p> <p>(3) Agreement between employers and employees</p> <p>(a) Appeals made to the labor union and the employees have to be communicated and answered in meetings, in order to resolve any doubts and conflicts and to reach agreement between all parties.</p> <p>(b) According to Article 83 of the Labor Standards Act, and the Regulations for Implementing Labor-Management Meeting, the business entity should have meetings to coordinate the relationships between the labor and management and promote their cooperation to increase employee cohesion.</p> <p>(4) The maintenance measurements of the rights and interests of employees</p> <p>(a) In order to clearly specify the rights and interests between staff and management,</p>	No deviation

Category	Status of Practice			Deviations from the Corporate Governance Best-Practice Principles for Banks and Respective Reasons
	Yes	No	Brief Description	
			<p>the Bank follows Article 70 of the Labor Standards Act to set up "The Work Rules of Land Bank of Taiwan, Co., Ltd" for the labor and management to abide by.</p> <p>(b) "The Collective Agreement of the Land Bank of Taiwan Co., Ltd and the Enterprise Union of the Land Bank of Taiwan" was made by agreement between the labor and the management, and accredited by the Ministry of Finance, approved for inference by the Ministry of Labor and the Department of Labor, Taipei City Government, which is beneficial to stabilize the relationship between the labor and the management, and to provide open and clear communication channels for cooperation, honesty principles are also followed to safeguard employees' rights and interests and boost harmony between all parties.</p> <p>(c) "Caring Employees": The Bank sends an official letter to each unit every year and reiterates each unit has to care for its employees and specially assigns a person to guide new employees and newly transferred coworkers to enable them to fit into their new working environment and living conditions, and also, to offer appropriate help to enable their adjustment to their working conditions and to develop their strengths in order to secure their career development in the Bank.</p> <p>2. Investor relations, interests and rights between related parties:</p> <p>(1) The academic background and working experiences of the directors, and their part-time positions in the other companies were highlighted in the annual report for the interests and rights between related parties.</p> <p>(2) The Bank implemented the login procedure indicated in "Civil Servants' Work Ethics and Integrity Ethics Regulations" and set up the "Integrity Ethics Incidents Login System" in the Bank's internal website. Both resulted in greater work effectiveness.</p> <p>3. Directors and Supervisors continuing education:</p> <p>(1) The Bank hosted an advanced practice conference "How to Put the Interior Control Reinforce Company Governance into Practice" for directors (including independent directors) on July 15, 2016 and another conference "Corporate Fraud and Risk Management Practice" on October 28, 2016. Both keynote speeches lasted for six hours in total.</p> <p>(2) The managing director, Mingxian Gao attended the course "Corporate Governance Forum—The Way to Control and Response to Insider Trading" hosted by Taiwan Academy of Banking and Finance for three hours on September 30, 2016. The director, Tsung-tsan Chen attended the course for corporate directors and supervisors "The Importance of Assessment of Board of Directors/The Global Trend on Sustainable Development of Corporate Social Responsibility, and In Response to Planning Corporate Governance" organized by Chinese National Association of Industry and Commerce</p>	

Category	Status of Practice			Deviations from the Corporate Governance Best-Practice Principles for Banks and Respective Reasons
	Yes	No	Brief Description	
			<p>(CNAIC), Taiwan for three hours on November 2, 2016. The president, Zhong-yuan Ling attended the 3-hour course "The Passing Down of Corporate and Application on Closed Company" held by Chinese National Association of Industry and Commerce, Taiwan (CNAIC) for the corporate directors and supervisors on November 10, 2016. The managing director, Jin-he Chang, attended a series of courses regarding the practice of corporate governance and supervision called "How The Directors and Supervisors Supervise the Corporate Doing the Risk and Crisis Management Well" organized by Corporate Operation Association for three hours.</p> <p>4. Status of executing risk management policies and risk measurement standards: The Bank's "Risk Management Committee" convened 7 meetings during the year, in which the committee members reviewed the whole bank's risk monitoring reports and risk control proposals, and continued to have the Department of Risk Management handle measuring, monitoring and reporting of the whole bank's credit, market, operation and other risks. Additionally, the Bank modified and issued the Risk Management regulations below:</p> <p>(1) On March 1, 2016, the Bank issued a letter to "Operation Directions of The Land Bank of Taiwan Detecting Major Risk Management"</p> <p>(2) On April 11, 2016, the Bank issued a letter to modify "Administration Guidelines of The Land Bank of Taiwan's Liquidity Risk Management".</p> <p>(3) On April 15, 2016, the Bank issued a letter of "Administration Guidelines of The Land Bank of Taiwan's Stress Testing".</p> <p>(4) On May 27, 2016, the Bank issued a letter to "Quota Table of Liquidity Risk Management Indicator of The Land Bank of Taiwan".</p> <p>(5) On June 13, 2016, the Bank issued a letter to "Check Operation Notice of the Land Bank of Taiwan Handling Whether the Trading Price of Financial Products Being Reasonable or Not".</p> <p>(6) On June 15, 2016, the Bank issued a letter to "Quota Table of Market Risk Indicator of The Land Bank of Taiwan".</p> <p>(7) On June 20, 2016, the Bank issued a letter to the Financial Supervisory Commission to report the Bank's "Operating Plan for the Year 2016", "the "Capital Adequacy Assessment Result for the Year 2015" and the "Statement of Self-Assessment on Various Risk Indicators for the Year 2015" of the Land Bank of Taiwan.</p> <p>(8) On September 30, 2016, the Bank issued a letter to "Operation Directions of The Summary Table of Key Risk Indicators of The Land Bank of Taiwan", added six items and deleted one item of key risk indicators.</p> <p>5. Status of executing consumer or customer protection policy:</p> <p>(1) Information about each business service was announced on the Bank's website (www.landbank.com.tw) for people to view at any time.</p> <p>(2) Providing various inquiry channels:</p> <p>(a). Providing information for each loan on the Bank's homepage for people to view.</p>	



Category	Status of Practice			Deviations from the Corporate Governance Best-Practice Principles for Banks and Respective Reasons
	Yes	No	Brief Description	
			<p>(b). 24-hour customer service.</p> <p>(c). Building a mortgage blog.</p> <p>(3) Establish a toll-free customer complaint line: 0800-231590, in this way, the Bank could deal immediately with customer complaints and analyze them in order to improve customer service.</p> <p>(4) The table of charges for services was placed in an easily seen location at the business office and on the bank's website in order to protect consumers' rights.</p> <p>(5) The Bank provided "Information on the Prevention of Fraud" in the business service section, business brief section and loan section of the homepage of the Bank's website: "You have to apply for loan at the Bank yourself rather than have another person to do it for you. If someone asks you to "remit your money first" or "charges you an additional service fee or reward", the person could be an agent and you must be cautious. The Bank never outsources customer loans to other financial institutions or agents. If you have any loan needs, please contact the business office of the nearest branch. Be vigilant regarding claims made by third party institutions. The Land Bank of Taiwan cares about you".</p> <p>(6) In consideration of the needs and rights of visually impaired consumers when applying for bank loans, the Bank established the following procedures; visually impaired costumers may choose to either "provide a notary in compliance with the Notarization Law of the Republic of China" or authorize "a spouse, blood relative, relative, friend, or a social welfare and service worker" to act as a witness for the loan application.</p> <p>(7) In order to comply with the "Regulations on the Protection of Personal Data", concerning the provision of personal information and non-disclosure of information by individuals applying for personal credit and credit cards, the Bank will fulfill its obligation to inform all person's in advance.</p> <p>(8) In order to safeguard the consumers' rights, the personal credit business regulations are modified by Item 3, Article 13, "Consumer Protection Act", the original copy of the contract should be given to the consumer when the contract is signed or stamped by the consumer.</p> <p>(9) In order to keep the customers' data confidential, the Bank uses the "Consumer Protection Self-assessment Checklist" as well as following Article 48 of Bank Law concerning "Personal Information Protection Act", "Self-discipline of Confidentiality of Customer Information in Banking Industry", and "Precaution against Disclosure of Consumer Data Information in the Land Bank of Taiwan" to periodically examine whether they have thoroughly implemented consumer protection practices.</p> <p>(10) In accordance with the modification of some articles of the personal information protection act, the Bank issued a letter to modify "Check Operation Notice of Personal Information Protection in the Land Bank of Taiwan" on May 23, 2016.</p> <p>(11) In order to strengthen and become more adaptable to cope with personal data information</p>	

Category	Status of Practice			Deviations from the Corporate Governance Best-Practice Principles for Banks and Respective Reasons
	Yes	No	Brief Description	
			<p>disclosure, the units concerning supervision implemented the simulation practice of electronic commerce service system and provided a complete practice record in order to establish a personal data information protection system.</p> <p>(12) In order to push and supervise the branches to follow and put the personal data information protection into practice, the Bank issued the letter to notice all branches to follow the relevant operation regulations and take appropriate protection measures to avoid disclosing the customer's data information.</p> <p>(13) On October 14, 2016, the Bank issued a letter to all branches to follow the relevant operation regulations to put the books and documents under control, in this way to avoid being against the internal control or personal data protection regulations, and resulting in the infringement of the right of customer data information.</p> <p>(14) In order to protect customers' personal information, the Bank issued a letter to the units in all branches which were in charge of customers' right on December 19, 2016. These units should accurately recognize the customer's identification when they are dealing with their customer's application of information inquiry, information reading, or making copies concerning customer's rights</p> <p>6. Status of the Bank purchasing liability insurance for Directors and Supervisors: The Bank remains 100 per cent state owned. It is not a listed company on the stock exchange market or over-the-counter market. There are no stockholders exposed to risk. In addition, as liability insurance is expensive and based on substantive benefit consideration, the Bank followed the experience of the Bank of Taiwan (which did not purchase the liability insurance in) not purchasing the liability insurance for the time being. However, in the future, it will depend on the command of administration authority and follow the other banks' plan and practice.</p> <p>7. Status of donation of money to political parties, stakeholders, and charity groups: There was no donation to political parties and stakeholders. To fulfill corporate social responsibility, the Bank spared no effort in donating money to charitable groups under the ideal of "What is taken from society is used for society." Please refer to page 30 (the sixth), Column of Implementing Corporate Social Responsibility.</p>	
7. Please account for how much improvement and what measures the Bank has made concerning the company governance assessment result published by the Corporate Governance Center of Taiwan Stock Exchange.			The Bank was not included in the assessed companies.	No deviation

## II. Status of Social Responsibility Performance:

Category	Yes	No	Status of Practice
1. Implementing the promotion of corporate governance			
(1) Status of the Bank in establishing a corporate social responsibility policy or system and reviewing implementation achievements.	√		The Bank is a state-run business, of which the Ministry of Finance is the sole shareholder. For years, the Bank followed governmental policy for the provision of various special loans and the promotion of national economic development. Following the ideal of "What is taken from society is used for society," the Bank has spared no effort in positively sponsoring community care, environmental protection and underprivileged groups, and as such has not established a separate corporate social responsibility policy or system.
(2) Status of holding social responsibility training periodically	√		The Bank is a state-owned bank. The Bank arranged the following training programs: "Work Ethics and Integrity Ethics Regulations", "Theory and Practice of Administrative Neutrality", "The Legal Responsibility of the Banker (including Civil Servant Service Act)", "A Brief Overview of Abiding Financial Law and Bank Law", "Abiding-Law Workshop" in order to build an agreement of public affairs and concept of knowing law and abiding law.
(3) Operating status of the Bank in establishing a specially-set (adjunct) unit to promote corporate social responsibility and the Board of Directors assigning senior management to handle and report to the Board of Directors.	√		The Bank is a state-owned bank and has not established any specially-set (adjunct) unit to promote corporate social responsibility.
(4) Status of the Bank periodically holding corporate ethics training sessions and promotion campaigns for directors, supervisors and employees, and combining it with the employee performance evaluation system to establish a clear and effective reward and punishment mechanism.	√		The Bank is a 100 percent state-run bank. How the Bank pays its employees is in accordance with the "Directions of Management of Employee Payrolls of Ministry of Finance-owned Institutions" issued by Ministry of Finance. In order to implement a business performance rewards system and unit operation performance, and assess the different contributions of employees, the following was enacted: (1) "The Operation Directions of the Business Performance Reward Issued by the Bank" indicated the two-month evaluation performance reward including yearly evaluation, performance reward and one-month maximum work premium. The work premium is issued on the basis of aggressive employees work in achieving the requirements of the annual business policy, the results of reward, punishment, and attendance and absentee record. The Bank will issue a one-month work premium to encourage its employees in the pursuit of the above. (2) "The Operation Directions of the Evaluation Performance Reward – Special Reward Issued by the Bank" is comprised of the department unit's operating performance, and annual employees' performance evaluation combined for evaluation. The Bank followed regulations of the Ministry of Finance, R.O.C which issued a 20 percent performance evaluation reward to be allocated as a special reward (17 percent reward allocated to department units and 3 percent reward to incentive bonus). The Bank will grant the reward proportionally to the department units and employees in accordance with their contribution level.
2. Developing a sustainable environment			
(1) Status of the Bank in striving for improved efficiency in usage of various resources, as well as using recycled materials of low environmental load and impact.	√		1. The Bank promoted using both sides of paper for copying (printing), and procured and used recycled paper. 2. The Bank carried out garbage reduction, garbage sorting, and resources recycling. 3. Since May 1, 2016, transactions in the affiliated stores that appear abnormal must be reported by the business units to the administrative authority, outlining what they have dealt with. This online report replaces the previous paper based report. 4. In accordance with the electronic operation commanded by Ministry of Finance, R.O.C., the Bank was approved to use the Taiwan's commercially electronic receipt to replace Taiwan's commercial paper receipt of the service fee in the affiliated stores. The Bank had purchased the electronic receipt system and completed its setup and started to use it on June 30, 2016.
(2) Status of the Bank in establishing a proper environmental management system according to the characteristics of its sector.	√		1. The Occupational Office set up under the Office of General Affairs is in charge of promoting environmental education and clean environment maintenance. 2. The Bank periodically cleans and waxes its working premises, clears waste, renews flowers, trees and pot plants, beautifies the working environment, and regularly sends patrol personnel to enforce environmental management.



Category	Yes	No	Status of Practice
(3) Status of the Bank in paying attention to the impact of climate change on operating activities, as well as setting up its policy on energy saving, carbon reduction and greenhouse gas emission reduction.	√		<ol style="list-style-type: none"> <li>1. Every year the Bank conducted 4 hours of environmental education sessions, in order to advance the employees' understanding of environmental ethics and responsibilities and fulfill sustainable development.</li> <li>2. The Bank followed a campaign of green procurement by purchasing more environmentally-friendly products with the Energy Label, Water Saving Label, and Green Building Label.</li> <li>3. In compliance with the Energy Saving and Carbon Reduction policy, the Bank set an annual goal of saving over 2% of water, electricity and fuel expenditure and saving over 3% of paper. Every year, the Bank replaced 10% of high electricity-consuming appliances with energy-saving equipment.</li> </ol>
3. Safeguarding social interest			
(1) Status of the Bank in observing pertinent labor laws and regulations, respecting internationally-recognized principles of basic labor rights, protecting legal rights and interests of employees, and establishing and implementing proper management conduct and procedures.	√		<ol style="list-style-type: none"> <li>1. In accordance with its business nature and Article 70 of the Labor Standards Act, the Bank had established work rules on the following matters for both of employer and employees to abide.</li> <li>2. In accordance with Article 83 of the Labor Standards Act and the Regulations for Implementing Labor-Management Meeting, the Bank should convene a labor-management meeting in order to increase harmonious labor-management relationships and engender employee cohesion.</li> </ol>
(2) Status of the Bank in establishing a mechanism and channel for employees' complaints and appropriate treatment.	√		<ol style="list-style-type: none"> <li>1. The Bank reports how they deal with customer complaints and financial consumer dispute in all branches quarterly and how they implement the financial consumer protection every half year to the board of directors or board of executive directors, in this way how the board of directors supervises the implementation of consumer protection has been improved.</li> <li>2. The Bank established an Area of Employees' Complaints and Appeal to President and General Manager as well as Area of Employees' for Discussion and for Union of Labor on the Bank's website in which the channels were open to reflect employees' suggestions and opinions.</li> </ol>
(3) Status of the Bank in offering employees a safe and healthy working environment, and periodically providing employees with health and safety education.	√		<ol style="list-style-type: none"> <li>1. The Bank has followed the Occupational Safety and Health Act 34 and has established the Working Directions for Labor Safety and Health, which should be strictly followed by all employees, to prevent various incidents from occurring and to effectively safeguard all employees' safety and health.</li> <li>2. In order to implement safety and health management, the Bank has followed Labor Safety and Health Management Act 12-1 and has established the Labor Safety and Health Management Notice, and Labor Safety and Health Management Plan to increase the sense of health and safety of all employees, and to ensure their safety and fitness.</li> <li>3. Every 3 years the Bank holds a 3-hour health and safety training session for on-job employees to safeguard employees' safety and health.</li> </ol>
(4) Status of the Bank in establishing a mechanism for periodical employee communication, and a reasonable way of informing employees of operating changes that may impact substantially upon them.	√		<ol style="list-style-type: none"> <li>1. The Bank initiated the "Labor-Management Meeting" pursuant to Article 83 of the Labor Standards Act and the Regulations for Implementing Labor-Management Meeting, after which the Bank would hold labor-management meetings in order to increase harmonious labor-management relationships and engender employee cohesion towards the corporation.</li> <li>2. The Bank would deal with its employees' complaints and appeals via thorough communication in labor-management meetings in order to resolve outstanding issues and achieve agreement between all parties.</li> </ol>
(5) Status of the Bank in establishing an effective career development and training plan for its employees.	√		<p>In accordance with the arrival of digital finance era, the Bank plans to use virtual electronic banking and mobile banking to replace the counter service in the on-site business units, the business units in the distribution channels have been transferred to provide an inquiry service and marketing; in addition, the Bank provides retraining to aid its employees transition to other job positions and to provide professional financial training.</p> <ol style="list-style-type: none"> <li>(1) Analyze the on-job employees' professional abilities and manpower inventory to plan manpower needs and build human resources database.</li> <li>(2) Provide on-job training to senior and middle supervisors, digital professionals, financial professionals, and general employees according to their employment competency and professional knowledge and abilities.</li> <li>(3) Recognize the workforce and growth in every business unit, and understand the employees' employment competency when they are handling digital financing business, financial marketing business, and integrating online virtual business and business in on-site banks. The Bank appropriately evaluates and adjusts the job duties and workforce.</li> <li>(4) Reinforce employees' professionalism and cultivate and develop secondary financial expertise in order to provide the appropriate staff in the appropriate position, to flexibly manage talent, guide staff to get</li> </ol>

Category	Yes	No	Status of Practice
(6) Status of the Bank in establishing a policy for consumer rights' protection and a consumer complaint procedure in research and development, purchase and service.	√		involved in wealth management and financial business marketing, financial operation, and online virtual customer service and in on-site banks after the Bank streamlines its workforce. (5) Discover the number of job vacancies and recruit new employees openly by evaluating how many employees will retire year after year and how many digital financial business professionals will need. 1. To protect customer rights and interests, and handle financial disputes fairly, reasonably and effectively, the Bank issued a letter to every unit to publish its "Financial Consumer Protection Policy" and pertinent regulations and standard operating procedure, at the same time, the bank modified the previous policy in accordance with the authority institution. Also, the Bank issued and published "The System of Handling Disputes of Financial Consumption" in order to implement the assured protection of our financial consumers. 2. On March 25, 2016, the Board of Directors passed the "Principles of Fairly Treating Customers" to build a core enterprise culture of fairly treating customers, and enhance the awareness of financial consumption protection and follow the related regulations. 3. The Bank had set up the 3 channels of executive mailbox, customer complaint and mailbox of customers' opinions on its access website to communicate with the public, where customer requirements and suggestions would be processed in a timely manner by the responsible units according to their functions and duties.
(7) Status of the Bank following the related regulations and International Accounting Standards to market and demonstrate its product and service?	√		Follow the authorities' related regulations and International Accounting Standards to handle the business.
(8) Status of the Bank in evaluating the performance of suppliers that have a bad record in relation to the environment and society prior to having business with them.	√		The bank is state-owned and follows government requirements for open and transparent purchases, develops the function of government's purchase acts and regulations to increase profits and prevent cheating, and in this way enhances purchase effects to build an open and transparent purchase environment.
(9) Status of the contracts of the Bank with its suppliers containing the conditions to cease or cancel the contract if the suppliers acted against their corporate social responsibility and had an obvious negative impact on the environment and society.	√		As above.
4. Enhancing information disclosure Whether the Bank discloses reliable and relevant corporate social responsibility information on its website and information observation post system.	√		Information of the Bank relating to corporate social responsibility was disclosed on the "Corporate Governance Section" of the Bank's website.
5. If the Bank follows "Regulations Governing Corporate Social Responsibility Best Practice Principles for TWSE/GTSM Listed Companies" and set up its principles of enterprise's social responsibilities, please account for the difference between its operation and the principles: None			
6. Other important information that enhances understanding of the Bank's corporate social responsibility practice:			
※ Planning and promoting public interest marketing events:			
(1) Public interest event of "The Land Bank of Taiwan, even though you are familiar with the people here and throughout the country, remains committed to taking care of all of your needs": In order to care for underprivileged groups and help farmers promote good-quality agricultural products, the Bank organized the public interest event "Land Bank of Taiwan Being the Best Closing to You in Addition to People and Land being Closing to You", and purchased cabbages, white radishes and pumpkins of the season from their planting areas, and donated them to 20 social welfare institutions, Genesis Social Welfare Foundation, Zenan Homeless Social Welfare Foundation, and Huashan Social Welfare Foundation, and the 150 branches of the Bank sent these vegetables to local social welfare institutions, or underprivileged groups. On January 11, 2016, the Bank organized the "Caregiving in Winter" public interest event and the inauguration ceremony of "Small Farming Loaning Program" to put into action the Bank's concept of caring for underprivileged groups and taking care of domestic farmers and to fulfill corporate's social responsibility.			
(2) In response to earthquake disaster relief event of Tainan: During the period of Chinese Lunar New Year, a devastating earthquake hit southern Taiwan and caused severe catastrophe. The Bank donated NTD500,000 to the Relief Refund Account of Social Assistance of Tainan City to react to the earthquake disaster relief assistance and to enhance the enterprise image of the Bank.			
(3) "Love and Warmth of Blood Donation" public interest event: In response to the 70th anniversary of public interest event, the Bank headquarter coordinated and cooperated with 13 blood donation divisions in Taiwan and held the public interest event of "Worldly Love and Warmth of Blood Donation" on March 30th, 2016 and April 12th, 2016. The business units in the Land Bank of Taiwan encouraged their employees and invited their customers and people to have blood donation. In the 13 blood donation divisions, 951 people in total participated in the blood donation event and 1,352 bags of fresh blood were donated, which provided 338,000 cc to the blood stock to promote the concept of sharing health and love, and act unselfishness spirit through blood donation.			

