



## **Chang Hwa Commercial Bank, Ltd.**

### **Minutes for the 2017 Annual Meeting of Shareholders**

#### **(Summary Translation)**

**Meeting Time :** 9 : 00 a.m. on Friday, June 16, 2017

**Location :** 13F., No.57, Sec. 2, Zhongshan N. Rd., Taipei City, Taiwan.

**Total outstanding shares of the Company:** 8,964,762,589 shares

**Total shares represented by shareholders present in person or by proxy :**  
8,584,184,229 shares (1,375,898,679 shares from E-Voting)

**Percentage of shares held by shareholders present in person or by proxy :**  
95.75%

**Chairman:** Chang, Ming-Daw, Chairman of the Board of Directors

**Directors present:**

Directors: Chen, Hwai-Chou、Juan, Ching-Hwa、Peng, Ing-Wei、Wu, Cheng-Ching、  
Lin, Chih-Hsien

Independent Directors: Liang, Kuo-Yuan、Pan, Jung-Chun

**Nonvoting of delegate:**

President Shin, Chien-An、Hengheng Attorneys-at-Law-Lawyer Yu, Chih-Ching、  
Deloitte & Touche-CPA Jerry Gung、Mega Securities Registrar & Transfer Agency  
Dept.- Senior Vice Presidents Huang, Chun-Chieh、Senior Vice Presidents  
Kuo, Li-Shuang、Manager Chu, Ying-Lung

**Recorders:** Yang, Chun-Huei、Chen, Wei-Ting、Fan, Hsiao-Ping

Chairman Remarks (omitted)

Shareholders speech: Lee, ○-Tu (Shareholder No. 2846692), Representative of Taishin  