Category	Yes	No	Status of Practice
			<p>(4) In response to the public interest event of donation in united way in 2016 organized by United Way of Taiwan: All of the employees in the Bank have taken part in the event since 1994 and donated money freely. In this way, the employees took part in public interest event enthusiastically to enhance the cohesion and loyalty towards the Bank and they can continue to pass on their love to the people in need in the future.</p> <p>(5) In response to the typhoon disaster relief in Taitung: Affected by the typhoon Nepartak, the houses and crops in Taitung area were damaged severely. In order to assist the typhoon disaster relief, the Bank donated NTD100,000 to the relief account of Taitung County government to fulfill the enterprise social responsibility.</p> <p>(6) Large-scale public interest performance event of "Love in the Land Bank of Taiwan Engraved on Your Heart": Based on the belief of caring and contributing back to the society, the Bank especially arranged the famous Apple Theatre to perform a classical children play "Golden Undersea City" at the concert hall of Huludun Cultural Center in Taichung city on July 22nd, 2016. The Bank invited more than 200 children from social welfare organizations and their companions to watch the play without admission tickets. The customers of the Bank and other people could use Taiwan's commercial receipt to exchange the admission tickets. The Bank donated all the Taiwan's commercial receipts which it collected to the social welfare organizations. In addition, the Bank donated living materials to Chang Show-jyu Social Welfare Foundation in Taichung city, Taiwan Fund for Children and Families in Northern Taichung City, Cihsheng Ren-Ai Center in Changhua county, Nantou Ren'ai Senior Citizens' Home, etc., 11 children welfare organizations, which made the children taken after by the social welfare organizations feel being loved in spiritual or material dimension by the society.</p> <p>(7) The History Museum of Land Bank of Taiwan was open for free visits: In order to celebrate the 70th anniversary of the Bank, the Bank planned a wholly new inner space configuration, circulation and exhibition objects, and it was grandly opened on August 1st, 2016. In order to celebrate the opening of the museum, the History Museum of Land Bank of Taiwan was open for free visit from August 2nd, 2016 to September 11th, 2016. The predecessor of the architecture is The Branch of Nippon Kangyo Ginko, Taihoku. The Ministry of Interior designated the architecture as the level three ancient architect's heritage. The people who visited the History Museum of the Land Bank of Taiwan could not only understand the development and evolution of the Land Bank of Taiwan, but also take a look at the historical context of Taiwan's financial development, land reformation, national construction, and economic growth in the recent century.</p> <p>(8) Holding a series of public interest events of localizing community caring:</p> <p>(a) Hsinhsing branch and Shiaokang branch volunteered to donate to help the annual public interest event of "Loving Elder People, Loving Reunion" which each person donated one dish of food to spread love to the old poor people in winter. The event was organized by the Love One Another social volunteer group of Huashan Social Welfare Foundation, which used the practical action to help old people who lived alone and cared for their needs in order to promote a friendly social ambience.</p> <p>(b) The Dongghu branch relocated to Shizu district on March 14th, 2016 and changed its name as Xike branch. The president of the Bank in behalf of the Bank donated living materials such as thermos mugs, and memory mattresses etc to Keelung branch of Taiwan Fund for Children and Families, Taipei Children Welfare Center, and Eden Social Welfare Foundation to express the Bank's caring to its community and neighborhood and fulfill the corporate's social responsibility.</p> <p>(c) In order to provide care for local underprivileged groups, Dafa branch sponsored the supply station belonging to the community of Lifestyles of Health and Sustainability for disabled people at ZhongxingVil, Daliao District, and organized a baking workshop on March 17th, 2016, and handmade soap workshop on September 29th, 2016 for the disabled children, in this way interaction with disabled children to enhance the corporate image.</p> <p>(d) In order to manifest the warm ambience of the annual Mother Day, Jenai branch and Shihlin branch respectively participated in the Mother Day Garden Party at Minhui Vil and Funlin community, to interact with local people, and promote financial knowledge in order to benefit the reputation and enterprise image of the Bank.</p> <p>(e) Donggang branch and Fangliao branch wanted to enhance the Bank's social image through public interest events, so organized a public interest event of blood donation on May 19th, 2016, in which the blood donors could get a free bunch of interfold tissue papers, and the local policemen and voluntary firefighters enthusiastically sponsored the events by broadcasting the event information whilst driving. The local people actively took part in the blood donation and the event finally collected 33,500 cc of blood.</p> <p>(f) In order to returning the favor to the society and build good interaction with its customers, the Taoyuan branch in response to the public interest event of "Letting Our Life Glow – Love and Caring Garden Party" organized by the Private Foundation of Development Center of Spinal Cord Injury in Taoyuan county on May 28th, 2016, and the Celebrating Christmas public-interest garden party on December 17th, 2016, to express the Bank's love and care and promote a positive influence to society through sponsoring underprivileged groups.</p> <p>(g) Tung-Hsinchu branch responded and cooperated with the Hsinchu Mental Health Association and Hope Workshop of Bamboo Dream Center together to hold the love and care event of "Love of Rice Dumpling on Dragon Boat Festival – Endless Love in Caring the Disabled People". The event sent out 300 rice dumplings to comfort the families with disabled people and put benevolence into practice to look after disabled and underprivileged people.</p> <p>(h) ITRI branch in response to the autumn outing event organized by Huashan Social Welfare Foundation on October 14th, 2016, purchased lunch boxes from the bakery of the Children Are Us Foundation and sent them out to underprivileged old people who lived alone in Hsinchu. ITRI branch also participated in the carnival of Aging, LOHAS and Respecting Old People hosted by Old Five Old Foundation and sent out the gifts to the old people and had fun with them.</p> <p>(i) Wujih branch was relocated and opened on December 5th, 2016. In order to return a favor to society, it saved some budget and organized a love and care series of public interest events. It donated love scholarship to the Huei-Ming Home for Blind Children.</p> <p>(j) Yuanlin branch in response to government policy provided a site for the hospitality requested by the Yuanlin District Public Health Center to provide the flu vaccine to people without charge, increase the vaccination rate and maintain people's health.</p> <p>(k) Hsinhsing branch took part in "Shan Hu Fu Tain, Fu Chi Yuan Man" community care event organized by Goodness, Protection and Caring Foundation of Kaohsiung City. The branch asked its employees to donate rice. In the end, the branch got 120 bags of rice and gave them to people who were in need at Fu Zhi Yuan Ming Si in Qiaotou District on December 7th, 2016.</p> <p>(l) Chungcheng branch donated 50 bags of rice to Southern Kaohsiung City Branch Office, Taiwan Fund for Children and Families.</p> <p>(m) Yangmei branch cooperated with Zen Mei Waldorf experimental primary school to organize a bank visit and introduced banking business and promoted financial knowledge to the school children.</p> <p>(n) In order to respond the 70th anniversary of public interest event, 22 branch staff volunteered to take part in the local public interest events from the northern, middle and southern parts of Taiwan visited the local nursing homes, mentally disabled centers and children homes, etc., to do as much as they possibly could do to contribute to society.</p>



Category	Yes	No	Status of Practice
(9) Granting scholarship: In 2016, the Bank granted NTD1,270,000 to students in 20 public or private schools to encourage the students to study hard.			
※ In compliance with the government's policy to handle LOHAS old-age loan, laborers' bail out loans, business about trust for elderly care, preventing from financial fraud, and counselling small and medium enterprises to manage their business.			
(1) In response to the trend of an aging society and reduced rate of birth, and in compliance with the government policies to promote the annuity scheme reform, long-term care scheme, and reverse mortgage scheme, the Bank launched "LOHAS Old-Age" loan on January 18, 2016, initiated the system of "Interest Paid Until the End of Paying Out the Mortgage" to create the wellbeing for the elderly people and they can enjoy the LOHAS retirement life, furthermore, the initiation highlighted the Bank's image of social responsibility which the Bank has engaged in taking care of the elderly people. Until the end of 2016, the Bank undertook 363 cases of LOHAS old-age loan in total NTD 1,700,000,000, ranked in the second place in all financial institutions. The Bank applied for the patent of the "Management System of Interest Paid Until the End of Paying Out the Mortgage" loan. The Intellectual Property Office, MOEA issued the patent to the Bank on March 21st, 2017.			
(2) In compliance with the government policy to help laborers to spend the Chinese New Year well and fulfill the Bank's social responsibility, the Bank was commissioned by the Labor Insurance Bureau to deal with "the Insured Bail Out Loan in Labor Insurance" to help the laborers who needed money to spend the Chinese New Year. During the year of 2016, the Bank took 94,441 cases of loan in total NTD 9,436,000,000. Until the end of December, 2016, there were 406,193 cases of balance of loan in total NTD 29,866,000,000.			
(3) In compliance with Financial Supervisory Commission, R.O.C (Taiwan) enacting "Evaluation and Reward Measure of Trust Business Dealing with Senior Citizens and Underprivileged Citizens' Property Trust" and carrying out the chief executive's command concerning promoting the property trust of senior citizens and disabled citizens and caring underprivileged group's security life. The Bank proposed promotion and development plan, and issued preferential project to business units to continue to conduct, and actively promulgated and conducted the program of "Social Welfare Public Interest Security Trust", and invited entrepreneurs and people with benevolence to support the program to fulfill the Bank's social responsibility.			
(4) In 2016, 9 grantors (donators) donated NTD44,500,000 in total and commissioned the Bank to cooperate with Hualien County Government, Kaohsiung City Government, Miaoli County Government, Yunlin County Government, Pingtung County Government, Penghu County Government, Taichung City Government, Changhua County Government, and Tainan City Government to carry out the "Social Welfare Public Interest Security Trust" and sponsored 400 middle and low income senior or disabled citizens who registered permanent (residency) address in the place which they really lived, and the Bank hosted the ceremonies of initiating trust fund donation respectively on January 13th, 2016, February 3th, 2016, June 28th, 2016 and August 16th, 2016.			
(5) The Bank was in compliance with the government's policy and developed countermeasures to prevent from financial fraud. The Bank actively carried out and prevented 31 cases of financial fraud, NTD 29,470,000 and US\$ 15,000 in total from happening.			
(6) The Bank cooperated with the Small Business Integrated Assistance Center and held the "Project Counselling Program of Improving Small and Medium Enterprises' Business Competitiveness in 2016" on March 24th, 2016 in compliance with the policy of counselling small and medium enterprises, and assisted small and medium enterprises to acquire business capital and enhance financial competitiveness.			
(7) In compliance with the "Project Counselling Program of Improving Small and Medium Enterprises' Business Competitiveness in 2016", the program includes short-term diagnosing and counselling small and medium enterprises and long-term project-based diagnosing and counselling small and medium enterprises, holding the conferences of caring and serving small and medium enterprises and enhancing their financial competitiveness, recommending and introducing the small and medium enterprises to become the members of e-cloud financial health check center.			
(8) The Bank requested the Small Business Integrated Assistance Center to conduct "Training Program on Enterprise Doctors of Financial Institutions in 2016 – Practice Course and Advanced Course", in order to train financial management counselling professionals through related case studies.			
※ Enacting user-friendly financial measures, purchasing disabled access automated teller machines, and establishing mobile phone charging stations in order to enhance service quality.			
(1) The Bank enacted "User-Friendly Financial Service Measures" based on the "User-Friendly Financial Service Guidelines" in The Bankers Association of the Republic of China, in order to provide disabled people a user-friendly financial service to enhance the Bank's service quality.			
(2) In compliance with the policy of administration authority to promote and equip disabled access automated teller machines (including the automated teller machines tailored for disabled and visually impaired people), the Bank has provided 345 automated teller machines for wheelchair users (including 13 automated teller machines for visually impaired people to use) to provide a convenient service to people.			
(3) In accordance with the policy of "Establishing Mobile Phone Charging Stations in the Public Area Governed by the Authority of Executive Yuan", the Bank has finished the establishment of mobile phone charging stations in the domestic business units since January 10th, 2016.			
7. If the banking enterprise's social responsibility report has been proved by the standard of the related verification agency and account for it: none.			

### III. Status of implementing the integrity management system

Category	Yes	No	Status of Practice
1. Propose and an integrity management policy and associated provisions.			
(1) The integrity management policy and associated provisions shall have been promulgated and explicitly described in the internal regulations as well as the external documents by the bank authority. The board of directors and management shall also endeavor to enforce the above-mentioned policy and provisions.?	√		The bank authority has promulgated guidelines for the directors, supervisors, and managers, aiming to encourage them to apply the highest ethical standards to every aspect of their businesses and to act with integrity at all times. The board of directors and management shall also endeavor to enforce the integrity management policy.
(2) Does the Bank set up and implement a number of preventative deceit conduct provisions measures with a standard operating procedure, guidelines for conduct, and punishment for violation of rules, and an appeals system?	√		1. All the staff working for this bank shall abide by the following guidelines promulgated by the Executive Yuan and the Ministry of Finance respectively, "Integrity and Ethics Directions for Civil Servants", "Guidelines for Regulating Lobbying Registration and Inspection within the Executive Yuan and its Subordinate Agencies and Institutions", and "Guidelines for Regulating Lobbying Registration and Inspection within the Ministry of Finance and its Subordinate Agencies and Institutions". All the governmental agencies and institutions are obliged to file suspicious cases which may breach any regulations prescribed in the above-mentioned guidelines. 2. The bank shall set up a "Registration System for Integrity and Ethics Directions" within an internal website. The relevant courses shall be included in the on-job training programs for employees.
(3) Does the Bank set up and implement preventative measures and programs which shall be applied to regulate some business activities which may be at a higher risk of being involved in potential unethical conduct, though these business transactions are still within the bank's business scope according to the Ethical Corporate Management Best Practice Principles for TWSE/GTSM Listed Companies, Article 7, Regulation 2 including preventing the offering of bribes, receiving bribes, and providing illegal political donations?	√		As above.
2. Enforce the integrity management policy.			
(1) Does the Bank evaluate its clients' integrity records and establish the Integrity Deed regulations in commercial contracts?	√		1. The financial consumer protection policy promulgated by the Bank indicates that the Bank shall provide financial consumers with financial products or services based on the agreements which are designed to warrant that the fairness, mutually beneficial principles, and integrity will be fulfilled throughout the whole process of the financial operation or investment. In addition, the bank is also obliged to pursue the best interests of clients and exercise the due care of clients as a professional manager, as well as a good administrator. 2. When the Bank is undertaking dealings with our clients or counterparties, the relevant legal issues will be assessed prior to the transactions. In addition, fairness and transparency will also be ensured.
(2) Does the Bank establish a specially-set (adjunct) unit to promote integrity management and how does the board of directors propose that the relevant operations shall be supervised?	√		So far, no specially-set (adjunct) unit has yet been set up to promote the integrity management policy.
(3) Does the Bank propose policy for avoiding work-related conflicts of interests and establish appropriate reporting channels and implement its functions?	√		As the Bank is a state-run bank, all employees shall abide by the "Act on Recusal of Public Servants Due to Conflicts of Interest". When any employee is suspected of breaching the "Act on Recusal of Public Servants Due to Conflicts of Interest", the Bank should not interfere with the lawsuit and the concerned authorities shall provide that employee with proper consultation and advice. On 7, July and 14, July, 2014, the Bank established information courses.

Category	Yes	No	Status of Practice
(4) Aiming to ensure the enforcement of integrity management, has the Bank authority established effective accounting systems, internal control systems, and audit systems carried out by internal auditors or accountants?		√	<p>1. Based on the 'Accounting Act', the 'Business Entity Accounting Act', the 'International Financial Reporting Standards', the 'Sample of Accounting System for Banking Entity', and other laws and regulations promulgated by the concerned authorities, the "Accounting System of the Land Bank of Taiwan" has been finalized and approved by the board of directors and submitted to the Directorate General of Budget, Accounting and Statistics (DGBAS), Executive Yuan. The "Accounting System of the Land Bank of Taiwan" has subsequently been approved and promulgated by the DGBAS. The 'Accounting System of the Land Bank of Taiwan' has further been posted on the internal website as per the guidelines for all accounting-related affairs.</p> <p>2. According to the rules described in section 28 of the 'Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries', the bank shall authorize a certified public accountant to assess and certify the annual balance sheet, filing returns, and internal control system. After that assessment, the bank shall present a final evaluation report with respect to the control environment of our bank, major business risks, the accuracy of the data submitted to the concerned authorities, the internal control system, the implementation of the major policies and the appropriateness of bad debt write-off expenses.</p> <p>3. Based on the 'Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries' promulgated by the Financial Supervisory Commission, Executive Yuan, our bank has established an effective internal control system and every business section has also proposed associated provisions so that the above-mentioned 'Implementation Rules' have been enforced accordingly.</p> <p>4. All the audit and evaluation reports prepared by different sections, with respect to general businesses, projects, important unexpected incidents, and any other investigation projects assigned by the superordinate institutions shall be submitted to the chairperson and standing supervisors for further review and approval. All the independent directors and supervisors are entitled to be notified of the details of the audit and evaluation reports. Comments made by the external auditors in relation to the audit and recommendations made to alleviate the audit defects and ensure continuous improvement will also be submitted to the board of directors and supervisors.</p> <p>5. The internal audit section shall submit an "Audit Report" to the board of directors and supervisors every six months. This report shall contain the status of implementing the measures related to the internal control system and internal auditing system, the follow-up improvement on the flaws contained in the reports prepared by the internal and external auditors, and the instructions made by the independent directors and supervisors in relation to the audit report. All the above-mentioned matters should be followed up by the internal audit unit until they are improved.</p> <p>6. The directors of the Bank and the internal auditors convened a meeting to examine the defects of the internal control system. The directors should raise their instructions concerning the implementation of internal control system and auditing system.</p> <p>7. The Bank's "Annual Auditing Plan in Internal Auditing Operation" was reported to the Audit Committee. After passing, it would be reported to the board of directors to be reviewed, then implemented if passed.</p> <p>8. The Bank consistently checks for violation of Article 13 of "Implementation Regulations of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries". If the Bank finds that an employee violates this regulation, the Bank should command the employee to be transferred to another job within one month of the date on which his/her violation was discovered.</p>
(5) Does the Bank periodically host educational training of Integrity Management between the internal and external sections?	√		Refer to the educational training of corporate social responsibility.
3. Operation of receiving reports system in the Bank			
(1) Has the Bank established a system for reporting and managing any unethical conduct, a convenient channel for receiving reports on any unethical conduct, and assigning a chairperson in charge of filing the appeal?	√		In accordance with the "Act of the Establishment and Management of the Government Employee Ethics Units and Officers and "The Enforcement Rules", our bank has set up the following channels to receive reports on any unethical conduct. These channels include the direct phone line, (02)2371-4572, the prosecution box – Taipei P.O. Box 1541, the e-mail address: lbged@landbank.com.tw, the bulletin board on the website for customers to file complaints or appeals, and the chairperson's mail box on the website.

Category	Yes	No	Status of Practice
(2) Has the Bank established a standard operation procedure for dealing with an appeal and a relevant confidential mechanism?	√		The Bank dealt with the case report, checked and collected information in accordance with the Work Ethics Manual published by The Ministry of Justice Agency Against Corruption. In addition, the Bank followed Article 10 of "The Anti-Corruption Informant Rewards and Protection Regulation" and protected the confidential information relating to the reported cases.
(3) Did the Bank protect people who were the subject of accusations in order to keep them from improper punishment while the accusation was investigated?	√		The Bank followed Article 12 of "The Anti-Corruption Informant Rewards and Protection Regulation" and protected the accused persons.
4. Reinforce the information disclosure policy Has the Bank set up a website and open information post for disclosing information relating to the integrity management policy and implemented effectively?	√		The Bank has disclosed all the information related to the integrity management policy on the bank's home page of the website - Corporate Governance Section".





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## 038 Operating Overview

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# Operating Overview

## I. Contents of Business

### (I) Overview of Operations

#### 1 Major Businesses

##### (1) Deposit

Unit: NTD in thousands; %

Type of Depositor	2016.12.31		2015.12.31		Added (Decreased)	Added (Decreased) Percentage (%)
	Amount	Percentage %	Amount	Percentage %		
Time Deposits	1,323,718,474	59.34	1,259,097,926	59.91	64,620,548	5.13
Demand Deposits	744,737,014	33.39	671,578,630	31.95	73,158,384	10.89
Public Treasury Deposits	162,120,962	7.27	171,162,985	8.14	-9,042,023	-5.28
Total	2,230,576,450	100.00	2,101,839,541	100.00	128,736,909	6.12
Percentage of Liabilities and Equity	83.45		84.63			

Note: The amount of liabilities and equity in 2016 and 2015 are 2,672,936,989,000 and 2,483,466,702,000 respectively.

##### (2) Loan

Unit: NTD in thousands; %

Type of Loan	2016.12.31		2015.12.31		Added (Decreased)	Added (Decreased) Percentage (%)
	Amount	Percentage %	Amount	Percentage %		
Discount	630,596	0.03	814,847	0.04	-184,251	-22.61
Short-term loan and overdrafts	174,706,432	9.81	203,958,680	11.20	-29,252,248	-14.34
Medium-term loan	598,245,799	33.58	656,096,285	36.02	-57,850,486	-8.82
Long term loan	1,008,076,981	56.58	960,518,185	52.74	47,558,796	4.95
Total	1,781,659,808	100.00	1,821,387,997	100.00	-39,728,189	-2.18
Percentage of Total Assets	66.66		73.34			

Note: The amount of total assets in 2016 and 2015 are 2,672,936,989,000 and 2,483,466,702,000 respectively.

##### (3) Foreign Exchange

Unit: USD in thousands; %

Type of Foreign Exchange	2016.12.31		2015.12.31		Added (Decreased)	Added (Decreased) Percentage (%)
	Amount	Percentage %	Amount	Percentage %		
Export	4,907,282	5.99	6,521,526	8.71	-1,614,244	-24.75
Import	10,870,956	13.28	10,796,205	14.42	74,751	0.69
Remittances	66,105,119	80.73	57,549,739	76.87	8,555,380	14.87
Total	81,883,357	100.00	74,867,470	100.00	7,015,887	9.37

## (4) Trust Business

## (4-1) Trust Business Amount

Unit: NTD in thousands; %

Types of Trust	Year 2016	Year 2015	Added (Decreased)	Added (Decreased) Percentage (%)
Entrusted Investment Securities	60,173,784	58,906,849	1,266,935	2.15
Real Estate Trust Investment	159,815,196	156,720,679	3,094,517	1.97
Securitization Business	65,726,551	61,083,097	4,643,454	7.60
General property trust Business	3,462,323	2,897,064	565,259	19.51
Fund custody Business	89,252,194	100,943,595	-11,691,401	-11.58
Subsidiary Business	3,383,088	3,259,917	123,171	3.78
Total	381,813,136	383,811,201	-1,998,065	-0.52

## (4-2) Service Fee Income of Trust Business

Unit: NTD in thousands; %

Types of Trust	Year 2016		Year 2015		Added (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	197,997	5.27	289,715	7.88	-31.66
Real Estate Trust Investment	136,520	3.63	121,897	3.32	12.00
Securitization Business	31,588	0.84	26,273	0.71	20.23
General property trust Business	9,600	0.26	6,543	0.18	46.72
Fund custody Business	81,711	2.18	78,760	2.14	3.75
Subsidiary Business	7,666	0.20	4,113	0.11	86.38
Total	465,082	12.38	527,301	14.35	-11.80

Note: The total service fee income in the Bank includes securities brokerage and underwriting income, which is 3,756,605,000 for the end of year 2016 and 3,674,849,000 for the end of 2015.

## (5) Wealth Management Business

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

Unit: NTD in thousands; %

Types	Year 2016		Year 2015		Added (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	198,013	5.27	289,721	7.88	-31.65
Income of Bank Insurance Fee (including Mortgage life insurance)	1,011,076	26.91	848,349	23.09	19.18
Income of Gold Passbook Fee	3,211	0.09	4,511	0.12	-28.82
Total	1,212,300	32.27	1,142,581	31.09	6.10



## (6) Electronic Finance

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

Types	Year 2016 Times of Transfer transaction	Year 2015 Times of Transfer transaction	Added (Decreased) Times	Added (Decreased) Percentage %
Internet Banking	4,507,939	3,715,600	792,339	21.32
Mobile Banking	419,814	239,453	180,361	75.32
Continuous Payment Authority	1,495,341	1,233,708	261,633	21.21

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

Unit: NTD in thousands; %

Types	Year 2016		Year 2015		Added(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	83,617	2.23	87,821	2.39	-4.79

## (7) Securities Brokerage Business

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

Unit: NTD in thousands; %

Types	Year 2016	Year 2015	Added (Decreased)	Added (Decreased) Percentage (%)
Underwriting Amount of Securities	2,763,353	892,217	1,871,136	209.72
Turnover of Securities Brokerage Business	147,474,779	168,430,720	-20,955,941	-12.44
Average Balance of Securities Trading Margin Purchase and Short Sale	1,004,326	1,352,203	-347,877	-25.73

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

Unit: NTD in thousands; %

Types	Year 2016		Year 2015		Added(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	118,822	3.16	141,104	3.84	-15.79

## (8) Investment Business

### (8-1) Investment in Securities

Unit: NTD in thousands; %

Types	2016.12.31	2015.12.31	Added (Decreased)	Added(Decreased) Percentage (%)
Government Bonds	69,879,343	39,778,537	30,100,756	75.67
Corporate Bonds	5,948,246	6,696,801	-748,555	-11.18
Stocks (Short-term Investment)	3,789,683	4,506,029	-716,346	-15.90

## (8-2) Purchasing and Selling Short-Term Bill

Unit: NTD in thousands; %

Types	2016.12.31	2015.12.31	Added (Decreased)	Added(Decreased) Percentage (%)
Outright Purchase Notional Amount	396,106,005	258,302,602	137,803,403	53.35
Outright Sale Notional Amount	0	199,964	-199,964	-100.00
Repurchase Notional Amount	9,176,387	24,314,335	-15,137,948	-62.26

## (8-3) Proprietary Trading of Government Bonds

NTD in thousands

Types	Year 2016	Year 2015	Added (Decreased)	Added (Decreased) Percentage (%)
Notional Amount of Outright Purchase and Sale of Government Bonds	35,330,207	15,485,704	19,844,503	128.15
Conditionally Notional Amount of Outright Purchase and Sale of Government Bonds	73,982,461	92,871,961	-18,889,500	-20.34
Balance of Outright Purchase and Sale of Government Bonds	30,070,922	21,124,769	8,946,153	42.35

## (9) Credit Card

Unit: card, NTD in thousands

Types		Year 2016	Year 2015	Added (Decreased)	Added (Decreased) Percentage (%)
Credit card issuance Business	Circulation Card	233,952	185,966	47,986	25.80
	Approved Card	129,511	104,126	25,385	24.38
	Transaction Amount	9,426,656	5,478,432	3,948,224	72.07
	Revolving Credit Balance	296,000	219,743	76,257	34.70
Acquiring Business	Physical Stores, Internet Stores and ATM Transaction Amount	18,118,756	14,680,262	3,438,494	23.42

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

Unit: NTD in thousands; %

Types of the Main Business Asset	Year 2016		Year 2015	
	Amount	Percentage of the Total Assets (%)	Amount	Percentage of the Total Assets (%)
Total Assets	2,672,936,989	100.00	2,483,466,702	100.00
Discount and Loan – Net Amount	1,770,689,449	66.25	1,724,903,022	69.46
Financial assets in available-for-sale – Net Amount	407,325,442	15.24	351,622,173	14.16
Deposit in the Central Bank and Inter-bank Lending	236,364,063	8.84	258,067,601	10.39
Total Liabilities	2,538,209,529	94.96	2,356,323,524	94.88
Deposit and Remittance	2,247,159,153	84.07	2,098,660,734	84.51
Financial Bonds Payable	79,694,341	2.98	72,193,289	2.91
Accrued Payables	24,459,437	0.92	20,644,932	0.83

Note 1: The re-numbered amount in year 2015 which the certified public accountants did was accredited by the account the Department of Audit. The numbers in year 2016 were audited and attested by the certified public accountants.

2: The data in this table is the combined number.

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

Unit: NTD in thousands; %

Types	Year 2016		Year 2015	
	Amount	Percentage of the Total Net Income (%)	Amount	Percentage of the Total Net Income (%)
Net interest income	24,744,842	80.54	24,333,326	83.98
Net Service Fee Revenue	3,014,136	9.81	3,055,652	10.55
Financial assets and liabilities net interest at fair value through profit or loss	43,054	0.14	(738,507)	-2.55
The Net Profit of Available-for-sale Financial Assets	1,469,318	4.78	571,750	1.97
Net Interest in Property Transaction	30,451	0.10	284,042	0.98
Others	1,421,476	4.63	1,467,970	5.07
Total Net Income	30,723,277	100.00	28,974,233	100.00

Note 1: The re-numbered amount in year 2015, certified by public accountants and accredited by the account the Department of Audit. The numbers in year 2016 were audited and attested by the certified public accountants.

2: The data in this table is the combined number.

## II. Market Analysis

### (I) Business Operation Area

The Bank was the only specified bank to provide credit on real estate. We provided the following services: corporate finance, personal finance, trust, wealth management, foreign exchange and electronic finance. Our service channels are spread over domestic and overseas markets. We operate 150 domestic branches and 1 international finance business branch. There are 7 overseas branches located in Los Angeles, Singapore, Hong Kong, Shanghai, New York, Tianjin, and Wuhan respectively.

### (II) Supply and Demand in Future Market, and Growth Probability

1. Continuous Growth of Loan Small and Medium Enterprises Loans and Wealth Management Business  
The amount of real estate deals shrank which effected consumer lending, however the Bank undertook active small and medium enterprise financing in order to spread income. In addition, through utilizing the low-profit environment we continued to promote financial products, which were supplemented with foreign currency management products beneficial to the continuous growth of wealth management. E-finance continued to expand which furthered the increase and momentum of domestic business growth.
2. Full potential in city regeneration and the green financial market  
The Government is actively promoting a city renewal policy to maximize the city's market potential. Banks through the provision of trust and financial services can expand both business potential and generate greater income through interest and fees. Taiwan's current green financial development, is no longer limited to financing, but combined with other focused and comprehensive green financial products.

### (III) Competitive Niche

#### 1. Solid Professional Foundations

In accordance with the government's land policies of promoting "Average Land Ownership and Land to the Tiller", the Bank has been the sole government nominated bank to provide real estate credit for over seventy years, since September 1st, 1946. Building on our experience and dominance in this sector, we have historically provided our customers with a complete set of financial services for real estate, including real estate trust, real estate securitization, and financial asset securitization. The Bank has also played a leading role in land financing, building financing, and housing loans in Taiwan.

#### 2. Finance Diversification Service

The Bank plays a leading role in real estate financing, and our specialisms are utilized in the following ways; aiding Taiwanese people invest in overseas properties, develop real estate plans, and through the aged people caring trust aided our customers in purchasing property more suited to their needs as they entered retirement age. The Bank also actively expanded its financial services provisions, such as personal finance, corporate finance, wealth management, trust business etc. in order to both engage in the operating digital financing transformation plan, and participate in the city renewal market, and in doing so provide diversified services for our customers.

#### 3. Deepening overseas business

In order to capitalize on international financial business opportunities, construct a global corporate financial services network, and enhance overseas business performance, we have integrated the marketing of domestic and foreign branches, increased participation in international financial markets, and expanded overseas business.



# 穩健

穩固公股 營運嚴謹

## 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: NTD in thousands

Accounting Title	Year	Financial data for Year 2014–2016 (Note )		
		2016	2015	2014
Cash and cash equivalents (due from the Central Bank and Call Loans to banks)		281,869,523	297,349,053	276,816,472
Financial assets at fair value through profit or loss		3,473,556	4,689,817	1,551,824
Financial assets available-for-sale		407,325,442	351,622,173	288,193,371
Securities purchased under agreements to resell and bond investment		3,763,733	0	0
Receivables – Net		7,362,799	6,930,795	6,055,423
Income tax assets		173,536	167,370	143,714
Discount and loans – Net		1,770,689,449	1,724,903,022	1,868,479,470
Financial assets in held-to-maturity		136,810,089	36,460,359	12,195,507
Investments accounted for using equity method – Net		0	0	24,190
Other financial assets – Net		1,646,662	1,657,383	3,680,710
Real estate properties – Net		23,239,864	23,377,397	23,837,637
Investment properties – Net		24,102,105	24,195,770	24,262,176
Intangible assets – Net		894,168	660,361	611,567
Deferred income tax assets – Net		3,570,007	3,925,696	3,985,029
Other assets		8,016,056	7,527,506	5,484,918
<b>Total assets</b>		<b>2,672,936,989</b>	<b>2,483,466,702</b>	<b>2,515,322,008</b>
Due to the Central Bank and Call Loans from banks		142,091,394	122,083,387	209,745,830
Borrowed from the Central Bank and other banks		2,359,557	2,516,829	2,529,138
Financial liabilities at fair value through profit or loss		8,665,611	9,017,252	222,942
Securities sold under agreements to repurchase		7,713,092	5,372,087	10,757,747
Account payables		24,459,437	20,644,932	22,680,553
Income tax liabilities		816,584	923,755	1,106,456
Deposits and remittances		2,247,159,153	2,098,660,734	2,050,378,807
Payable bonds		79,694,341	72,193,289	77,797,199
Other financial liabilities		175,111	101,981	119,893
Liability reserve		16,937,778	16,611,687	15,361,617
Deferred income tax liabilities		6,926,134	6,935,227	6,937,342
Other liabilities		1,211,337	1,262,364	967,125
Total liabilities	Before distribution	2,537,360,454	2,356,323,524	2,394,772,387
	After distribution	2,538,209,529	2,356,323,524	2,398,604,649
Capital stock	Before distribution	62,594,000	58,100,000	50,000,000
	After distribution	62,594,000	58,100,000	50,000,000

Accounting Title	Year	Financial data for Year 2014–2016 (Note )		
		2016	2015	2014
Capital reserve		21,748,869	21,748,869	21,748,869
Retained earnings	Before distribution	48,761,249	42,294,258	44,715,121
	After distribution	47,912,174	42,294,258	40,882,859
Other items in shareholders' equity		2,472,417	5,000,051	4,085,631
Total equity shareholders'	Before distribution	135,576,535	127,143,178	120,549,621
	After distribution	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 Ministry of Audit. 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 have been made by the CPAs based on the audit result of the Ministry of Audit. Figures for the period of 2016 have been audited and certified by CPAs.

### Condensed Consolidated Comprehensive Income Statements

Unit: NTD in thousands

Accounting Title	Year	Financial data for Year 2014-2016 (Note )		
		2016	2015	2014
Interest revenues		41,840,744	43,718,337	43,313,386
Less: Interest expense		17,095,902	19,385,011	20,162,020
Net interest revenue		24,744,842	24,333,326	23,151,366
Net non-interest revenue		5,978,435	4,640,907	3,859,697
Net operating income		30,723,277	28,974,233	27,011,063
Loan losses and provision for losses on guarantee		1,624,497	408,371	191,047
Operating expenses		16,299,823	16,314,912	15,213,508
Continuing operations' income before tax		12,798,957	12,250,950	11,606,508
Income tax expense		2,382,044	2,268,481	2,144,580
Continuing operations' net income		10,416,913	9,982,469	9,461,928
Income (Loss) from discontinued operations		0	0	0
Net income		10,416,913	9,982,469	9,461,928
Other comprehensive income (net of tax) for the period		-2,832,631	443,350	866,828
Total comprehensive income for the period		7,584,282	10,425,819	10,328,756
Net income attributable to owner of the parent		10,416,913	9,982,469	9,461,928
Net income attributable to non-controlling interests		0	0	0
Comprehensive income attributable to owner of the parent		7,584,282	10,425,819	10,328,756
Comprehensive income attributable to non-controlling interests		0	0	0
Earnings per share (NTD)		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 Ministry of Audit. 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 have been made by the CPAs based on the audit result of the Ministry of Audit. Figures for the period of 2016 have been audited and certified by CPAs.

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



## Individual Condensed Balance Sheets

Unit: NTD in thousands

Accounting Title \ Year		Financial data for Year 2012–2016 (Note )				
		2016	2015	2014	2013	2012
Cash and cash equivalents (due from the Central Bank and Call Loans to banks)		281,869,453	297,433,843	276,816,472	255,690,923	272,970,238
Financial assets at fair value through profit or loss		3,473,556	4,689,817	1,551,824	2,205,335	1,115,209
Financial assets available-for-sale		407,325,442	351,622,173	288,193,371	290,049,749	245,553,231
Securities purchased under agreements to resell and bond investment		3,763,733	0	0	1,171,587	0
Receivables – Net		7,459,138	6,915,206	6,055,423	14,000,043	7,276,723
Income tax assets		173,536	167,370	143,714	139,788	126,013
Discount and loans – Net		1,770,689,449	1,724,903,022	1,868,479,470	1,804,190,412	1,793,830,759
Financial assets in held-to-maturity		136,806,886	36,457,128	12,195,507	1,270,403	177,958
Investments accounted for using equity method – Net		40,000	33,616	24,190	18,942	0
Other financial assets – Net		1,646,662	1,657,383	3,680,710	3,690,519	3,958,548
Real estate properties – Net		23,234,378	23,370,911	23,837,637	23,964,785	24,173,455
Investment properties – Net		24,102,105	24,195,770	24,262,176	24,351,193	24,414,519
Intangible assets – Net		885,590	651,345	611,567	553,016	456,895
Deferred income tax assets – Net		3,570,007	3,925,696	3,985,029	4,234,895	4,202,345
Other assets		8,015,876	7,527,271	5,484,918	2,183,930	3,873,071
Total assets		2,673,055,811	2,483,550,551	2,515,322,008	2,427,715,520	2,382,128,964
Due to the Central Bank and Call Loans from banks		142,091,394	122,083,387	209,745,830	202,365,412	182,218,350
Borrowed from the Central Bank and other banks		2,359,557	2,516,829	2,529,138	2,476,871	2,543,368
Financial liabilities at fair value through profit or loss		8,665,611	9,017,252	222,942	105,971	79,248
Securities sold under agreements to repurchase		7,713,092	5,372,087	10,757,747	6,226,271	6,395,130
Account payables		24,447,902	20,633,393	22,680,553	27,850,177	40,322,574
Income tax liabilities		802,245	908,967	1,106,456	1,020,336	1,007,227
Deposits and remittances		2,247,308,030	2,098,772,607	2,050,378,807	1,977,568,122	1,946,054,843
Payable bonds		79,694,341	72,193,289	77,797,199	75,697,121	75,696,489
Other financial liabilities		175,111	101,981	119,893	146,415	182,259
Liability reserve		16,933,407	16,609,619	15,361,617	15,143,320	14,488,284
Deferred income tax liabilities		6,926,134	6,935,227	6,937,342	6,950,727	6,970,118
Other liabilities		1,211,527	1,262,735	967,125	1,943,913	1,125,669
Total liabilities	Before distribution	2,537,479,276	2,356,407,373	2,394,772,387	2,313,725,230	2,273,584,604
	After distribution	2,538,328,351	2,356,407,373	2,398,604,649	2,317,494,656	2,277,083,559
Capital stock	Before distribution	62,594,000	58,100,000	50,000,000	50,000,000	50,000,000
	After distribution	62,594,000	58,100,000	50,000,000	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	48,761,249	42,294,258	44,715,121	38,932,123	33,656,618
	After distribution	47,912,174	42,294,258	40,882,859	35,162,697	30,157,663
Other items in shareholders' equity		2,472,417	5,000,051	4,085,631	3,309,298	3,138,873
Total shareholders' equity	Before distribution	135,576,535	127,143,178	120,549,621	113,990,290	108,544,360
	After distribution	134,727,460	127,143,178	116,717,359	110,220,864	105,045,405

Note: Figures for the period from 2012 to 2015 have been made by the CPAs based on the audit result of the Ministry of Audit. Figures for the period of 2016 have been audited and certified by CPAs.

## Individual Condensed Comprehensive Income Statements

Unit: NTD in thousands

Accounting Title \ Year	Financial data for Year 2012-2016 (Note )				
	2016	2015	2014	2013	2012
Interest revenues	41,840,690	43,718,337	43,313,386	41,608,347	41,854,763
Less: Interest expense	17,096,033	19,385,154	20,162,020	19,196,556	19,383,164
Net interest revenue	24,744,657	24,333,134	23,151,366	22,411,791	22,471,599
Net non-interest revenue	5,887,144	4,559,668	3,859,697	4,263,169	3,157,804
Net operating income	30,631,801	28,892,802	27,011,063	26,674,960	25,629,403
Loan losses and provision for losses on guarantee	1,624,497	408,371	191,047	1,410,461	1,416,385
Operating expenses	16,232,321	16,252,657	15,213,508	14,340,493	14,083,856
Continuing operations' income before tax	12,774,983	12,231,774	11,606,508	10,924,006	10,129,162
Income tax expense	2,358,070	2,249,305	2,144,580	1,921,777	2,042,557
Continuing operations' net income	10,416,913	9,982,469	9,461,928	9,002,229	8,086,605
Income (Loss) from discontinued operations	0	0	0	0	0
Net income	10,416,913	9,982,469	9,461,928	9,002,229	8,086,605
Other comprehensive income (net of tax) for the period	-2,832,631	443,350	866,828	-57,344	-785,317
Total comprehensive income for the period	7,584,282	10,425,819	10,328,756	8,944,885	7,301,288
Net income attributable to owner of the parent	10,416,913	9,982,469	9,461,928	9,002,229	8,086,605
Net income attributable to non-controlling interests	0	0	0	0	0
Comprehensive income attributable to owner of the parent	7,584,282	10,425,819	10,328,756	8,944,885	7,301,288
Comprehensive income attributable to non-controlling interests	0	0	0	0	0
Earnings per share (NTD)	1.66	1.59	1.51	1.44	1.29

Note: 1. Figures for the period from 2012 to 2015 have been made by the CPAs based on the audit result of the Ministry of Audit. Figures for the period of 2016 have been audited and certified by CPAs.

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

## II Financial Data for the Last 5 Years

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

Accounting Title Analyzed \ Year		2014-2016 Financial Analysis (Note)		
		2016	2015	2014
Operating capability	Ratio of loans to deposits (%)	80.09	83.49	92.40
	Non-performing loan ratio (%)	0.18	0.19	0.19
	Ratio of interest expenses to annual average deposits (%)	0.67	0.83	0.85
	Ratio of interest revenues to annual average loans (%)	1.95	2.05	2.02
	Total assets turnover (times)	0.01	0.01	0.01
	Average operating income per employee (NTD in thousands)	5,359.02	5,025.01	4,672.39
	Average profit per employee (NTD in thousands)	1,817.01	1,731.26	1,636.73
Profitability	Return on Tier I capital (%)	10.27	10.50	11.30
	Return on assets (%)	0.40	0.40	0.38
	Return on shareholders' equity (%)	7.96	8.19	8.34
	Net income ratio (%)	33.91	34.45	35.03
	Earnings per share (NTD)	1.66	1.59	1.51
Financial structure	Ratio of liabilities to assets (%)	94.93	94.85	95.33
	Ratio of fixed assets to shareholders' equity (%)	17.25	18.39	20.42
Growth rate	Asset growth rate (%)	7.63	-1.27	3.61
	Profit growth rate (%)	4.47	5.55	6.25
Cash flows	Cash ratio (%)	-21.73	31.52	15.10
	Cash flow adequacy ratio (%)	511.78	1,054.29	494.03
	Cash flow sufficiency ratio (%)	1,374.40	-1,496.62	-2,983.14
Liquid reserve ratio (%)		24.11	19.11	18.31
Total secured loans to related parties (NTD in thousands)		11,726,940	10,799,874	10,662,338
Ratio of total secured loans to related parties to total loans (%)		0.72	0.68	0.61
Operating scale	Market share of assets (%)	3.76	3.66	3.96
	Market share of net worth (%)	2.37	2.39	2.39
	Market share of deposits (%)	5.72	5.53	5.72
	Market share of loans (%)	6.76	6.79	7.57

Analysis of changes in financial ratios for the past 2 years (increase/decrease over 20%):

1. The growth rate of assets in 2016 was higher than that in 2015, mainly due to the maturity of the financial assets, discounts and loans increased.
2. Compared to 2015, the cash flow ratio and cash flow allowable ratio decreased in 2016, mainly due to the decrease in cash flow from operating activities. In addition, the cash flow adequacy ratio for 2016 increased, mainly because the cash flow from operating activities flowed in in 2015, but in 2015 the cash flow of investment activities flowed out. The result was the negative 2015 annual ratio, and the operating activities and investment activities were cash outflows in 2016, resulting in the positive 2016 annual ratio.

Note 1: Figures for the period of 2014 have been made by the CPAs based on the audit result of the Ministry of Audit. 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 have been made by the CPAs based on the audit result of the Ministry of Audit. Figures for the period of 2016 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 / I 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 62.594 billion dollars since October 31, 2016 and retroactively adjusted tabulated earnings per share each year.



## Individual Financial Analysis

Accounting Title Analyzed \ Year		2012-2016 Financial Analysis (Note)				
		2016	2015	2014	2013	2012
Operating capability	Ratio of loans to deposits (%)	80.08	83.48	92.40	92.58	93.47
	Non-performing loan ratio (%)	0.18	0.19	0.19	0.27	0.27
	Ratio of interest expenses to annual average deposits (%)	0.67	0.83	0.85	0.85	0.86
	Ratio of interest revenues to annual average loans (%)	1.95	2.05	2.02	2.02	2.03
	Total assets turnover (times)	0.01	0.01	0.01	0.01	0.01
	Average operating income per employee (NTD in thousands)	5,371.17	5,033.59	4,692.68	4,607.87	4,454.96
	Average profit per employee (NTD in thousands)	1,826.57	1,739.11	1,643.84	1,555.06	1,405.63
Profitability	Return on Tier I capital (%)	10.25	10.91	11.30	11.48	11.17
	Return on assets (%)	0.40	0.40	0.38	0.37	0.35
	Return on shareholders' equity (%)	7.96	8.19	8.34	8.36	7.84
	Net income ratio (%)	34.01	34.55	35.03	33.75	31.55
	Earnings per share (NTD)	1.66	1.59	1.51	1.44	1.29
Financial structure	Ratio of liabilities to assets (%)	94.93	94.85	95.33	95.43	95.56
	Ratio of fixed assets to shareholders' equity (%)	17.25	18.38	20.42	21.74	23.01
Growth rate	Asset growth rate (%)	7.63	-1.26	3.61	1.91	-
	Profit growth rate (%)	4.44	5.39	6.25	7.85	-
Cash flows	Cash ratio (%)	-21.81	31.59	15.10	-11.40	22.72
	Cash flow adequacy ratio (%)	127.13	414.20	216.47	86.94	446.97
	Cash flow sufficiency ratio (%)	1,381.22	-1,508.16	-2,983.14	6,271.43	-4,278.72
Liquid reserve ratio (%)		24.11	19.11	18.31	18.89	17.65
Total secured loans to related parties (NTD in thousands)		11,726,940	10,799,874	10,662,338	10,938,576	12,211,878
Ratio of total secured loans to related parties to total loans (%)		0.72	0.68	0.61	0.64	0.72
Operating scale	Market share of assets (%)	3.76	3.66	3.96	4.18	4.46
	Market share of net worth (%)	2.37	2.39	2.39	2.57	2.63
	Market share of deposits (%)	5.72	5.53	5.72	5.85	6.09
	Market share of loans (%)	6.76	6.79	7.57	7.68	7.94

Analysis of changes in financial ratios for the past 2 years (increase/decrease over 20%):

1. The growth rate of assets in 2016 was higher than that in 2015, mainly due to the maturity of the financial assets, discounts and loans increased.
2. Compared to 2015, the cash flow ratio and cash flow allowable ratio decreased in 2016, mainly due to the decrease in cash flow from operating activities. In addition, the cash flow adequacy ratio for 2016 increased, mainly because the cash flow from operating activities flowed in in 2015. But in 2015 the cash flow of investment activities flowed out. The result was the negative 2015 annual ratio. And the operating activities and investment activities were cash outflows in 2016, resulting in the positive 2016 annual ratio.

Note 1: Figures for the period from 2012 to 2015 have been made by the CPAs based on the audit result of the Ministry of Audit. Figures for the period of 2016 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 / I 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 625.94 billion dollars since October 31, 2016 and retroactively adjusted tabulated earnings per share each year.

## Capital Adequacy

Unit: NTD in thousands

Accounting Title Analyzed		Year(Note 1)	Capital Adequacy Ratios from 2013 to 2016			
		2016	2015	2014	2013	
Owner's capital	Common stock	121,831,335	113,570,681	104,813,055	97,135,643	
	Other total tier I of non-common stocks equity	10,771,997	2,990,121	2,944,555	0	
	Tier II capital	51,599,859	61,685,666	64,008,483	68,110,196	
	Owner's capital	184,203,191	178,246,468	171,766,093	165,245,839	
Risk-weighted assets	Credit risk	Standardized approach	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	53,083,779	51,118,577	49,101,454	47,980,803
		Standardized approach / Alternative standardized approach				
		Advanced				
	Market risk	Standardized approach	52,704,583	42,277,653	36,635,433	37,041,116
		Internal				
	Total risk-weighted assets		1,591,036,583	1,559,971,776	1,552,363,447	1,462,207,172
Capital adequacy ratio (%)		11.58%	11.43%	11.06%	11.30%	
Ratio of Tier I capital to risk assets (%)		8.33%	7.47%	6.94%	6.64%	
Ratio of common stock to total		7.66%	7.28%	6.75%	6.64%	
Leverage ratio (%)		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 and 2016 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: The leverage ratio will be shown from the year 2015.

### III. Risk Management

#### (I) Qualitative and Quantitative Information About Various Risks

##### 1. Credit Risk Management System and Accrued Capital

#### Credit Risk Management System 2016

Category of Disclosure	Description
1. Credit risk strategies, goals, policies and process	<p>1. Credit risk management goals: The Bank's goals in conducting credit risk management were to maintain adequate capital within an acceptable credit risk range, and maximize risk-adjusted return; for credit risk management, the Bank not only took into account the credit risk for individual transactions, but also paid attention to the credit risk for the overall loan portfolio and investment business.</p> <p>2. Credit risk management strategies: To effectively utilize and allocate its funds, the Bank's management strategies for various credit risk businesses would first consider the general economic situation, its operating strategies, the content and quality of the overall loan portfolio, and risk cost and return, then the Bank would determine and use credit risk mitigation tools, including collateral provision, balance sheet netting, and third party guarantees, to lower or transfer credit risk.</p> <p>3. Credit risk management policies: (1) In accordance with the risk management strategies and operating guidelines of the Bank's Risk Management Policy and Procedure, Directions for Credit Risk Management and Credit and Investment Policy approved by its Board of Directors, and under the New Basel Capital Accord and the pertinent regulations stipulated by governing authorities, the Bank expressly set various operating rules of credit risk management for compliance in operations. (2) To effectively utilize the Bank's funds, all credit risk strategies and operating rules took into consideration factors such as the overall economic situation, the Bank's operating strategies, and risk cost and return, and were established pursuant to the New Basel Capital Accord and pertinent regulations stipulated by governing authorities. Those strategies and rules would also be reviewed and adjusted periodically, and put into practice after being formally submitted to and approved by the Bank's Board of Directors/senior management.</p> <p>4. Credit risk management process: Responsible departments at the Head Office, regional centers and operating units would identify, measure, monitor, report, assess and review all potential credit risks in line with every loan and investment business, to facilitate credit risk management of the whole bank.</p>
2. Credit risk management organization and structure	<p>The Bank established a credit risk management organization and structure with three lines of defense that included the Board of Directors, the Risk Management Committee, the Department of Risk Management, responsible business units, operating units, and the Department of Auditing under the Board of Directors:</p> <p>1. First line of defense (risk-causing or risk-assuming units): (1) Each operating unit was required to carry out credit risk control for transactions undertaken in accordance with pertinent rules prescribed by the Head Office, and report management information related to credit risk to the Head Office. (2) Each responsible business unit at the Head Office was required to identify, assess and control the risks of its responsible business transactions, and establish pertinent credit risk management rules for compliance of operating units in operations.</p> <p>2. Second line of defense (risk control unit): The Department of Risk Management played an independent and dedicated role in charge of assessment, monitoring, control, review and reporting of the whole bank's credit risks.</p> <p>3. Third line of defense (internal auditing unit): The Department of Auditing was responsible for checking the design and implementation of credit risk management systems, providing independent assessment, and inspecting the construction process of credit risk management models and the feasibility, reliability and legal compliance of credit risk management information systems.</p>
3. Scope and feature of credit risk report and credit risk measurement system	<p>1. Credit risk report: (1) Scope: The scope of the Bank's credit risk monitoring report periodically submitted to top management encompassed the status of risk exposures for asset quality, various countries, industry sectors, conglomerates, major borrowers and types of collaterals. (2) Feature: The Bank conducted credit risk dynamic monitoring at all times, where, in order to effectively control credit risk, major changes or exceeded limits were relayed to responsible business units and submitted to executive officers.</p>



Category of Disclosure	Description
	<p>2. Credit risk measurement system:</p> <p>(1) Scope: Currently the Bank adopts the credit risk standardized approach in calculating accrued capital. Through which the risk management system produces various statements each month, which are utilized in compiling the monitoring statements which are then reported to executive officers, the Risk Management Committee and the Board of Directors. In addition, a more advanced approach to measure credit risk was introduced; the Bank utilized internal credit rating models where the default models of housing loan application scoreboard, housing loan scoreboard, consumer loan scoreboard, credit card scoreboard, and corporate finance scorecard were used for risk segmentation of borrowers; to further enhance its credit risk management capability. The Bank expects to plan for the establishment of credit rating models for other businesses.</p> <p>(2) Feature: For the purpose of strengthening the Bank's credit risk management mechanism, the Bank built an organization-wide credit risk data mart that was able to connect to related information systems (such as the credit rating system and the credit analysis/extension operation management system), to facilitate control of various credit risk limits, and conduct risk segmentation based on the customer default level.</p>
4. Credit risk hedge or mitigation policies, and strategy and process for continued effectiveness of tools monitoring, hedging and mitigating risks	<p>1. Credit risk hedge or mitigation policies:</p> <p>(1) To prevent the Bank's losses and effectively mitigate risk caused by defaults of borrowers or counterparties, the Bank levied collaterals, demanded guarantors, or transferred cases to credit guarantee institutions for guaranty depending on the risk status of loan transactions.</p> <p>(2) Pursuant to the New Basel Capital Accord and regulations stipulated by governing authorities, the Bank included the operational practice eligible for credit risk mitigation (such as qualified collateral, and guarantee institution) into related information systems, in order to accurately calculate the Bank's credit risk mitigation effects.</p> <p>2. Strategy and process for continued effectiveness of tools monitoring, hedging and mitigating credit risks: Through a post-lending management and review mechanism, the Bank periodically inspected the operating status of the borrower, the current status of collateral, the credit status of the guarantor, and whether the case to be transferred for credit guarantee met pertinent rules of the Bank and the guarantee institution, to ensure the effectiveness of risk mitigation effects.</p>
5. Method adopted for legal capital accrual	Credit risk standardized approach

Risk Exposure and Accrued Capital after Risk Mitigation  
Under Credit Risk Standardized Approach  
December 31, 2016

Unit: NTD in thousands

Type of Risk Exposure	Risk Exposure After Risk Mitigation	Accrued Capital
Sovereign countries	624,940,377	1,784
Public agencies not under Central Government	35,959,185	575,347
Banks (including multilateral development banks)	139,243,558	4,758,573
Enterprises (including securities and insurance companies)	664,304,384	49,053,232
Retail creditor's rights	314,935,025	21,712,481
Residential property	754,070,906	37,768,494
Equity securities investment	458,768	146,806
Other assets	80,542,259	4,759,434
Total	2,614,454,462	118,776,151

Note: The capital accrual is that risk exposure multiples the minimum legal capital adequacy ratio.

## 2. Securitization Risk Management System, Risk Exposure and Accrued Capital

### Securitization Risk Management System 2016

Category of Disclosure	Description
1. Asset securitization management strategy and process	<p>1. Asset securitization management strategy: The Bank expressly set regulations on investing in beneficiary securities, asset-backed securities (non-originating bank), or acting as the underwriting institution for asset-backed commercial papers (originating bank) and other businesses pursuant to the Directions for Investment in Beneficiary Securities and Asset-Backed Securities and the Directions for Business of Short-Term Transactions Instruments approved by the Board of Directors, for compliance in operations.</p> <p>2. Asset securitization management process: (1) Pursuant to Directions for Investment in Beneficiary Securities and Asset-Backed Securities and Directions for Business of Short-Term Transactions Instruments, the Bank expressly mandated that investment targets for investing in beneficiary securities and asset-backed securities (non-originating bank) and for acting as the underwriting institution for asset-backed commercial papers (originating bank) achieve a certain credit rating class. If the investment amount exceeded the authorized limit of the responsible department manager, the investment should be reviewed and adopted by the Bank's "Task Force of Investment in TWSE-Listed and GTSM-Listed Stocks, Beneficiary Certificates and Other Negotiable Securities," and submitted to the President for approval before proceeding further. (2) In accordance with the table of authorized credit limits for the Bank's various levels of executive officers, the Bank expressly mandated that the liquidity facilities business (originating bank) should follow the precedent of the ordinary credit review procedure under the credit management organization and structure with a clear hierarchy and outline of duties.</p>
2. Asset securitization management organization and structure	<p>The Bank established a credit risk management organization and structure with three lines of defense that included the Board of Directors, the Risk Management Committee, the Department of Risk Management, responsible business units, operating (trading) units, and the Department of Auditing:</p> <p>1. First line of defense (risk-causing or risk-assuming units): (1) Each operating (trading) unit was required to carry out risk control for asset securitization transactions undertaken in accordance with pertinent rules prescribed by the Head Office, and report related risk management information to the Head Office. (2) Each responsible business unit at Head Office was required to identify, assess and control the risks of its responsible business transactions, and establish pertinent business regulations, for compliance of operating (trading) units in operations.</p> <p>2. Second line of defense (risk control unit): The Department of Risk Management played an independent and dedicated role in charge of assessment, monitoring, control, review and reporting of the whole bank's asset securitization business.</p> <p>3. Third line of defense (internal auditing unit): The Department of Auditing was responsible for checking the design and implementation of the asset securitization process, providing independent assessment, and inspecting its feasibility, reliability and legal compliance.</p>
3. Scope and feature of asset securitization risk report and asset securitization measurement system	<p>1. Asset securitization risk report: (1) Scope: The scope of the Bank's asset securitization product investment assessment report periodically submitted to senior management encompassed investment type, amount, credit rating and evaluation. (2) Feature: The Bank, in order to control risk, set loss control standards and related responsive measures for all its investments in products like real estate investment trust (REIT), beneficiary securities, domestic beneficiary securities, asset-backed beneficiary securities and foreign currency asset securitization.</p> <p>2. Asset securitization measurement system: (1) Scope: Pursuant to Directions for Investment in Beneficiary Securities and Asset-Backed Securities and other relevant operating regulations, the Bank manually and periodically monitored the risk exposure status of target securitization assets (such as credit rating, contract performance status, and market trade information), and proceeded accordingly with capital accrual. (2) Feature: The monitoring results reached pursuant to the above-mentioned regulations were compiled and included periodically in the risk monitoring report to be submitted to the Bank's Board of Directors/Risk Management Committee. In cases of irregularities, the responsible business unit escalated proceedings to executive officers to prepare responsive measures.</p>
4. Asset securitization risk hedge or mitigation policy, and strategy and process for continued effectiveness of tools monitoring, hedging and mitigating risks	<p>1. Asset securitization risk hedge or mitigation policy: Pursuant to the New Basel Capital Accord and regulations stipulated by governing authorities, the Bank took into consideration the credit risk mitigation tools that can be used as asset securitization risk exposures (such as credit enhancement, and risk transfer), to accurately calculate the mitigation effects of the Bank's asset securitization credit risk.</p> <p>2. Strategy and process for continued effectiveness of tools monitoring, hedging and mitigating asset securitization risks: Via periodical and non-periodical monitoring of credit ratings and asset pool change of beneficiary securities and asset-backed securities that the Bank invested in, the Bank executed the stop-loss mechanism when necessary, and reported to executive officers in accordance with procedures, to effectively control asset securitization risk.</p>
5. Method adopted for legal capital accrual	Securitization standardized approach

### 3. Operational Risk Management System and Accrued Capital

#### Operational Risk Management System 2016

Category of Disclosure	Description
1. Operational risk management strategy and process	<p>1. Operational risk management strategy: To effectively contain the frequency of occurrences and the severity of loss amounts for its operational risk within risk tolerance, the Bank actively identified, measured and monitored businesses and operating processes of the whole bank, and continued to develop and establish various operational risk management tools.</p> <p>2. Operational risk management process: (1) The Bank established its business regulations, internal control system and standard operational processes with respect to all products and operating activities, for full compliance of its operating units, and controlled operational risk through risk identification, measurement, monitoring, reporting, assessment and review mechanisms. (2) The Bank established the pertinent emergency response and restoration plan (business continuation plan), to ensure that every business was able to operate continuously should any severe natural or man-made incident occur, and established regulations relating to outsourced operations of the Bank.</p>
2. Operational risk management organization and structure	<p>The organizational structure for the Bank's operational risk management included the Board of Directors, the Risk Management Committee, the Department of Auditing, the Department of Risk Management, responsible business units at the Head Office, and various operating units. The Bank adopted three lines of defense to define duties of the units in operational risk management:</p> <p>1. First line of defense (operating units and responsible business units at the Head Office): (1) Each operating unit of the Bank was responsible for implementing control of various operational risks pursuant to related laws and regulations stipulated by governing authorities, Bank rules, operational risk management tools and the characteristics of various businesses, where the unit was also required to report management information regarding operational risk to responsible business units at Head Office. (2) Each responsible business unit at the Head Office shall identify, measure, assess and monitor operational risks related to the businesses, core products, operating activities, operational processes and information systems under its command. The unit was also responsible for establishing policies, guidelines, procedures and the internal control mechanism for its business and operating activities. It was further responsible for training and informing employees at all levels of their undertaking to cooperate in implementing operational risk management and their duties within the scope of their job description.</p> <p>2. Second line of defense (Department of Risk Management): The Department of Risk Management played an independent and dedicated role overseeing assessment, monitoring, control, review and reporting of the whole bank's operational risks.</p> <p>3. Third line of defense (Department of Auditing): The Department of Auditing was responsible for examining operational risk management results achieved by units of the whole bank, periodically inspecting the execution status of operational risk management systems and process controls, and reviewing correction of the whole bank's operational risk control defects or follow-up of their improvement.</p>
3. Scope and features of operational risk report and operational risk measurement system	<p>1. Operational risk report: (1) Scope: The scope of the operational risk monitoring report periodically submitted to senior management encompassed the following: a. Business type of operational risk loss, operational risk exposure status, Key Risk Indicators (KRIs) established by responsible business units, early warning recommendations and monthly trend analysis. b. Results of operational risk self-assessment of various major businesses conducted within the year. (2) Features: For major operational risk issues, the Bank non-periodically produced related dynamic risk monitoring reports; when change in the external or internal environment of the Bank altered relevant risk exposure and control assessment, it was also disclosed in the operational risk monitoring report.</p> <p>2. Operational risk measurement system: (1) Scope: Pursuant to the New Basel Capital Accord, the regulations stipulated by governing authorities and Land Bank's business needs, the Bank introduced management tools such as internal loss event management, which was used to identify, measure and assess operational risks of the Bank's core products, operating activities, operational processes and information systems. The Bank also implemented risk profile data of the whole bank according to risk cause, risk type and business type. The Bank further built its operational risk database via the functions linking all management tools, in order to accurately calculate the operational risk accrued capital, and gradually introduce advanced risk measurement methodology. (2) Features: The Bank collected internal loss data, built an operational risk loss database, and introduced KRIs and set warning limits for quantifiable risks, to help identify operational risks involved in the Bank's major products and operating activities. For qualitative risks, the Bank introduced Risk Control Self Assessment (RCSA), where every unit of the whole bank assessed the control of operational risks in major operating activities.</p>

Category of Disclosure	Description
4. Operational risk hedge or mitigation policies, and strategy and process for continued effectiveness of tools monitoring, hedging and mitigating risks	<p>1. Operational risk hedge or mitigation policies:</p> <p>(1) The Bank analyzed the occurrence frequency of operational risk loss incidents and the severity of loss amounts to determine the risk response strategies for its businesses and operating activities, including risk hedge, risk transfer or mitigation, risk reduction or control, risk assumption and other strategies as follows:</p> <p>(a) For incidents with low loss occurrence frequency but high loss amount, it was required to adopt prevention and mitigation measures such as limit control, business transfer or business continuation plan.</p> <p>(b) For incidents with high loss occurrence frequency but low loss amount, it was required to adopt internal control, insurance policy, outsourcing operations, know your customer, legal compliance management, ethics regulation management, and enhanced education and training.</p> <p>(c) For incidents with high loss occurrence frequency and high loss amount, it was required to adopt avoidance measures to circumvent operating activities that may induce risk.</p> <p>(d) For incidents with low loss occurrence frequency and low loss amount, risk was accepted.</p> <p>(2) Operations outsourced by the Bank to others (such as data processing, credit card operation, cash transit and refill, and internal audit operation) were all conducted pursuant to the Directions for Outsourcing Operations and the Directions for Information Processing Outsourcing Operations established by the Land Bank of Taiwan to prevent operational risk caused by outsourcing, and in pursuance of other operational risk mitigation policies.</p> <p>(3) The Bank mitigated risks resulting from operations by purchasing the following insurance policies as operational risk mitigation tools: fidelity bond insurance, money insurance, banking safe deposit box liability insurance, burglary insurance, public liability insurance, fire insurance, electronic equipment insurance, etc.</p> <p>2. Strategy and process for continued effectiveness of tools monitoring, hedging and mitigating operational risks:</p> <p>(1) Each responsible business unit periodically inspected rules and standard operating processes related to the businesses undertaken, and via RCSA discovered any risk not identified or any control point not effectively implemented.</p> <p>(2) The Department of Risk Management periodically inspected the status of the whole bank's operational risk control and related operational risk issues, promptly provided suggestions, and continued to monitor and track any deficiencies in risk control, followed by appropriate management measures, in order to reduce operational risk.</p> <p>(3) Each insurance applicant unit periodically inspected the business categories insured, to ensure continuous validity of the insurance policies.</p>
5. Method adopted for legal capital accrual	Operational risk basic indicator approach

### Operational Risk Accrued Capital December 31, 2016

Unit: NTD in thousands

Year	Operating Gross Profit	Accrued Capital
2014	26,950,984	
2015	28,748,588	
2016	29,232,874	
Total	84,932,446	4,246,622



#### 4. Market Risk Management System and Accrued Capital

### Market Risk Management System 2016

Category of Disclosure	Description
1. Market risk management strategies and process	<p>1. Market risk management strategies: In handling businesses related to market risk, before or after each transaction or upon major change in the economic environment, the Bank assessed the severity of losses that might occur, and applied risk avoidance solutions, risk mitigation or transfer, risk control and risk assumption, such as actively avoiding highly-leveraged, highly-volatile and high-loss-potential financial products, or adopted the strategies of closing, selling or hedging. In accordance with regulations on limit management, stop-loss mechanism, over-the-limit handling and risk assumption status, the Bank effectively controlled the market risk, and mastered the overall risk exposure position and risk measurement results, to ensure continued effectiveness.</p> <p>2. Market risk management process:</p> <p>(1) Basic principles covered various product standards, new product/business approval standards, and standards and operational processes for market risk identification, measurement, assessment, monitoring and reporting.</p> <p>(2) Market risk identification: Financial trading units and related risk management personnel fully understood and verified market risk factors especially associated with each type of financial instrument. Risk management personnel endeavored to identify all risk factors that may result in market risk, and ensured the accuracy and applicability of the financial instrument assessment formulae.</p> <p>(3) Market risk measurement: The Bank developed quantifiable models to measure the market risk, and integrated them into daily risk limit management.</p> <p>(4) Market risk assessment: The Bank assessed the prices of all financial products it held by the market price method, model assessment, external sources or independent market price verification.</p> <p>(5) Market risk monitoring: Based on the various limits, financial trading units undertook real-time and comprehensive monitoring of the trading status during routine operating activities, to keep every type of transaction executed within the range of authorization and limits. The monitoring ensured that the transaction type, transaction target, transaction process, position and profit/loss variation for every financial product would conform to regulations and proceed within the range of limits and authorization. The Department of Risk Management monitored and analyzed data produced by risk measurement models on a daily basis. If any major risk and/or exposure jeopardizing the Bank's finance, business or legal compliance was to be uncovered, it would be reported immediately to the President and the Board of Directors.</p> <p>(6) Market risk reporting: The Department of Risk Management periodically submitted the whole bank's market risk management statements or report to the Risk Management Committee, including the Banks' market risk exposure position, risk exposure status, profit/loss status, use of limits, and compliance with pertinent market risk management regulations. Furthermore, in compliance with the principles of public disclosure, the Bank periodically disclosed to the public its market risk management information pursuant to rules prescribed by governing authorities.</p>
2. Market risk management organization and structure	<p>The Bank established a market risk management organization and structure with three lines of defense that included the Board of Directors, the Risk Management Committee, the Department of Risk Management, responsible business units, operating units, and the Department of Auditing:</p> <p>1. First line of defense (risk-causing or risk-assuming units): Each financial trading unit was required to comply with the Bank's relevant market risk management rules, to accordingly establish pertinent regulations to conduct market risk control and position management, to actively monitor various limits, and report related management information to the responsible business units or the Department of Risk Management. Each responsible business unit was required to be responsible for monitoring and controlling market risks caused by businesses undertaken in accordance with the Bank's risk management policy, directions, and pertinent risk management regulations.</p> <p>2. Second line of defense (risk control unit): The Department of Risk Management was the independent and dedicated unit for market risk management of the whole bank, which played the role of a centralized platform, in charge of planning and building the market risk management structure and procedure approved by the Board of Directors. The Department also compiled and disclosed the Bank's market risk information and implementation status, periodically submitted reports and recommendations to the Risk Management Committee and the Board of Directors, and served as the dispatch center for market risk management knowledge and culture.</p> <p>3. Third line of defense (internal auditing unit): The Department of Auditing was responsible for checking the design and implementation of market risk management systems, providing independent assessment, and inspecting the construction process of market risk management models and the feasibility, reliability and legal compliance of market risk management information systems.</p>

Category of Disclosure	Description
3. Scope and features of market risk report and market risk measurement system	<p>1. Market risk report:</p> <p>(1) Scope: The scope of the market risk monitoring report periodically submitted to senior management encompassed equity securities risk, fixed income securities interest rate risk, exchange rate risk, financial derivative risk, overseas negotiable securities risk, NTD and foreign currency fund liquidity risk, interest rate risk, and investment limit monitoring.</p> <p>(2) Features: The market risk report showed recent market risks of the whole bank's NTD and foreign currency financial assets using methods such as Value at Risk, <math>\beta</math> value, DVO1, duration, gap analysis, and scenario simulation. The report not only reflected the status of market risk exposures, but also provided senior management with information on various profits and losses, use of limits, investment performance, overall view of market trends, etc., as the basis for senior management to adjust the market risk management policy, procedures and various limits.</p> <p>2. Market risk measurement system:</p> <p>(1) Scope: The scope of financial product measurement under the VaR assessment system encompassed calculation and measurement of single VaR, market risk factor VaR and overall VaR of the whole bank's stocks, funds, bonds, bills and foreign exchange positions.</p> <p>(2) Features: The VaR assessment system adopted statistical methodology to assess the maximum loss occurring in a given period based on specific probability, to reasonably estimate market risk exposures for stocks, funds, bonds, bills, foreign exchange positions and the whole bank. The system also separately showed the Bank's VaR based on the interest rate, exchange rate, and securities, in order to measure the market risk for each factor and provide the basis for senior management to adjust market investment strategies and risk tolerances.</p>
4. Market risk hedge or mitigation policies, and strategy and process for continued effectiveness of tools monitoring, hedging and mitigating risks	<p>1. Market risk hedge or mitigation policies:</p> <p>(1) Pursuant to related rules, the Bank implemented transaction limits, risk limits, duration limits, and the stop-loss mechanism for various financial products, as well as conducting risk-hedging derivative product transactions, in order to hedge market risk.</p> <p>(2) Most foreign currency negotiable securities with fixed interest rates undertook interest rate swap to avoid interest rate risk, as such the Bank designed various warning standards before the loss control standard was reached, where e-mail was instantly sent to notify the relevant unit when any warning standard was reached, in order to effectively control and hedge market risk. Besides, the main purpose of forward foreign currency transactions was to square the customer position in response to customer's risk-hedging needs in international trade payment or financial arrangements, and the swap transactions carried out by the Bank also focused on squaring the customer swap or forward exchange position; as they both served the main purpose of risk-hedging, the Bank was able to limit its market risk within a certain range.</p> <p>2. Strategy and process for continued effectiveness of tools monitoring, hedging and mitigating market risks: The Bank periodically and non-periodically reviewed the whole bank's VaR, notional principal, stop loss limits, trading strategies, etc. In case of emergency or limit exceeding, the trading unit was required to immediately carry out the contingency plan, lower the position, stop loss and withdraw, or proceed with hedging, in order to prevent further loss.</p>
5. Method adopted for legal capital accrual	Market risk standardized approach

### Market Risk Accrued Capital December 31, 2016

Unit: NTD in thousands

Type of Risk	Accrued Capital
Interest rate risk	3,429,339
Equity securities risk	740,418
Foreign exchange risk	46,609
Commodity risk	
Option dealt by The Simplified Approach	
Total	4,216,366

# 薪傳

企業責任 善盡義務

**064** Financial Statments

**074** Directory of Head Office  
and Branches







## Statement by the Audit Committee

The Company's business report and financial statements for the year of 2016(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 1st-term 16th meeting held on March 17, 2017, 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: Hsu,Huoo-Ming

Independent Director: Chen,Chih-Yuan

Independent Director: Lee,Tsung-Pei  
(Convenor)

March17, 2017

## 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 Banks"), which comprise the consolidated statement of financial position as of December 31, 2016 and 2015, 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, 2016 and 2015, 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 Banks as at December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2016 and 2015 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 for our opinion.

### Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, 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.

### 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 Banks'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 Banks 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.

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

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

Land Bank of Taiwan Co., Ltd. has additionally prepared its parent company only financial statements as of and for the years ended December 31, 2016 and 2015, on which we have issued an unqualified opinion.

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 24, 2017

#### 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.

## Consolidated Balance Sheets

### December 31, 2016 and 2015

[illegible]



Expressed in, New Taiwan Dollars

	Liabilities and Equity	December 31, 2016		December 31, 2015	
		Amount	%	Amount	%
Current liabilities:					
21000	Total deposits from the central bank and banks (note 6(n))	\$ 142,091,394	5	122,083,387	5
21500	Total due to the central bank and banks	2,359,557	-	2,516,829	-
22000	Total financial liabilities at fair value through profit or loss (notes 6(c) and(ag))	8,665,611	-	9,017,252	-
22500	Total notes and bonds issued under repurchase agreement (note 6(d))	7,713,092	-	5,372,087	-
23000	Total payables (note 6(o))	24,459,437	1	20,644,932	1
23200	Total current tax liabilities	816,584	-	923,755	-
23500	Total deposits and remittances (note 6(p), (ag) and 7)	2,247,159,153	85	2,098,660,734	85
24000	Total bank notes payable (notes 6(q) and (ag))	79,694,341	3	72,193,289	3
25500	Total other financial liabilities (note 6(r))	175,111	-	101,981	-
25600	Total provisions (note 6(s))	16,937,778	1	16,611,687	1
29300	Total deferred income tax liabilities	6,926,134	-	6,935,227	-
29500	Total other liabilities (note 6 (u))	<u>1,211,337</u>	<u>-</u>	<u>1,262,364</u>	<u>-</u>
Total liabilities		<u>2,538,209,529</u>	<u>95</u>	<u>2,356,323,524</u>	<u>95</u>
Equity attributable to owners of parent: (note 6(w))					
31101	Common stock	<u>62,594,000</u>	<u>2</u>	<u>58,100,000</u>	<u>2</u>
31500	Total capital surplus	<u>21,748,869</u>	<u>1</u>	<u>21,748,869</u>	<u>1</u>
32001	Legal reserve	28,380,377	1	25,346,802	1
32003	Special reserve	14,064,239	1	13,681,727	1
32011	Accumulated earnings	<u>5,467,558</u>	<u>-</u>	<u>3,265,729</u>	<u>-</u>
		<u>47,912,174</u>	<u>2</u>	<u>42,294,258</u>	<u>2</u>
32500	Total other equity interest	<u>2,472,417</u>	<u>-</u>	<u>5,000,051</u>	<u>-</u>
Total equity		<u>134,727,460</u>	<u>5</u>	<u>127,143,178</u>	<u>5</u>
Total liabilities and equity		<u>\$ 2,672,936,989</u>	<u>100</u>	<u>2,483,466,702</u>	<u>100</u>

# Consolidated Statements of Comprehensive Income

## For the years ended December 31, 2016 and 2015

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

		2016		2015		Change %
		Amount	%	Amount	%	
41000	Total interest income	\$ 41,840,744	136	43,718,337	151	(4)
51000	Less: Total interest expenses	17,095,902	56	19,385,011	67	(12)
	Net income of interest (note 6(y))	24,744,842	80	24,333,326	84	2
	Net non-interest income					
49100	Net service fee (charge) income (losses) (note 6(z) and 7)	3,014,136	10	3,055,652	11	(1)
49200	Gain (loss) on financial assets or liabilities measured at fair value through profit or loss (notes 6(c) and (aa))	43,054	-	(738,507)	(3)	106
49300	Realized gain (loss) on available-for-sale financial assets (note 6(ab))	1,469,318	5	571,750	2	157
49600	Foreign exchange gain (loss)	(114,611)	-	999,458	2	(111)
49863	Net gain (loss) on disposal of property	30,451	-	284,042	1	(89)
49899	Other miscellaneous income (loss) (note 6(ac))	1,536,087	5	468,512	3	228
		30,723,277	100	28,974,233	100	6
58200	Total bad debts expense and guarantee liability provision (note 6 (f))	1,624,497	5	408,371	1	298
58500	Total employee benefits expenses (note 6(ad))	10,398,526	34	10,201,604	35	2
59000	Total depreciation and amortization expense (note 6(ae))	932,351	3	926,812	3	1
59500	Total other general and administrative expense (note 6(af))	4,968,946	16	5,186,496	18	(4)
		16,299,823	53	16,314,912	56	-
		12,798,957	42	12,250,950	43	4
	Profit (loss) from continuing operations before tax	12,798,957	42	12,250,950	43	4
	Add: Tax income (expense) (note 6(v))					
61003		(2,382,044)	(8)	(2,268,481)	(8)	(5)
	Profit (loss)	10,416,913	34	9,982,469	35	4
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	(304,997)	(1)	(471,070)	(2)	35
65220	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-	-
		(304,997)	(1)	(471,070)	(2)	35
65300	Other components of other comprehensive income that will not be reclassified to profit or loss					
65301	Exchange differences on translation	(989,054)	(3)	269,974	1	(466)
65302	Unrealized gains (losses) on valuation of available-for-sale financial assets (note 6(w))	(1,538,580)	(5)	644,446	2	(339)
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	(2,527,634)	(8)	914,420	3	(376)
65000	Other comprehensive income	(2,832,631)	(9)	443,350	1	(739)
	Total comprehensive income	\$ 7,584,282	25	10,425,819	36	(27)
	Basic earnings per share (note 6(x))	\$ 1.66		1.59		

# Consolidated Statements of Changes in Equity

## For the years ended December 31, 2016 and 2015

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	
Balance at January 1, 2015	\$ 50,000,000	21,748,869	22,943,403	18,590,448	(650,992)	833,790	3,251,841	116,717,359
Profit (loss)	-	-	-	-	9,982,469	-	-	9,982,469
Other comprehensive income	-	-	-	-	(471,070)	269,974	644,446	443,350
Total comprehensive income	-	-	-	-	9,511,399	269,974	644,446	10,425,819
Retained earnings transferred capital	8,100,000	-	-	(8,100,000)	-	-	-	-
Reversal of the disposed land to special reserve	-	-	-	(13,254)	13,254	-	-	-
Appropriation and distribution of retained earnings:								
Legal reserve appropriated	-	-	2,403,399	-	(2,403,399)	-	-	-
Special reserve appropriated	-	-	-	3,204,533	(3,204,533)	-	-	-
Other changes in capital surplus:								
Balance at December 31, 2015	58,100,000	21,748,869	25,346,802	13,681,727	3,265,729	1,103,764	3,896,287	127,143,178
Profit (loss)	-	-	-	-	10,416,913	-	-	10,416,913
Other comprehensive income	-	-	-	-	(304,997)	(989,054)	(1,538,580)	(2,832,631)
Total comprehensive income	-	-	-	-	10,111,916	(989,054)	(1,538,580)	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	134,727,460

## Consolidated Statements of Cash Flows

### For the years ended December 31, 2016 and 2015

Expressed in Thousands of New Taiwan Dollars

	2016	2015
Cash flows from (used in) operating activities:		
Profit (loss) from continuing operations before tax	\$ 12,798,957	12,250,950
Adjustments:		
Adjustments to reconcile profit (loss):		
Depreciation expense	727,180	747,413
Amortization expense	205,171	179,399
Provision (reversal of provision) for bad debt expense	1,768,404	206,372
Interest expense	17,095,902	19,385,011
Interest income	(41,840,744)	(43,718,337)
Dividend income	(432,946)	(353,579)
Net change in provisions for guarantee liabilities	(143,613)	202,883
Loss (gain) on disposal of investment properties	(30,451)	(284,042)
Others	-	23,173
Total adjustments to reconcile profit (loss)	(22,651,097)	(23,611,707)
Changes in operating assets and liabilities:		
Change in operating assets:		
Decrease (increase) in due from the central bank and call loans to banks	(3,625,178)	997,621
Decrease (increase) in derivative financial assets for hedging	1,216,261	(3,137,993)
Decrease (increase) in securities purchased under resell agreements	(3,763,733)	-
Decrease (increase) in receivables	228,585	(1,207,466)
Decrease (increase) in discounts and loans	(47,605,750)	143,431,581
Decrease (increase) in available-for-sale financial assets	(57,241,849)	(62,784,356)
Decrease (increase) in held-to-maturity financial assets	(100,349,730)	(24,264,852)
Decrease (increase) in other financial assets	(95,147)	2,059,364
Decrease (increase) in other assets	312,834	(299,054)
Total net change in operating assets	(210,923,707)	54,794,845
Changes in operating liabilities:		
Increase (decrease) in deposits from the central bank and banks	20,008,007	(87,662,443)
Increase (decrease) in financial liabilities at fair value through profit or loss	(351,641)	8,794,310
Increase (decrease) in notes and bonds issued under repurchase agreement	2,341,005	(5,385,660)
Increase (decrease) in payable	3,791,808	(1,748,810)
Increase (decrease) in deposits and remittances	148,498,419	48,281,927
Increase (decrease) in provisions for employee benefits	164,707	576,117
Increase (decrease) in other liabilities	(88,996)	14,862

	2016	2015
Total net change in operating liabilities	174,363,309	(37,129,697)
Total change in operating assets and liabilities	(36,560,398)	17,665,148
Total adjustments	(59,211,495)	(5,946,559)
Cash inflow (outflow) generated from operations	(46,412,538)	6,304,391
Interest received	41,535,272	43,937,595
Dividends received	524,511	353,579
Interest paid	(17,071,496)	(19,627,627)
Dividends paid	(2,157,879)	(2,417,620)
Net Cash flows from (used in) operating activities	(23,582,130)	28,550,318
Cash flows from (used in) investing activities:		
Acquisition of property and equipment	(569,168)	(359,258)
Proceeds from disposal of property and equipment	180	-
Increase in refundable deposits	(801,385)	(1,743,534)
Acquisition of intangible assets	(439,034)	(223,747)
Acquisition of investment properties	(1,489)	(6,320)
Proceeds from disposal of investment properties	95,083	425,209
Net cash flows from (used in) investing activities	(1,715,813)	(1,907,650)
Cash flows from (used in) financing activities:		
Increase in due to the central bank and banks	(157,272)	(12,309)
Proceeds from issuing bank notes payable	7,499,345	4,994,235
Repayments of bank notes payable	-	(10,600,000)
Decrease in guarantee deposits received	37,968	280,377
Decrease in other financial liabilities	73,130	(17,912)
Interest paid	-	(42,340)
Net cash flows from (used in) financing activities	7,453,171	(5,397,949)
Effect of exchange rate changes on cash and cash equivalents	(1,251,094)	282,316
Net increase (decrease) in cash and cash equivalents	(19,095,866)	21,527,035
Cash and cash equivalents at beginning of period	191,084,566	169,557,531
Cash and cash equivalents at end of period	\$ 171,988,700	191,084,566
Composition of cash and cash equivalents:		
Cash and cash equivalents reported in the statement of financial position	\$ 45,505,460	39,281,452
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	122,719,507	151,803,114
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	3,763,733	-
Cash and cash equivalents at end of period	\$ 171,988,700	191,084,566



# Directory of Head Office and Branches

Head Office	No.46, Guanqian Rd., Zhongzheng District, Taipei City 10047, Taiwan (R.O.C.)
	TEL:(02)23483456 SWIFT:LBOTTWTP

## 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

# DOMESTIC BRANCHES

## Taipei City

Fuhshin 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
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
Shipai Branch	No.116, Wunlin N. Rd., Beitou District, Taipei City 11287, Taiwan (R.O.C.)
	TEL:(02)28277557 FAX:(02)28276322 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, Nangang Rd., Nangang District, Taipei City 11579, Taiwan (R.O.C.)
	TEL:(02)27834161 FAX:(02)27820454 SWIFT:LBOTTWTP004

## DOMESTIC BRANCHES

### Taipei City

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

### 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
Beisanchong 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

## DOMESTIC BRANCHES

## New Taipei City

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
Taishan Branch	No.168, Sec. 3, Mingzhi Rd., Taishan District, New Taipei City 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

## DOMESTIC BRANCHES

### Taoyuan County

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
Bade Branch	No.702, Sec. 1, Jieshou 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



## DOMESTIC BRANCHES

## Miaoli County

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

## 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

## DOMESTIC BRANCHES

### Taichung City

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

### 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, Zhanglu 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, Ziyu 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., Minxiang Township, Chiayi County 62157, Taiwan (R.O.C.)
	TEL:(05)2200180 FAX:(05)2214643 SWIFT:LBOTTWTP066

## DOMESTIC BRANCHES

## 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
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., Yongkang District, Tainan City, 71075, Taiwan (R.O.C.)
	TEL:(06)2321171 FAX:(06)2324144 SWIFT:LBOTTWTP031
Dawan Branch	No.1062, Sec. 2, Yongda Rd., Yongkang 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)6357300 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

## DOMESTIC BRANCHES

### Kaohsiung City

Poai 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
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
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)327300	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:LBOTHKHH
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, 2016 and 2015**

**(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, 2016 there were 149 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 24, 2016.

(Continued)

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

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

- (a) Impact of the International Financial Reporting Standards ("IFRSs") endorsed by the Financial Supervisory Commission, R.O.C. ("FSC") but not yet in effect.

According to Ruling No. 1050026834 issued on July 18, 2016, by the FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016, and were endorsed by the FSC on January 1, 2017 in preparing their financial statements. The related new standards, interpretations and amendments are as follows:

<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 "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 "Recoverable Amount Disclosures for Non-Financial Assets"	January 1, 2014
Amendments to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
Annual improvements cycles 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

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

- (b) Newly released or amended standards and interpretations not yet endorsed by the FSC

A summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC. The FSC announced that the Banks should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the Banks' financial statements were issued, the FSC has yet to announce the effective dates of the other IFRSs. As of the end of reporting date is as follows:

(Continued)

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

## Notes to Consolidated Financial Statements

New, Revised or Amended Standards and Interpretations	Effective date per IASB
IFRS 9 "Financial Instruments"	January 1, 2018
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 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IFRS 4 "Insurance Contracts" (Applicable for IFRS 9 "Financial Instruments" and IFRS 4 "Insurance Contracts")	January 1, 2018
Annual Improvements to IFRS Standards 2014-2016 Cycle:	
IFRS 12 "Disclosure of Interests in Other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of International Financial Reporting Standards" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendments to IAS 40 Investment Property	January 1, 2018

The Banks is still currently determining the potential impact of the standards listed below:

Issuance / Release Dates	Standards or Interpretations	Content of amendment
May 28, 2014	IFRS 15 "Revenue from	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS 11 "Construction Contracts," and a number of revenue-related interpretations.
April 12, 2016	Contracts with Customers"	
		Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.

(Continued)

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

<b>Issuance / Release Dates</b>	<b>Standards or Interpretations</b>	<b>Content of amendment</b>
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	<p>The standard will replace IAS 39 "Financial Instruments: Recognition and Measurement", and the main amendments are as follows:</p> <ul style="list-style-type: none"> <li>• Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore, there is a requirement that "own credit risk" adjustments be measured at fair value through other comprehensive income.</li> <li>• Impairment: The expected credit loss model is used to evaluate impairment.</li> <li>• Hedge accounting: Hedge accounting is more closely aligned with risk management activities, and hedge effectiveness is measured based on the hedge ratio.</li> </ul>
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>



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

### Notes to Consolidated Financial Statements

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

###### (ii) List of subsidiaries in the consolidated financial statements

Name of investor	Name of subsidiary	Name of activity	Shareholding		Description
			December 31, 2016	December 31, 2015	
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);

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

## Notes to Consolidated Financial Statements

- 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).

### (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.

(Continued)

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

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.

(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.

(Continued)

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

### Notes to Consolidated Financial Statements

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.

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.

(Continued)

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

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.

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.

(Continued)



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

## Notes to Consolidated Financial Statements

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.

### 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.

(Continued)

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

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.

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.

(Continued)

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

### Notes to Consolidated Financial Statements

#### (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.

#### (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.

(Continued)

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

### Notes to Consolidated Financial Statements

(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.

(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 25 years

(Continued)

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

## Notes to Consolidated Financial Statements

- (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.

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.

(Continued)



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

(Continued)

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

## Notes to Consolidated Financial Statements

### (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.

### (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

(Continued)

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

### Notes to Consolidated Financial Statements

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.

(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%.

(Continued)

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

### Notes to Consolidated Financial Statements

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.

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.

(Continued)

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

**(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.

**(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.

(Continued)



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

**(6) Explanation of significant accounts:**

**(a) Cash and cash equivalents**

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Cash on hand	\$ 11,126,957	10,695,159
Checks for clearing	13,990,270	9,037,993
Due from banks	20,388,233	19,548,300
	<u><u>\$ 45,505,460</u></u>	<u><u>39,281,452</u></u>

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Cash and cash equivalents in the statement of financial position	\$ 45,505,460	39,281,452
Due from the Central Bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	122,719,507	151,803,114
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	3,763,733	-
Total	<u><u>\$ 171,988,700</u></u>	<u><u>191,084,566</u></u>

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Reserves for deposits - a/c B	\$ 57,653,397	50,264,487
Reserves for deposits - a/c A	41,154,753	75,456,357
Deposits in the Central Bank	56,000,000	56,000,000
Call loans to banks	80,166,418	74,697,220
Deposits in the authorities in the oversea	1,398,337	1,649,537
Less: Allowance for doubtful accounts (note 6(f))	(8,842)	-
Net	<u><u>\$ 236,364,063</u></u>	<u><u>258,067,601</u></u>

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, 2016 and 2015, 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.

(Continued)

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

(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:

	December 31, 2016	December 31, 2015
Held-for-trading financial assets		
Listed companies' stocks	\$ 122,631	260,412
Commercial papers	979,404	2,277,418
Government bonds	43,743	145,714
Corporate bonds	85,308	236,309
Future margin	166	166
Acceptance Bill	9,565	-
Forward exchange contracts	49,423	14,692
Foreign-currency swap contracts	159,538	137,846
Interest rate swap contracts	9,261	226
Asset swap	81,261	140,763
Options	244	-
Subtotal	<u>1,540,544</u>	<u>3,213,546</u>
Designation as at fair value through profit or loss		
Corporate bonds	\$ 801,928	770,862
Financial institution bonds	<u>1,131,084</u>	<u>705,409</u>
Subtotal	<u>1,933,012</u>	<u>1,476,271</u>
Total	<u><u>\$ 3,473,556</u></u>	<u><u>4,689,817</u></u>

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

	December 31, 2016	December 31, 2015
Held-for-trading financial liabilities		
Forward exchange contracts	\$ 23,636	30,169
Foreign-currency swap contracts	94,965	168,783
Interest rate swap contracts	3,314	2,976
Gross-currency swap	71,606	178,206
Asset swap	70,462	22,239
Options	766	-
subtotal	<u>264,749</u>	<u>402,373</u>
Financial liabilities at fair value through profit or loss		
Financial debentures (note 6(q))	<u>8,400,862</u>	<u>8,614,879</u>
Total	<u><u>\$ 8,665,611</u></u>	<u><u>9,017,252</u></u>

(Continued)

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

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

	December 31, 2016	December 31, 2015
Forward exchange contracts	\$ 4,806,717	1,673,592
Foreign-currency swap contracts	15,216,842	20,025,421
Interest rate swap contracts	1,228,454	530,077
Gross-currency swap	966,600	88,776
Options	9,182,700	9,370,800
Asset swap	64,440	-

(iv) The net losses and gains on financial assets held for trading for the years ended December 31, 2016 and 2015 were gains of \$198,756 thousand dollars and losses of \$271,057 thousand dollars, respectively. The net losses and gains on financial liabilities held for trading for the years ended December 31, 2016 and 2015 were losses of \$155,702 thousand dollars and \$467,450 thousand dollars, respectively.

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

There is no note and bond issued under resell agreement in 2016 and 2015. Securities sold under repurchase agreements, and their buyback amounts using determined price were as follows:

December 31, 2016				
Items	Bond Book Value	Repurchase agreement	Repurchase Price	Repurchase Date
Resell agreement:				
Commercial papers	\$ <u>3,770,000</u>	<u>3,763,733</u>	<u>3,765,235</u>	Resell gradually before February 02, 2017
Repurchase agreement:				
Commercial papers	\$ 200,000	199,823	199,902	Repurchase gradually before January 26, 2017
Government bonds	<u>7,057,900</u>	<u>7,513,269</u>	<u>7,520,418</u>	Repurchase gradually before July 18, 2017
	\$ <u>7,257,900</u>	<u>7,713,092</u>	<u>7,720,320</u>	
December 31, 2015				
Items	Bond Book Value	Repurchase agreement	Repurchase Price	Repurchase Date
Repurchase agreement:				
Government bonds	\$ <u>4,842,100</u>	<u>5,372,087</u>	<u>5,381,264</u>	Repurchase gradually before June 22, 2016

(Continued)

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

(e) Receivables, net

	December 31, 2016	December 31, 2015
Accounts receivable	\$ 1,414,843	1,184,316
Client's Position - Debit	377,827	364,363
Earned income receivable	8,477	208,073
Interest receivable	3,994,824	3,689,452
Tax refundable	-	485
Acceptances receivable	1,479,482	1,337,924
Other receivables	<u>154,248</u>	<u>642,759</u>
Total	7,429,701	7,427,372
Less: Allowance for doubtful accounts (note 6(f))	<u>(66,902)</u>	<u>(496,577)</u>
Net	<u><u>\$ 7,362,799</u></u>	<u><u>6,930,795</u></u>

(f) Discounts and loans, net

	December 31, 2016	December 31, 2015
Import and export bills negotiated	\$ 186,284	322,641
Account receivables financing	3,700	414,833
Margins loans receivables	994,479	1,048,060
Accounts receivable secured financing	11,900	44,498
Discounted bills	739,182	448,294
Overdrafts	2,142,438	2,552,015
Secured overdrafts	1,820,121	2,077,845
Short-term loans	128,763,752	107,066,222
Short-term secured loans	30,336,098	25,825,951
Medium-term loans	239,880,257	262,042,301
Medium-term secured loans	355,385,955	353,765,167
Long-term loans	33,986,894	28,468,403
Long-term secured loans	1,002,624,510	965,392,411
Overdue loans	<u>2,678,876</u>	<u>2,604,164</u>
Total	1,799,554,446	1,752,072,805
Less: Allowance for doubtful accounts	(28,864,151)	(27,166,450)
Less: Adjustment for discounts and premiums	<u>(846)</u>	<u>(3,333)</u>
Net	<u><u>\$ 1,770,689,449</u></u>	<u><u>1,724,903,022</u></u>

(Continued)

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

- (i) As of December 31, 2016 and 2015, the balances of loans for which accrual of interest revenues was discontinued were \$2,684,545 thousand, and \$2,615,015 thousand, respectively. The unrecognized interest revenues on these loans were \$52,437 thousand and \$53,608 thousand for the years ended December 31, 2016 and 2015, respectively.
- (ii) The changes in allowance for doubtful accounts on loans, receivables and call loans to banks were as follows:

	<b>For the years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Loans:		
Beginning balance	\$ 27,166,450	26,101,877
Provision for loan losses and doubtful accounts	2,086,320	132,852
Write-off	(2,181,988)	(1,037,108)
Recoveries	2,060,365	1,956,814
Effects of changes in exchange rates and others	(266,996)	12,015
Ending balance	<u><u>\$ 28,864,151</u></u>	<u><u>27,166,450</u></u>
Receivables (including other financial assets):		
Beginning balance	\$ 539,722	434,001
Provision (reversal of provision) for receivable losses and doubtful accounts	(326,758)	76,687
Write-off	(126,160)	(9,268)
Recoveries	19,274	38,190
Effects of changes in exchange rates and others	2,950	112
Ending balance	<u><u>\$ 109,028</u></u>	<u><u>539,722</u></u>
Call loans to banks:		
Beginning balance	\$ -	3,167
Provision (reversal of provision) for possible losses and doubtful accounts	8,842	(3,167)
Ending balance	<u><u>\$ 8,842</u></u>	<u><u>-</u></u>

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Receivables	\$ 66,902	496,577
Discounts and loans	28,864,151	27,166,450
Other financial assets	42,126	43,145
Call loans to banks	8,842	-
Total	<u><u>\$ 28,982,021</u></u>	<u><u>27,706,172</u></u>

(Continued)



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

- (iv) The summary of the provision for loan losses and credit related losses in comprehensive income statement for the years ended December 31, 2016 and 2015 were as follows:

	<b>For the years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Provision for losses on discounts and loans	\$ 1,768,404	206,372
Provision (reversal of provision) for losses on guarantees	(143,907)	201,999
Total	<u>\$ 1,624,497</u>	<u>408,371</u>

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

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Stocks	\$ 7,936,207	8,500,427
Beneficiary certificates	228,808	570,600
Commercial papers	23,530,764	4,039,186
Treasury bills	-	1,992,038
Negotiable certificates of time deposits	304,285,260	282,038,123
Government bonds	45,128,777	40,241,191
Corporate bonds	3,558,520	3,602,903
Financial institution bonds	22,657,106	10,637,705
Total	<u>\$ 407,325,442</u>	<u>351,622,173</u>

As of December 31, 2016 and 2015, the available-for-sale financial assets were pledged to other parties as collateral for business reserves and guarantees for \$25,108,005 thousand and \$24,158,215 thousand, respectively. Please refer to note (8).

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Government bonds	\$ 56,658,001	24,355,359
Corporate bonds	3,550,000	3,600,000
Negotiable certificates of deposits	76,555,000	8,505,000
Treasury bill	47,088	-
	<u>\$ 136,810,089</u>	<u>36,460,359</u>

No Held-to-maturity financial assets was pledged at December 31, 2016 and 2015.

(Continued)

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

(i) Other financial assets, net

	December 31, 2016	December 31, 2015
Financial assets carried at cost	\$ 1,590,135	1,590,135
Less: accumulated impairment - financial assets carried at cost	(10,404)	(10,404)
Temporary payments for others	103,256	109,870
Less: allowance for bad debt - temporary payments for others (note 6(f))	(38,402)	(34,695)
Exchange bills negotiated	132	76
Less: allowance for bad debt - exchange bills negotiated (note 6(f))	(35)	-
Overdue loans	5,669	10,851
Less: allowance for bad debt - overdue loans (note 6(f))	(3,689)	(8,450)
Total	<u>\$ 1,646,662</u>	<u>1,657,383</u>

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:

	December 31, 2016			
Asset	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 Consolidated Financial Statements**

Asset	December 31, 2015			
	Cost	Accumulated depreciation	Accumulated impairment	Net
Land	\$ 14,746,131	-	(2,632)	14,743,499
Land improvements	11,847	(11,821)	-	26
Buildings	11,996,766	(5,194,467)	-	6,802,299
Machinery and computer equipment	2,804,874	(1,760,085)	-	1,044,789
Transportation equipment	480,032	(376,450)	-	103,582
Miscellaneous equipment	892,343	(703,515)	-	188,828
Leasehold improvements	218,776	(107,243)	-	111,533
Construction in progress	23,138	-	-	23,138
Machinery on order	359,703	-	-	359,703
Total	<u>\$ 31,533,610</u>	<u>(8,153,581)</u>	<u>(2,632)</u>	<u>23,377,397</u>

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

	Land	Buildings	Others	Total
Cost:				
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)
Reclassification	-	41,567	(41,567)	-
Effect of change in exchange rates	-	-	(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>
Balance at January 1, 2015	\$ 14,849,727	11,999,620	4,838,517	31,687,864
Additions	-	-	359,258	359,258
Disposals	-	(12,652)	(361,481)	(374,133)
Write-offs	-	-	(24,554)	(24,554)
Transfer in at current period	-	-	4,229	4,229
Reclassified to Investment securities	(103,596)	(14,966)	-	(118,562)
Reclassification	-	24,764	(25,275)	(511)
Effect of change in exchange rates	-	-	19	19
Balance at December 31, 2015	<u>\$ 14,746,131</u>	<u>11,996,766</u>	<u>4,790,713</u>	<u>31,533,610</u>

(Continued)

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

	Land	Buildings	Others	Total
Depreciation and Amortization:				
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)
Write-offs	-	-	(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>
Balance at January 1, 2015	\$ 2,632	4,933,657	2,913,938	7,850,227
Depreciation	-	273,462	429,478	702,940
Impairment loss	-	(12,652)	(361,481)	(374,133)
Disposals	-	-	(23,105)	(23,105)
Transfer in at current period	-	-	887	887
Reclassification	-	-	(621)	(621)
Effect of change in exchange rates	-	-	18	18
Balance at December 31, 2015	<u>\$ 2,632</u>	<u>5,194,467</u>	<u>2,959,114</u>	<u>8,156,213</u>
Carrying amounts:				
December 31, 2016	<u>\$ 14,778,900</u>	<u>6,587,601</u>	<u>1,873,363</u>	<u>23,239,864</u>
December 31, 2015	<u>\$ 14,743,499</u>	<u>6,802,299</u>	<u>1,831,599</u>	<u>23,377,397</u>

(iii) No property and equipment was pledged at December 31, 2016 and 2015.

(k) Investment Property, net

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

December 31, 2016				
Assets	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>
December 31, 2015				
Assets	Cost	Accumulated Depreciation	Accumulated impairment	Carrying amounts
Land	\$ 22,996,414	-	(99,937)	22,896,477
Buildings	1,735,284	(435,991)	-	1,299,293
Total	<u>\$ 24,731,698</u>	<u>(435,991)</u>	<u>(99,937)</u>	<u>24,195,770</u>

(Continued)

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

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

	<b>Land</b>	<b>Buildings</b>	<b>Total</b>
Cost:			
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	<b>\$ 22,940,901</b>	<b>1,736,773</b>	<b>24,677,674</b>
Balance at January 1, 2015	\$ 23,004,604	1,765,930	24,770,534
Additions	-	6,320	6,320
Reclassification	103,596	14,966	118,562
Sales	(111,786)	(51,932)	(163,718)
Balance at December 31, 2015	<b>\$ 22,996,414</b>	<b>1,735,284</b>	<b>24,731,698</b>
Depreciation and Amortization:			
Balance at January 1, 2016	\$ 99,937	435,991	535,928
Depreciation	-	39,641	39,641
Balance at December 31, 2016	<b>\$ 99,937</b>	<b>475,632</b>	<b>575,569</b>
Balance at January 1, 2015	\$ 104,371	403,987	508,358
Depreciation	-	44,473	44,473
Depreciation	-	(12,469)	(12,469)
Effect of change in exchange	(4,434)	-	(4,434)
Balance at December 31, 2015	<b>\$ 99,937</b>	<b>435,991</b>	<b>535,928</b>
Carrying amounts:			
December 31, 2016	<b>\$ 22,840,964</b>	<b>1,261,141</b>	<b>24,102,105</b>
December 31, 2015	<b>\$ 22,896,477</b>	<b>1,299,293</b>	<b>24,195,770</b>

- (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, 2016 and 2015, the fair values of investment properties are \$46,036,294 thousand and \$44,179,121 thousand, respectively.
- (iv) The rental revenues of investment property for the years ended 2016 and 2015 were \$302,908 thousand and \$266,254 thousand, respectively.
- (v) No investment property was pledged at December 31, 2016 and 2015.

(Continued)



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

(l) Intangibles assets, net

December 31, 2016				
Assets	Cost	Accumulated Amortization	Accumulated Impairment loss	Carrying amounts
Computer Software	\$ <u>1,807,535</u>	<u>(913,367)</u>	<u>-</u>	<u>894,168</u>
December 31, 2015				
Assets	Cost	Accumulated Amortization	Accumulated Impairment loss	Carrying amounts
Computer Software	\$ <u>1,368,870</u>	<u>(708,509)</u>	<u>-</u>	<u>660,361</u>

The changes in intangible assets were as follows:

	<b>Computer Software</b>
Costs:	
Balance at January 1, 2016	\$ 1,368,870
Additions	439,034
Effect of change in exchange rates	<u>(369)</u>
Balance at December 31, 2016	<u>\$ 1,807,535</u>
Balance at January 1, 2015	\$ 1,139,852
Additions	223,747
Transfer in at current period	5,056
Effect of change in exchange rates	<u>215</u>
Balance at December 31, 2015	<u>\$ 1,368,870</u>
Accumulated Amortization:	
Balance at January 1, 2016	\$ 708,509
Amortization	205,171
Effect of change in exchange rates	<u>(313)</u>
Balance at December 31, 2015	<u>\$ 913,367</u>
Balance at January 1, 2015	\$ 528,285
Amortization	179,399
Transfer in at current period	697
Effect of change in exchange rates	<u>128</u>
Balance at December 31, 2015	<u>\$ 708,509</u>
December 31, 2016	<u>\$ 894,168</u>
December 31, 2015	<u>\$ 660,361</u>

(Continued)

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

## (m) Other assets, net

	December 31, 2016	December 31, 2015
Prepayment	\$ 5,035,243	5,052,484
Guarantee deposits paid	2,915,569	2,114,184
Operating guarantee deposits, net	29,207	28,050
Temporary payments and suspense accounts	31,218	268,143
Other	4,819	64,645
Total	<u><u>\$ 8,016,056</u></u>	<u><u>7,527,506</u></u>

As of December 31, 2016 and 2015, the due from the Central Bank and call loans to banks amounted to \$2,745,804 thousand and \$2,004,295 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, 2016	December 31, 2015
Due to the Central Bank	\$ 675,062	713,493
Due to other banks	5,058,684	2,397,142
Due to Taiwan Post Co., Ltd.	44,214,660	42,781,251
Overdrafts from banks	516,473	516,992
Call loans from banks	91,626,515	75,674,509
Total	<u><u>\$ 142,091,394</u></u>	<u><u>122,083,387</u></u>

## (o) Payable

	December 31, 2016	December 31, 2015
Accounts payable	\$ 53,420	68,740
Brokering transactions credit balance	377,914	340,704
Accrued expenses	2,160,312	2,300,666
Accrued interest	3,184,538	3,160,132
Acceptances	1,663,425	1,359,760
Collection received on behalf of customers	1,162,667	1,127,487
Deposits received from securities borrowers	61,154	75,281
Guaranteed price deposits received from securities borrowers	66,625	81,176
Checks for clearing	14,281,579	10,176,132
Payable of compensation to land prices	150,574	69,921
Payable of short-term compensated absences	432,185	430,391
Other payables	865,044	1,454,542
Total	<u><u>\$ 24,459,437</u></u>	<u><u>20,644,932</u></u>

(Continued)

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

(p) Deposits and remittances

	December 31, 2016	December 31, 2015
Check deposits	\$ 26,522,954	26,983,727
Government deposits	167,231,271	159,907,460
Demand deposits	327,063,360	313,892,816
Time deposits	751,181,513	641,274,939
Savings deposits	975,043,479	956,587,639
Remittances under custody	2,502	3,054
Remittances outstanding	114,074	11,099
Total	<u><u>\$ 2,247,159,153</u></u>	<u><u>2,098,660,734</u></u>

(q) Financial debentures

	December 31, 2016	December 31, 2015
Subordinated financial debentures	\$ 79,700,000	72,200,000
Less: unamortized issuance costs	(5,659)	(6,711)
Total	<u><u>\$ 79,694,341</u></u>	<u><u>72,193,289</u></u>

- (i) According to the approval letter Jin-Guan-Yin-Guo-Zi No. 09800479300 published by Banking Bureau, Financial Supervisory Commission in 2009, 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 \$25,000,000 thousand. The Bank issued various seven-year subordinated financial debentures totaling \$4,200,000 thousand during the year 2010. The interest rate is based on the fixed rate of 2.00%. The subordinated financial debentures are repayable at the maturity in June 2017.
- (ii) 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 \$13,300,000 thousand and \$7,100,000 thousand during the year 2010 and 2011, respectively. The interest rate is based on the fixed rate of 1.53% and 1.64%, respectively. The subordinated financial debentures are repayable at the maturity in December 2017 and October 2018, respectively.

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

- (iii) 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.
- (iv) 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.
- (v) 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.
- (vi) 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.
- (vii) 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 and USD150,000 thousand on April 10, and June 26, 2015, respectively. 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).

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

(viii) 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.

(ix) According to the approval letter Jin-Guan-Yin-Guo-Zi No. 1050027140 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 in December 2016. The interest rate is based on the fixed rate of 3.15%.

(r) Other financial liabilities

	December 31, 2016	December 31, 2015
Cumulative earnings on appropriated loan fund	\$ <u>175,111</u>	<u>101,981</u>

(s) Provision

	December 31, 2016	December 31, 2015
Employee benefit (note 6(u))	\$ 16,208,874	15,739,170
Reserve for guarantee liabilities	<u>728,904</u>	<u>872,517</u>
Total	\$ <u>16,937,778</u>	<u>16,611,687</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 \$1,872 thousand and \$2,209 thousand for the years ended 2016 and 2015, respectively. Payment was made to the Bureau of the Labor Insurance.

(Continued)

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

(ii) Provision for employee benefit:

The Banks' employee benefits were as follows:

	December 31, 2016	December 31, 2015
Defined benefit plans	\$ 10,839,052	10,401,810
Employee benefit savings account	5,364,011	4,995,641
Three important festivals bonus	5,107	341,719
— Exceeding Annuity	704	-
Total	<u>\$ 16,208,874</u>	<u>15,739,170</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.

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

	December 31, 2016	December 31, 2015
Total present value of obligations	\$ 12,057,830	11,786,020
Fair value of plan assets	(1,218,778)	(1,384,210)
Recognized liabilities for defined benefit obligations	<u>\$ 10,839,052</u>	<u>10,401,810</u>

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**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
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i) Composition of plan assets

As of December 31, 2016, the Banks' Employee Retirement Fund Management Committee was \$904,347 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 Group's Bank of Taiwan labor pension reserve account balance amounted to \$310,777 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.

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 2016 and 2015 were as follows: :

	<u>2016</u>	<u>2015</u>
Defined benefit obligations on January 1	\$ 11,786,020	11,235,440
Current service costs and interests	700,013	699,997
Transfer in at current period	-	2,250
Remeasurement of net defined benefit liabilities		
— Movements in financial assumption	203,768	351,899
— Experience adjustment	85,322	96,314
Benefits paid by the plan	<u>(717,293)</u>	<u>(599,880)</u>
Defined benefit obligations on December 31	<u>\$ 12,057,830</u>	<u>11,786,020</u>

(Continued)

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

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 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Fair value of plan assets on January 1	\$ 1,384,210	1,579,844
Interest revenue	22,261	29,924
Remeasurement of net defined benefit liabilities (assets)		
— Expected returns on plan assets(exclude current interest)	(7,585)	(6,928)
Contributions made	520,558	365,343
Benefits paid by the plan	<u>(700,666)</u>	<u>(583,973)</u>
Fair value of plan assets on December 31	<u><u>\$ 1,218,778</u></u>	<u><u>1,384,210</u></u>

iv) Expense recognized in profit or loss

Expense recognized in profit or loss for the years ended 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Current service costs and interest cost	<u><u>\$ 677,752</u></u>	<u><u>670,073</u></u>

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>2016</u>	<u>2015</u>
Accumulated balance at January 1	\$ 367,034	(88,108)
Recognition	<u>296,675</u>	<u>455,141</u>
Accumulated balance at December 31	<u><u>\$ 663,709</u></u>	<u><u>367,033</u></u>

(Continued)

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

vi) Actuarial assumptions

	<u>2016.12.31</u>	<u>2015.12.31</u>
Discount rate	1.625 %	1.750 %
Expected return on plan assets	1.625 %	1.750 %
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 \$531,100.

The weighted average duration of the defined benefit plan is 5.5 to 24 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, 2016		
Discount rate	\$ (2,812,520)	3,245,393
December 31, 2015		
Discount rate	(2,744,170)	3,166,450

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:

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to 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 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Defined benefit obligations on January 1	\$ 4,995,641	4,713,416
Current service cost and interest cost	1,238,756	1,081,408
Remeasurement of net defined benefit liabilities		
— Movements in financial assumption	-	74,935
— Experience adjustment	318,415	208,289
Benefits paid by the plan	<u>(1,188,801)</u>	<u>(1,082,407)</u>
Defined benefit obligations on December 31	<u><u>\$ 5,364,011</u></u>	<u><u>4,995,641</u></u>

ii) Expense recognized in profit or loss

Expense recognized in profit or loss for the years ended 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Current service cost and interest cost	<u><u>\$ 1,238,756</u></u>	<u><u>1,081,408</u></u>

iii) Actuarial assumptions

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

1.

	<u>2016.12.31</u>	<u>2015.12.31</u>
Discount rate	4.00 %	4.00 %
Expected rate of return on funds deposited	1.625 %	1.750 %
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 %

(Continued)

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

	<b>Impact of defined benefit obligations</b>	
	<b>Add 1.00%</b>	<b>Less 1.00%</b>
December 31, 2016		
Discount rate	\$ (687,386)	788,473
December 31, 2015		
Discount rate	(641,690)	736,056

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.

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 2016 and 2015 were as follows:

	<b>2016</b>	<b>2015</b>
Defined benefit obligations on January 1	\$ 341,719	322,971
Current service costs and interests	5,729	14,237
Remeasurment of net defined benefit liabilities		
— Movements in financial assumption	2,994	5,126
— Experience adjustment	5,328	10,802
Past service cost	(339,046)	-
Benefits paid by the plan	(11,617)	(11,417)
Defined benefit obligations on December 31	<u>\$ 5,107</u>	<u>341,719</u>

(Continued)

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

ii) Expense recognized in profit or loss

Expense recognized in profit or loss for the years ended 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Current service costs and interests costs	\$ <u>5,729</u>	<u>14,237</u>

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

	<u>2016</u>	<u>2015</u>
Accumulated balance at January 1	\$ 13,541	(2,387)
Recognition	<u>8,322</u>	<u>15,928</u>
Accumulated balance at December 31	\$ <u>21,863</u>	<u>13,541</u>

iv) Actuarial assumptions

	<u>2016.12.31</u>	<u>2015.12.31</u>
Discount rate	1.625 %	1.750 %

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, 2016		
Discount rate	\$ (562)	647
December 31, 2015		
Discount rate	(37,856)	43,565

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 Consolidated Financial Statements**

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:

	<b>December 31, 2016</b>
The present value of defined benefit	\$ <u>704,000</u>
Defined benefit obligations on December 31	\$ <u><u>704,000</u></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.

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 2016 was as follows:

	<b>2016</b>
Defined benefit obligations on January 1	\$ -
Current service cost and interest cost	<u>704,000</u>
Remeasurement of net defined benefit liabilities	
Defined benefit obligations on December 31	\$ <u><u>704,000</u></u>

ii) Expense recognized in profit or loss

Expense recognized in profit or loss for the years ended 2016 was as follows:

	<b>2016</b>
Current service cost and interest cost	\$ <u><u>704,000</u></u>

(Continued)

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

iii) Actuarial assumptions

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

	<b>2016.12.31</b>
Discount rate	1.85 %
Future salary increases	2.00 %

(u) Other Liabilities

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Revenue received in advance	\$ 397,387	491,027
Guarantee deposits	712,926	674,958
Temporary receivers	56,651	39,976
Deferred revenue	44,373	56,403
Total	<b>\$ 1,211,337</b>	<b>1,262,364</b>

(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:

	<b>2016</b>	<b>2015</b>
Current income tax expense		
current period	\$ 1,680,640	1,690,131
Overseas branches' income tax expense	326,286	408,991
Deferred income tax expense		
Recognition and reversal of temporary differences	423,160	179,146
Overseas branches' income tax expense	(48,042)	(9,787)
Income tax expense	<b>\$ 2,382,044</b>	<b>2,268,481</b>

(Continued)

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

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

	<b>2016</b>	<b>2015</b>
Net income before income tax	\$ <u><b>12,798,957</b></u>	<u><b>12,250,950</b></u>
Income tax expense before income tax at statutory rate 17%	\$ 2,175,823	2,082,662
Overseas branches' income tax expense	278,244	399,204
Tax-exempt gains and other	<u>(72,023)</u>	<u>(213,385)</u>
Income tax expense	\$ <u><b>2,382,044</b></u>	<u><b>2,268,481</b></u>

(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:

	<b>Defined benefit plans</b>	<b>Allowance for bad debts</b>	<b>Others</b>	<b>Total</b>
Balance at January 1, 2016	\$ 2,018,877	1,660,194	246,625	3,925,696
Recognized in profit or loss	<u>5,094</u>	<u>(345,593)</u>	<u>(15,190)</u>	<u>(355,689)</u>
December 31, 2016	\$ <u><b>2,023,971</b></u>	<u><b>1,314,601</b></u>	<u><b>231,435</b></u>	<u><b>3,570,007</b></u>
Balance at January 1, 2015	\$ 2,023,881	1,722,967	238,181	3,985,029
Recognized in profit or loss	<u>(5,004)</u>	<u>(62,773)</u>	<u>8,444</u>	<u>(59,333)</u>
December 31, 2015	\$ <u><b>2,018,877</b></u>	<u><b>1,660,194</b></u>	<u><b>246,625</b></u>	<u><b>3,925,696</b></u>

b) Deferred Tax Liabilities:

	<b>Reserve for land value increment tax</b>
Balance at January 1, 2016	\$ 6,935,227
Recognized in profit or loss	<u>(9,093)</u>
December 31, 2016	\$ <u><b>6,926,134</b></u>
Balance at January 1, 2015	\$ 6,937,342
Recognized in profit or loss	<u>(2,115)</u>
December 31, 2015	\$ <u><b>6,935,227</b></u>

- 2) Unrecognized deferred income tax assets

As of December 31, 2016 and 2015 the Unrecognized deferred income tax assets were \$946,915 thousand and \$382,292 thousand, respectively.

(Continued)

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

(iv) Imputed tax credits are summarized as follows:

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Unappropriated earnings	\$ <u>5,467,558</u>	<u>3,265,729</u>
Balance of deductible tax account	\$ <u>6,467,246</u>	<u>3,538,185</u>
	<b>For the years ended December 31</b>	
	<b><u>2016 (estimated)</u></b>	<b><u>2015 (actual)</u></b>
Tax deduction ratio for earnings distribution to ROC	<u>20.48 %</u>	<u>20.48 %</u>

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.

(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.

On December 31, 2016 and 2015, authorized and outstanding capital were \$62,594,000 thousand and \$58,100,000 thousand, respectively.

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.

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

	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Provision for the purpose of strengthening the self-owned capital	\$ 6,964,087	6,564,245
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	(61,100)	(43,770)
	<b><u>\$ 14,064,239</u></b>	<b><u>13,681,727</u></b>

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

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to Consolidated Financial Statements****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 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, 2016 and 2015, 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 \$17,330 thousand and increased by \$13,254 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.

(Continued)



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

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.

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, 2016	\$ 1,103,764	3,896,287	5,000,051
Available-for-sale financial assets-adjustment to fair value	-	(1,538,580)	(1,538,580)
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>
Balance as of January 1, 2015	\$ 833,790	3,251,841	4,085,631
Available-for-sale financial assets-adjustment to fair value	-	644,446	644,446
Exchange differences on translation of foreign financial statements	269,974	-	269,974
Balance as of December 31, 2015	<u>\$ 1,103,764</u>	<u>3,896,287</u>	<u>5,000,051</u>

(x) Earnings per share

Basic earnings per share (New Taiwan dollars):

	For the years ended December 31	
	2016	2015
Net income	\$ <u>10,416,913</u>	<u>9,982,469</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>1.66</u>	<u>1.59</u>

(Continued)

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

(y) Net interest

	For the years ended December 31	
	2016	2015
Interest revenue:		
Discounts and loans	\$ 34,786,911	37,318,230
Due from the banks and call loans to banks	2,399,574	2,244,923
Bonds and notes	3,721,348	3,168,475
Others	932,911	986,709
Subtotal	41,840,744	43,718,337
Interest expenses:		
Deposits	(15,053,893)	(17,435,570)
Due to the Central Bank and call loans from banks	(660,664)	(513,647)
Bonds and notes	(1,295,683)	(1,370,673)
Others	(85,662)	(65,121)
Subtotal	(17,095,902)	(19,385,011)
Total	\$ <u>24,744,842</u>	<u>24,333,326</u>

(z) Service fees income, net

	For the years ended December 31	
	2016	2015
Service fees income:		
Agency of housing loans	\$ 226,342	267,808
Agency of insurance	1,124,391	943,179
Guarantee	225,685	251,048
Syndicated Loans	517,533	567,866
Trust	380,467	446,780
Credit card	458,343	339,246
Others	868,121	860,447
Subtotal	3,800,882	3,676,374
Service fees:		
Credit card	(468,141)	(323,027)
Interbank	(125,030)	(124,750)
Foreign exchange	(50,422)	(43,810)
Trust	(33,538)	(35,258)
Others	(109,615)	(93,877)
Subtotal	(786,746)	(620,722)
Total	\$ <u>3,014,136</u>	<u>3,055,652</u>

(Continued)

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

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

	<b>For the years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Realized gains (losses) on financial assets and liabilities at fair value through profit or loss:		
Government bonds	\$ 1,893	(988)
Corporate bonds	5,383	1,827
Listed companies' stocks	44,647	1,021
Forward exchange contracts	31,762	(40,824)
Foreign-currency swap contracts	137,957	(399,783)
Others	(58,312)	(8,224)
Subtotal	<u>163,330</u>	<u>(446,971)</u>
Revaluation gains (losses) on financial assets and liabilities at fair value through profit or loss:		
Government bonds	(2,422)	3,484
Corporate bonds	49,720	(42,707)
Listed companies' stocks	(14,834)	11,160
Forward exchange contracts	41,266	(24,670)
Foreign-currency swap contracts	96,078	(26,106)
Interest rate swap contracts	106,601	(74,082)
Cross currency swap	(98,512)	(68,458)
Unsubordinated financial bonds	42,417	-
Others	(9,902)	119,837
Subtotal	<u>210,412</u>	<u>(101,542)</u>
Interest revenue on financial assets at fair value through profit or loss	38,080	25,899
Dividend income on financial assets at fair value through profit or loss	240	-
Interest expense on financial assets at fair value through profit or loss	(369,008)	(215,893)
Total	<u>\$ 43,054</u>	<u>(738,507)</u>

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**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to 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>2016</b>	<b>2015</b>
Dividend income	\$ 300,523	233,387
Gains on disposal of available-for-sale financial assets		
Bonds	546,703	60,613
Stocks	729,474	576,092
Others	4,579	19,854
Subtotal	<u>1,581,279</u>	<u>889,945</u>
Losses on disposal of available-for-sale financial assets		
Bonds	(21,389)	(142)
Stocks	(90,572)	(317,970)
Others	-	(84)
Subtotal	<u>(111,961)</u>	<u>(318,196)</u>
Total	<u><u>\$ 1,469,318</u></u>	<u><u>571,749</u></u>

(ac) Other noninterest gains, net

	<b>For the years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Gains on financial assets carried at cost	\$ (67,817)	120,192
Brokerage	65,790	84,835
Lease (note 6(k))	374,130	335,210
Agency	(3,725)	(4,560)
Others	1,167,709	(67,165)
Total	<u><u>\$ 1,536,087</u></u>	<u><u>468,512</u></u>

(ad) Employee benefits expenses

	<b>For the years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Salaries	\$ 7,418,268	7,399,346
Labor and health insurance	338,554	326,799
Pension	638,573	672,278
Employee benefit savings account	1,852,381	1,649,561
Others	150,750	153,620
Total	<u><u>\$ 10,398,526</u></u>	<u><u>10,201,604</u></u>

(Continued)

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

(ae) Depreciation and amortization expenses

	<b>For the years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Depreciation- Property and Equipment	\$ 687,539	702,940
Depreciation- Investment property	39,641	44,473
Amortization	205,171	179,399
Total	<u><u>\$ 932,351</u></u>	<u><u>926,812</u></u>

(af) Other general and administrative expenses

	<b>For the years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Taxes	\$ 2,463,489	2,664,720
Rental	643,686	634,001
Insurance	417,923	403,363
Marketing	217,880	218,910
Others	1,225,968	1,265,502
Total	<u><u>\$ 4,968,946</u></u>	<u><u>5,186,496</u></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, 2016 and 2015 are as follows:

(Continued)

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

	December 31, 2016		December 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets:	2,319,945,198	2,318,617,236	2,119,332,754	2,119,898,114
Derivative financial assets at FVTPL, net	299,893	299,893	293,693	293,693
Non-derivative financial assets at FVTPL, net	3,173,663	3,173,663	4,396,124	4,396,124
Discounts and loans, net	1,770,689,449	1,770,689,449	1,724,903,022	1,724,903,022
Available-for sale financial assets	407,325,442	407,325,442	351,622,173	351,622,173
Held-to-maturity financial assets	136,810,089	135,482,127	36,460,359	37,025,719
Other financial assets	1,646,662	1,646,662	1,657,383	1,657,383
Financial Liabilities:	88,535,063	88,535,063	81,312,522	81,312,522
Derivative financial liabilities at FVTPL	264,749	264,749	402,373	402,373
Non-derivative financial liabilities at FVTPL, net	8,400,862	8,400,862	8,614,879	8,614,879
Financial debentures	79,694,341	79,694,341	72,193,289	72,193,289
Other financial liabilities	175,111	175,111	101,981	101,981

(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.

(Continued)



**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
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(iii) Determination of fair value and fair value hierarchy:

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	-

(Continued)

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

Financial instruments measured at fair value	December 31, 2015			
	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	\$ 260,412	260,412	-	-
Bonds	382,023	-	382,023	-
Others	2,277,418	-	2,277,418	-
Designation as at fair value through profit or loss	1,476,271	-	1,476,271	-
Available-for-sale financial assets:				
Stocks	8,500,427	8,500,427	-	-
Bonds	54,481,799	2,490,085	51,991,714	-
Others	288,639,947	570,600	288,069,347	-
<b>Liabilities:</b>				
Designation as at fair value through profit or loss	8,614,879	-	8,614,879	-
<b><u>Derivative financial instruments</u></b>				
<b>Assets:</b>				
Financial assets at fair value through profit or loss	293,693	-	293,693	-
<b>Liabilities:</b>				
Financial liabilities at fair value through profit or loss	402,373	-	402,373	-

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 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 2016 and 2015, 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 225,246 thousand and to gain 112,702 thousand, respectively are recognized as profit or loss for that period.
- (v) As of December 31, 2016 and 2015, there was no transfer of financial instruments between Level 1 and Level 2. As of December 31, 2016 and 2015, there were no transfer to Level 3.

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

### Notes to 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 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 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, 2016	December 31, 2015
Irrevocable loan commitments	\$ 34,359,776	56,717,373
Credit card commitments	21,742,590	17,586,508
Unused commercial letters of credit	11,708,696	7,455,090
Cash card commitments	113,728	151,974
Guarantees	43,609,186	73,301,524

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:

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

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

(in thousands of New Taiwan dollars)

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Private enterprises	\$ 562,753,459	31.32	576,893,119	32.98
Government owned enterprises	33,428,778	1.86	23,151,710	1.32
Government owned enterprises	49,539,413	2.76	54,638,164	3.12
Non-profit organizations	539,997	0.03	522,247	0.03
Individual	1,015,537,736	56.52	984,493,034	56.28
Financial institutions	326,382	0.02	166,739	0.01
Others	134,563,521	7.49	109,280,987	6.26
Total	<u>\$ 1,796,689,286</u>	<u>100.00</u>	<u>1,749,146,000</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, 2016		December 31, 2015	
	Amount	%	Amount	%
Domestic	\$ 1,636,762,325	91.10	1,594,984,505	91.19
Foreign	159,926,961	8.90	154,161,495	8.81
Total	<u>\$ 1,796,689,286</u>	<u>100.00</u>	<u>1,749,146,000</u>	<u>100.00</u>

c) By collateral

(in thousands of New Taiwan dollars)

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Non-collateral	\$ 329,215,119	18.29	314,890,044	17.97
Collateral				
Financial collateral	10,260,079	0.57	10,832,032	0.62
Receivables	1,742,708	0.10	979,616	0.06
Property	1,293,581,212	71.88	1,251,448,437	71.43
Guarantee	34,008,255	1.89	36,248,736	2.07
Other	130,747,073	7.27	137,673,940	7.85
	<u>\$ 1,799,554,446</u>	<u>100.00</u>	<u>1,752,072,805</u>	<u>100.00</u>

(Continued)

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

## Notes to 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, 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	1,759,214	-	80,679	1,839,893	45,711	2,024	1,792,158
— Other	4,301,228	-	74,790	4,376,018	1,392	17,775	4,356,851
Discount and loans	1,767,147,406	1,983,619	30,423,421	1,799,554,446	6,878,988	21,985,163	1,770,690,295
Total	1,773,207,848	1,983,619	30,578,890	1,805,770,357	6,926,091	22,004,962	1,776,839,304

December 31, 2015	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	1,333,848	-	47,581	1,381,429	33,275	828	1,347,326
— Other	5,850,477	-	179,877	6,030,354	120,061	340,640	5,569,653
Discount and loans	1,718,950,984	2,334,830	30,786,991	1,752,072,805	6,695,606	19,438,232	1,725,938,967
Total	1,726,135,309	2,334,830	31,014,449	1,759,484,588	6,848,942	19,779,700	1,732,855,946

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to 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, 2016	December 31, 2015
Consumer banking		
— Mortgage loans	\$ 738,315,706	719,226,174
— Consumer loan — unsecured	29,385,681	21,528,425
— other	110,853,576	91,848,342
Corporate banking		
— secured	523,584,035	509,998,548
— unsecured	360,072,418	372,362,022
— other	4,935,990	3,987,473
<b>Total</b>	<b>\$ 1,767,147,406</b>	<b>1,718,950,984</b>

- c) Credit analysis on securities investment

(in thousands of New Taiwan dollars)

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	136,806,886			136,806,886		136,806,886
— Investment in Bonds	60,251,886	-	-	60,251,886	-	60,251,886
— 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

December 31, 2015	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	351,622,173			351,622,173		351,622,173
— Investment in Bonds	54,481,799	-	-	54,481,799	-	54,481,799
— Investment in Stocks	8,500,427	-	-	8,500,427	-	8,500,427
— Other	288,639,947	-	-	288,639,947	-	288,639,947
Held-to-maturity financial assets	36,457,128			36,457,128		36,457,128
— Investment in Bonds	27,952,128	-	-	27,952,128	-	27,952,128
— Other	8,505,000	-	-	8,505,000	-	8,505,000
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 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, 2016			December 31, 2015		
	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	1,094,176	531,458	1,625,634	1,091,455	692,961	1,784,416
— Consumer loans	33,980	15,381	49,361	23,869	16,510	40,379
— Other	35,405	9,198	44,603	47,788	22,210	69,998
Corporate banking						
— secured	130,465	38,661	169,126	271,436	67,754	339,190
— unsecured	29,257	65,638	94,895	80,027	20,820	100,847
Total	1,323,283	660,336	1,983,619	1,514,575	820,255	2,334,830

### 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, 2016	December 31, 2015
With objective evidence of impairment	Individual assessment	21,444,085	23,098,429
	Collective assessment	8,979,336	7,688,562
Without objective evidence of impairment	Collective assessment	1,769,131,025	1,721,285,814
Total		1,799,554,446	1,752,072,805

(Continued)

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

Items		Allowance for possible losses	
		December 31, 2016	December 31, 2015
With objective evidence of impairment	Individual assessment	2,388,034	2,659,314
	Collective assessment	4,540,954	4,213,844
Without objective evidence of impairment	Collective assessment	21,935,163	20,293,292
Total		28,864,151	27,166,450

Items		Receivables	
		December 31, 2016	December 31, 2015
With objective evidence of impairment	Individual assessment	56,014	130,275
	Collective assessment	79,863	71,309
Without objective evidence of impairment	Collective assessment	6,080,034	7,210,199
Total		6,215,911	7,411,783

Items		Allowance for possible losses	
		December 31, 2016	December 31, 2015
With objective evidence of impairment	Individual assessment	1,392	100,526
	Collective assessment	45,711	53,048
Without objective evidence of impairment	Collective assessment	19,799	343,003
Total		66,902	496,577

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, 2016 and 2015 were \$1,213,790 thousand and \$748,402 thousand, respectively.

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

## Notes to 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, 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 %
Consumer Banking	Mortgage loans (Note 4)		1,457,585	769,880,511	0.19 %	12,711,082	872.06 %
	Cash card		900	36,594	2.46 %	11,650	1,294.44 %
	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 %
			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)			-	-	-	-	-

Period			December 31, 2015				
Items			Non-performing Loans (Note 1)	Loans	Ratio of Non- performing Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate	Secured		1,251,376	523,898,466	0.24 %	10,214,806	816.29 %
Banking	Unsecured		127,229	378,240,803	0.03 %	1,093,260	859.29 %
Consumer Banking	Mortgage loans (Note 4)		1,352,969	733,077,196	0.18 %	11,052,665	816.92 %
	Cash card		1,404	49,608	2.83 %	16,245	1,157.05 %
	Small-scale credit loans (Note 5)		9,725	1,651,086	0.59 %	83,619	859.86 %
	Other (Note 6)	Secured	539,565	92,641,137	0.58 %	4,377,176	811.24 %
Unsecured		37,496	22,514,509	0.17 %	328,679	876.56 %	
Total loans			3,319,764	1,752,072,805	0.19 %	27,166,450	818.32 %
			Non-performing Receivables	Receivables	Ratio of Non- performing Receivables	Allowance for Possible Losses	Coverage Ratio
Credit cards			2,670	957,246	0.28 %	35,673	1,336.07 %
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).

(Continued)



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

## Notes to 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, 2016		December 31, 2015	
	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)	18,688	6,139	7,942	8,765
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	3,990	25,278	5,429	27,322
Total	22,678	31,417	13,371	36,087

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 Consolidated Financial Statements**

c) Concentration of credit extensions

(in thousands of New Taiwan dollars)

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	B Bank- Petroleum and Coal products Manufacturing Industry	18,402,769	13.66
3	C Bank- Air Transportation Industry	13,609,425	10.10
4	D Bank- Ocean Transportation Industry	13,098,168	9.72
5	E Bank- Iron and Steel Smelting Industry	12,116,093	8.99
6	F Bank- Textile Products Manufacturing Industry	10,960,863	8.14
7	G Bank- Rolling and Extended of Iron and Steel Smelting Industry	9,611,052	7.13
8	H Bank- LCD and Components Manufacturing Industry	9,489,235	7.04
9	I Bank- LCD and Components Manufacturing Industry	7,990,863	5.93
10	J Bank- Other Retail Sale of General Merchandise Industry	7,399,606	5.49

(Continued)

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

December 31, 2015			
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	43,873,337	34.51
2	B Bank- Petroleum and Coal products Manufacturing Industry	19,415,390	15.27
3	D Bank- Ocean Transportation Industry	13,754,433	10.82
4	E Bank- Iron and Steel Smelting Industry	12,005,636	9.44
5	C Bank- Air Transportation Industry	11,765,446	9.25
6	F Bank- Textile Products Manufacturing Industry	10,407,596	8.19
7	G Bank-Rolling and Extended of Iron and Steel Smelting Industry	9,201,466	7.24
8	I Bank-LCD and Components Manufacturing Industry	8,800,399	6.92
9	J Bank- Other Retail Sale of General Merchandise Industry	7,459,103	5.87
10	H Bank- LCD and Components Manufacturing Industry	6,757,856	5.32

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."

(Continued)

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

### Notes to 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.

(Continued)

# **LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES** **Notes to 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, 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	2,217,040	1,691,760	2,190,116	5,755,928	12,604,593	24,459,437
Deposits and remittances	487,212,795	551,204,071	524,719,420	615,647,940	68,523,804	2,247,308,030
Financial debentures	-	-	4,200,000	13,300,000	62,200,000	79,700,000
Other financial liabilities	5,322	260	8,145	15,440	145,944	175,111
Total	558,457,646	585,208,514	566,800,787	642,499,116	159,241,420	2,512,207,483

(Continued)

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

December 31, 2015	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	63,811,999	44,776,679	4,682,015	8,812,694	-	122,083,387
Funds borrowed from the Central Bank and other banks	-	2,301,596	-	215,233	-	2,516,829
Non-derivative financial liability at fair value through profit or loss	-	-	-	-	8,614,879	8,614,879
Securities sold under repurchase agreements	2,676,670	2,195,061	500,356	-	-	5,372,087
Payables	2,564,123	1,281,479	2,080,265	5,220,441	9,498,624	20,644,932
Deposits and remittances	500,820,189	496,595,573	505,370,994	546,207,623	49,778,228	2,098,772,607
Financial debentures	-	-	-	-	72,200,000	72,200,000
Other financial liabilities	2,483	340	2,648	7,458	89,052	101,981
Total	569,875,464	547,150,728	512,636,278	560,463,449	140,180,783	2,330,306,702

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, 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

(Continued)



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

December 31, 2015	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	997,105	1,134,399	-	-	-	2,131,504
— Interest rate derivatives	4,888	10,702	(346,938)	53,512	213,166	(64,670)
Total	1,001,993	1,145,101	(346,938)	53,512	213,166	2,066,834

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, 2016	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Derivative financial liabilities at FVTPL						
— Cash outflow	2,237,513	5,090,562	2,816,775	1,030,503	-	11,175,353
— Cash inflow	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)

December 31, 2015	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Derivative financial liabilities at FVTPL						
— Cash outflow	6,127,738	3,977,848	3,527,659	1,166,449	991,003	15,790,697
— Cash inflow	6,056,752	3,940,791	3,451,362	1,070,169	904,938	15,424,012
Net cash flow	(70,986)	(37,057)	(76,297)	(96,280)	(86,065)	(366,685)

(Continued)

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

### Notes to 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, 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

December 31, 2015	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Undrawn loan commitments	51,910,163	39,944	526,080	7,215	4,233,971	56,717,373
Undrawn letters of credit	2,218,641	4,033,199	905,826	215,942	81,482	7,455,090
Guarantees	5,444,964	3,230,344	15,556,778	16,990,002	32,079,436	73,301,524
Total	59,573,768	7,303,487	16,988,684	17,213,159	36,394,889	137,473,987

#### 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, 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

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

December 31, 2015	Less than 1 year	1~5 years	Over 5 years	Total
Lease agreement				
Operating lease payment(lessee)	348,875	632,621	3,066	984,562
Operating lease income (lessor)	339,755	228,037	-	567,792
Total	688,630	860,658	3,066	1,552,354

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, 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)

December 31, 2015	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	253,628,538	197,157,013	175,481,521	196,450,574	311,275,774	1,050,636,607	2,184,630,027
Main capital outflow on maturity	103,372,950	220,302,002	398,528,953	480,768,005	658,113,532	982,806,023	2,843,891,465
Gap	150,255,588	(23,144,989)	(223,047,432)	(284,317,431)	(346,837,758)	67,830,584	(659,261,438)

b) Maturity analysis of assets and liabilities in US Dollars

(in thousands of New Taiwan dollars)

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)

December 31, 2015	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year	Total
Main capital inflow on maturity	3,140,792	1,883,535	751,598	530,087	3,986,496	10,292,508
Main capital outflow on maturity	3,479,394	3,794,866	1,733,541	684,173	1,378,313	11,070,287
Gap	(338,602)	(1,911,331)	(981,943)	(154,086)	2,608,183	(777,779)

(Continued)

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

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

### Notes to Consolidated Financial Statements

and limits. The risk management department monitors and analyzes the 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 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.

(Continued)



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

### Notes to 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 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.

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
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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, 2016 and 2015 will decrease by \$3,747 thousand and \$13,196 thousand, respectively, while the other comprehensive statement of income will decrease by \$4,171,879 thousand and \$2,847,804 thousand, respectively. If the yield curve of security market decreases by 100bps, the profit or loss as of December 31, 2016 and 2015 will increase by \$3,875 thousand and \$14,190 thousand, respectively, while other comprehensive income or loss will increase \$4,958,104 thousand and \$2,945,675 thousand, respectively.

ii) Exchange rate risk

The Bank assumes other risk factors remain constant, if USD against TWD appreciates by 3%, the profit or loss as of December 31, 2016 and 2015 will increase by \$1,308 thousand and \$12,616 thousand, respectively; if EUR against TWD depreciates by 3%, the profit or loss as of December 31, 2016 and 2015 will decrease by \$154 thousand and increase by \$93 thousand; if JPY against TWD appreciates by 5%, the profit or loss as of December 31, 2016 and 2015 will increase by \$6 thousand and decrease by \$673 thousand, respectively; if CNY against TWD depreciates by 5%, the profit or loss as of December 31, 2016 and 2015 will decrease by \$779 thousand and increase by \$1,229 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, 2016 and 2015 will decrease by \$25,277 thousand and \$71,144 thousand, respectively, while items other comprehensive income or loss will decrease by \$573,306 thousand, and \$723,398 thousand, respectively, and vice versa.

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
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iv) Summary of sensitivity analysis is as follows:

(in thousands of New Taiwan dollars)

<b>December 31, 2016</b>			
<b>Main Risk</b>	<b>Sensitivity to change</b>	<b>Amount</b>	
		<b>Equity</b>	<b>Equity</b>
Currency Risk	USD/TWD increase 3%	-	1,308
	EUR/TWD decrease 3%	-	154
	JPY/TWD increase 5%	-	6
	CNY/TWD decrease 5%	-	(779)
Currency Risk	USD/TWD decrease 3%	-	(1,308)
	EUR/TWD increase 3%	-	(154)
	JPY/TWD decrease 5%	-	(6)
	CNY/TWD increase 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)

<b>December 31, 2015</b>			
<b>Main Risk</b>	<b>Sensitivity to change</b>	<b>Amount</b>	
		<b>Equity</b>	<b>Equity</b>
Currency Risk	USD/TWD increase 3%	-	12,616
	EUR/TWD decrease 3%	-	(93)
	JPY/TWD increase 5%	-	673
	CNY/TWD decrease 5%	-	(1,229)
Currency Risk	USD/TWD decrease 3%	-	(12,616)
	EUR/TWD increase 3%	-	93
	JPY/TWD decrease 5%	-	(673)
	CNY/TWD increase 5%	-	1,229
Interest Risk	Yield curve increase 100BPS	(2,847,804)	(13,196)
Interest Risk	Yield curve decrease 100BPS	2,945,675	14,190
Equity securities price risk	Price of equity securities increase 15%	723,398	71,144
Equity securities price risk	Price of equity securities decrease 15%	(723,398)	(71,144)

(Continued)

**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
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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, 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:32.22; JPY /TWD: 0.277; EUR /TWD: 33.98; AUD /TWD: 23.345; CNY /TWD: 4.624.

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**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
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December 31, 2015	(USD)	(JPY)	(EUR)	(AUD)	(CNY)	Other	Total
Foreign currency financial assets							
Cash and cash equivalents	11,338,838	272,021	277,274	41,115	10,723,302	347,106	22,999,656
Due from the Central Bank and call loans to banks	113,359,436	395,850	1,149,440	1,769,355	25,295,694	3,551,203	145,520,978
Financial assets at fair value through profit or loss	1,411,584	-	-	-	-	106,482	1,518,066
Available for sale financial assets	7,630,705	-	-	3,405,340	1,397,672	279,512	12,713,229
Loans and discounts	170,840,292	5,236,611	1,324,344	41,820	7,474,558	3,421,480	188,339,105
Receivables	6,112,327	26,477	3,389	25,947	564,703	19,154	6,751,997
Held-to-maturity financial assets	-	-	-	-	-	1,276,682	1,276,682
Other financial assets	76	-	-	-	-	-	76
Other assets	229,577	-	882	-	12,254	144,304	387,017
<b>Total assets</b>	<b>310,922,835</b>	<b>5,930,959</b>	<b>2,755,329</b>	<b>5,283,577</b>	<b>45,468,183</b>	<b>9,145,923</b>	<b>379,506,806</b>
Foreign currency financial liabilities							
Due to the Central Bank and call loans to banks	113,061,555	148,312	1,041,680	2,337,563	12,729,515	3,806,158	133,124,783
Deposits and remittances	167,610,861	2,487,477	2,127,657	3,964,301	23,217,932	3,877,110	203,285,338
Other financial liabilities	2,503	-	-	-	-	2,801	5,304
Payables	16,061,756	7,288,318	582,240	14,876	551,006	2,349,001	26,847,197
Other liabilities-Refundable deposits	194,338	28,716	2,001	-	49	28,421	253,525
<b>Total liabilities</b>	<b>296,931,013</b>	<b>9,952,823</b>	<b>3,753,578</b>	<b>6,316,740</b>	<b>36,498,502</b>	<b>10,063,491</b>	<b>363,516,147</b>

Note: As of December 31, 2015 the exchange rates of different currencies against the TWD are as follows: USD/TWD:32.880; JPY /TWD: 0.2730; EUR /TWD: 35.920; AUD /TWD: 23.975; CNY /TWD: 4.993.

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

<b>December 31, 2016</b>					
<b>Items</b>	<b>1 to 90 Days</b>	<b>91 to 180 Days</b>	<b>181 Days to 1 Year</b>	<b>Over 1 Year</b>	<b>Total</b>
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

<b>December 31, 2015</b>					
<b>Items</b>	<b>1 to 90 Days</b>	<b>91 to 180 Days</b>	<b>181 Days to 1 Year</b>	<b>Over 1 Year</b>	<b>Total</b>
Interest-rate-sensitive assets	\$ 1,913,950,624	28,777,724	22,975,236	67,636,846	2,033,340,430
Interest-rate-sensitive liabilities	955,392,411	823,358,748	135,258,194	87,746,141	2,001,755,494
Interest rate sensitivity gap	958,558,213	(794,581,024)	(112,282,958)	(20,109,295)	31,584,936
Net worth					127,143,178
Ratio of interest-rate-sensitive assets to liabilities (%)					101.58
Ratio of interest rate sensitivity gap to net worth (%)					24.84

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 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, 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

December 31, 2015					
Items	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest-rate-sensitive assets	\$ 7,764,564	1,043,330	409,687	325,517	9,543,098
Interest-rate-sensitive liabilities	6,578,490	1,595,195	438,214	501,000	9,112,899
Interest rate sensitivity gap	1,186,074	(551,865)	(28,527)	(175,483)	430,199
Net worth					3,866,885
Ratio of interest-rate-sensitive assets to liabilities (%)					104.72
Ratio of interest rate sensitivity gap to net worth (%)					11.13

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 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, 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)		
				Financial instrument (Note)	cash collateral received	net amount (e)=(c)-(d)
Derivative financial assets	\$ 1,543,536	1,486,805	56,731	-	64,762	(8,031)
Reverse and Securities lending agreement	3,763,733	-	3,763,733	3,763,733	-	-
Total	<u>\$ 5,307,269</u>	<u>1,486,805</u>	<u>3,820,464</u>	<u>3,763,733</u>	<u>64,762</u>	<u>(8,031)</u>

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)		
				Financial instrument (Note)	cash collateral received	net amount (e)=(c)-(d)
Derivative financial assets	\$ 1,635,380	1,578,114	57,266	-	202,664	(145,398)

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

## Notes to Consolidated Financial Statements

December 31, 2015

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	
Total	\$ 3,557,729	3,468,104	89,625	-	141,384	(51,759)

December 31, 2015

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	\$ 2,862,256	2,839,545	22,711	-	206,815	(184,104)

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, 2016					
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	\$ -	7,713,092	-	-	-

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

December 31, 2015					
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	\$ -	5,372,087	-	-	-

(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 5.125%, 6.625% and 8.625%, 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%.

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

### Notes to 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, 2016 and 2015 are in compliance with regulations of local authorities.

(in thousands of New Taiwan dollars)

Items			Year	December 31, 2016	December 31, 2015
Eligible Capital	Common equity tier 1 capital			121,832,757	113,570,068
	Additional tier 1 capital			10,781,997	2,998,525
	Tier 2 capital			51,618,712	61,701,683
	Eligible capital			184,233,466	178,270,276
Risk- weighted Assets	Credit risk	Standardized approach		1,485,157,400	1,466,512,224
		Internal rating-based approach		-	-
		Securitization		-	-
	Operational risk	Basic indicator approach		53,082,779	51,118,577
		Standardized approach/Alternative standardized approach		-	-
		Advanced measurement approach		-	-
	Market risk	Standardized approach		52,704,583	42,277,653
		Internal model approach		-	-
	Risk-weighted assets			1,590,944,762	1,559,971,776
Capital adequacy ratio				11.58	11.43
Ratio of common stock equity to risk-weighted assets (%)				7.66	7.28
Ratio of tier 1 capital to risk-weighted assets (%)				8.34	7.47
Leverage (%)				4.78	4.45

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."

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

	2016	2015
Short-term employee benefits	\$ 20,247	20,235
Post-employment benefits	2,415	2,474
	<u>\$ 22,662</u>	<u>22,709</u>

- (c) Significant account balances and transactions with the related parties

- (i) Deposits

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Land Bank Insurance Brokerage Co., Ltd.	\$ 765,756	0.03	950,020	0.05

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 Consolidated Financial Statements

### (ii) Loans

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Land Bank Insurance Brokerage Co., Ltd.	<u>\$ 449,660</u>	<u>0.02</u>	<u>374,092</u>	<u>0.02</u>

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, 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	-	Time deposits etc.	None

( in thousands of New Taiwan dollars)

December 31, 2015							
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	33	\$ 20,239	19,089	19,089	-	Credit etc.	None
Private housing mortgage loan	95	299,977	272,918	272,918	-	Real estate	None
Other loans	24	82,085	82,085	82,085	-	Time deposits 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.

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**LAND BANK OF TAIWAN CO., LTD. AND ITS SUBSIDIARIES**  
**Notes to 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, 2016	December 31, 2015	Guarantee pledged
Government bonds (recorded as available-for-sale financial assets)	\$ 1,070,290	1,010,566	Guarantee deposits pledged with court and guarantees for tax litigation
Government bonds (recorded as available-for-sale financial assets)	257,529	266,369	Operating guarantees of securities department
Government bonds (recorded as available-for-sale financial assets)	296,137	303,925	Reserve for trust business losses
Negotiable certificate of time deposits (recorded as available-for-sale financial assets)	4,920,000	4,000,030	Guarantee for settlement funds from Central Bank and other banks
Negotiable certificate of time deposits (recorded as available-for-sale financial assets)	18,000,220	18,001,145	Guarantee deposits for Payment Versus Payment
Government bonds (recorded as available-for-sale financial assets)	55,913	58,704	Operating guarantees of securities
Government bonds (recorded as available-for-sale financial assets)	22,365	23,482	Reserve for the Electronic Bond Trading System
Government bonds (recorded as available-for-sale financial assets)	160,702	162,986	Operating guarantees of U.S. FINRA
Negotiable certificate of time deposits (recorded as available-for-sale financial assets)	324,849	331,008	Operating guarantees of U.S. FINRA
Asset exchange (recorded as other assets)	202,604	206,815	Guarantees for asset exchange valuation
Time deposits (recorded as other assets)	2,543,200	1,797,480	Guarantee deposits for CNY overdraft
Total	<u>\$ 27,853,809</u>	<u>26,162,510</u>	

(Continued)

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

**(9) Commitments and contingencies:**

- (a) As of December 31, 2016, the Bank has the following contingent liabilities and commitments, which are not included in the above-mentioned financial statements:

	December 31, 2016	December 31, 2015
Loan commitments	\$ 34,359,775	56,717,373
Credit card lines commitments	21,742,590	17,586,508
Cash card lines commitments	113,728	151,974
Trust liabilities	378,430,048	380,551,284
Securities under custody for customers	17,688,967	17,532,225
Property under custody for customers	448,095	371,301
Travellers' checks consignment-in	136,956	166,039
Collections for customers	59,402,805	50,378,417
Agency loans	57,875,888	68,218,513
Government bond under custody for customers	100,309,400	61,810,700
Consigned manager of bills	47,073,713	17,448,477
Consigned sales of goods	10,268	9,835
Guarantees	43,609,186	73,301,523
Unused commercial letter of credits	11,708,696	7,455,091
Securities sold under repurchase agreement	7,520,418	5,381,264
Total	<u>\$ 780,430,533</u>	<u>757,080,524</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, 2016 and 2015**

(in thousands of New Taiwan dollars)

Trust Assets	December 31, 2016	December 31, 2015
Cash in bank	\$ 14,738,121	15,968,841
Investment	75,254,863	70,044,077
Accounts receivable	67,863	66,374
Prepaid account	19,771	21,472
Real property	191,948,943	186,326,080
Intangible assets	6,862,500	6,997,815
Other assets	17,145	32,166
Securities under custody	89,252,193	100,943,595
Total trust assets	<u>\$ 378,161,399</u>	<u>380,400,420</u>

(Continued)

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

<b>Trust Liabilities</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Accounts payable	\$ 52,851	52,424
Borrowed	2,002,667	2,030,000
Advance receipts	6,220	7,036
Tax payable	147	141
Guarantee deposits received	1,773,722	1,222,853
Withholding	8,040	5,175
Other liabilities	1,150,736	1,001,281
Trust capital	282,853,917	274,085,205
Reserve account	408,192	366,641
Accumulated loss	(537,313)	(567,828)
Net income	1,190,027	1,253,897
Securities under custody	89,252,193	100,943,595
Total trust liabilities	<u><u>\$ 378,161,399</u></u>	<u><u>380,400,420</u></u>

**Trust Property List**

**December 31, 2016 and 2015**

(in thousands of New Taiwan dollars)

<b>Trust Assets</b>	<b>December 31, 2016</b>	<b>December 31, 2015</b>
Cash in bank	\$ 14,738,121	15,968,841
Investment	75,254,863	70,044,077
Accounts receivable	67,863	66,374
Prepaid account	19,771	21,472
Real property	191,948,943	186,326,080
Intangible assets	6,862,500	6,997,815
Other assets	17,145	32,166
Securities under custody	89,252,193	100,943,595
Total	<u><u>\$ 378,161,399</u></u>	<u><u>380,400,420</u></u>

(Continued)

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

**Statements of Income on Trust Accounts**  
**For the years ended December 31, 2016 and 2015**

(in thousands of New Taiwan dollars)

	<b>For the years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Revenues		
Interest revenues	\$ 722,665	810,773
Rental revenues	1,662,553	1,690,401
Revenues from cash dividend	5,913	6,306
Other revenues		
Realized gains on investment	539	34,283
Others	<u>33,605</u>	<u>31,554</u>
Total	<u>2,425,275</u>	<u>2,573,317</u>
Expenses		
Interest fees	\$ 689,792	783,167
Insurance fees	27,202	28,545
Management and maintenance fees		
Management fees	133,552	118,573
Maintenance fees	93,754	108,245
Service charges	4,078	54
Levies	147,858	129,117
Other expenses		
Realized investment losses	4,315	3
Others	<u>134,697</u>	<u>151,716</u>
Total	<u>1,235,248</u>	<u>1,319,420</u>
Income before income tax	1,190,027	1,253,897
Income tax expense	<u>-</u>	<u>-</u>
Net income	<u><u>\$ 1,190,027</u></u>	<u><u>1,253,897</u></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.

(Continued)



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

- (c) As of December 31, 2016, 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:None**

**(12) Other:**

- (a) Personnel, depreciation, and amortization expenses are summarized by functions as follows:

	<b>For the years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>Operating expenses</b>	<b>Operating expenses</b>
Personnel expenses		
Salaries	7,418,268	7,399,346
Insurance	338,554	326,799
Pension	638,573	672,278
Employee benefit saving account	1,852,381	1,649,562
Other employee benefits expenses	150,750	153,619
Depreciation expenses	727,180	747,413
Amortization expenses	205,171	179,399

- (b) Government audit adjustments

The financial statements for 2015 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:

(Continued)

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

(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, 2016		December 31, 2015	
	Average balance	Average rates (%)	Average balance	Average rates (%)
Interest-earning assets:				
Due from the Central Bank	\$ 147,286,714	0.54	139,939,474	0.69
Due from banks and call loans to banks	188,113,176	0.85	121,618,910	1.05
Loans	1,781,928,863	1.95	1,821,739,610	2.05
Financial assets at fair value through profit or loss	3,379,361	1.13	3,312,650	0.78
Securities bought under resale agreements	5,030,643	0.36	1,370,048	0.49
Available-for-sale financial assets	350,853,949	0.88	325,610,123	0.92
Held-to-maturity financial assets	105,514,592	0.58	19,882,081	0.79
Interest-bearing liabilities :				
Due to banks and call loans from banks	152,309,252	0.42	146,363,300	0.34
Funds borrowed from the Central Bank and other banks	2,427,062	0.89	2,496,600	0.40
Demand deposits	320,630,168	0.15	268,376,660	0.18
Time deposits	719,617,205	0.84	602,668,950	1.02
Due to Taiwan Post Co., Ltd.	42,429,937	0.93	59,559,178	1.13
Saving deposits	962,019,451	0.95	976,441,725	1.09
Government deposits	162,120,962	0.51	171,162,985	0.68
Financial debentures	72,261,475	1.75	72,195,068	1.82

(ii) Net Position of Main Foreign Currencies

(in thousands of New Taiwan dollars)

December 31, 2016			December 31, 2015		
Currency	Original currency amount	TWD amount	Currency	Original currency amount	TWD amount
(USD)	\$ 399,512	12,872,262	(USD)	441,336	14,511,117
(CNY)	718,461	3,322,163	(CNY)	704,921	3,519,671
(AUD)	3,508	81,904	(HKD)	19,299	81,868
(EUR)	643	21,832	(AUD)	1,073	25,730
(JPY)	50,385	13,962	(SGD)	621	14,443

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.

(Continued)

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

(iii) Profitability

Items		December 31, 2016	December 31, 2015
Return on total assets	Before income tax	0.50	0.49
	After income tax	0.40	0.40
Return on equity	Before income tax	9.78	10.05
	After income tax	7.96	8.19
Net income ratio		33.91	34.45

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.

**(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.
- (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.

(Continued)

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

### Notes to Consolidated Financial Statements

- (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.

#### Segment Financial Information

For the year ended December 31, 2016							
	Department of Treasury	Department of Corporate Banking	Department of Consumer Banking	Department of Business Management	Other	Other Adjustment and Write- Off	Total
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>
For the year ended December 31, 2015							
	Department of Treasury	Department of Corporate Banking	Department of Consumer Banking	Department of Business Management	Other	Other Adjustment and Write- Off	Total
Net interest income (External customers)	\$ 2,630,737	16,412,816	16,067,825	(15,670,076)	4,892,024	-	24,333,326
Net segment profit (loss)	(5,044,053)	(8,580,153)	(9,249,971)	20,130,679	2,743,498	-	-
Net fee income (loss)	(21,442)	838,394	486,101	148,999	1,603,696	(96)	3,055,652
Net other income (loss)	238,713	-	-	(84,471)	1,529,439	(98,426)	1,585,255
Net operating income (loss)	(2,196,045)	8,671,057	7,303,955	4,525,131	10,768,657	(98,522)	28,974,233
Operating expenses	-	-	-	-	(16,318,943)	4,031	(16,314,912)
Provision for loan losses and credit related losses	-	-	-	-	(408,371)	-	(408,371)
Inter expenses allocated	(82,351)	(2,391,361)	(3,630,986)	(5,585,579)	11,690,277	-	-
Income tax expenses	-	-	-	-	(2,268,481)	-	(2,268,481)
	<u>\$ (2,278,396)</u>	<u>6,279,696</u>	<u>3,672,969</u>	<u>(1,060,448)</u>	<u>3,463,139</u>	<u>(94,491)</u>	<u>9,982,469</u>

(Continued)

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

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.

(i) Region

<u>Areas type</u>	<b>For the years ended December 31</b>	
	<b>2016</b>	<b>2015</b>
Net revenue:		
Taiwan	\$ 28,501,496	26,882,226
U.S.A	971,712	851,438
Singapore	283,519	266,634
Hong Kong	301,927	298,691
China	<u>664,623</u>	<u>675,244</u>
Total	<b><u>\$ 30,723,277</u></b>	<b><u>28,974,233</u></b>

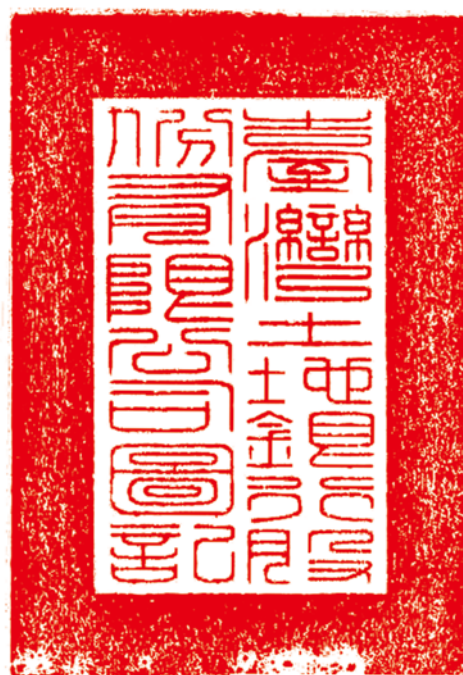
(ii) Main customer information

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







Abundance · Harmony · Sincerity · Innovation



GPN : 2005300018  
Price : NT \$600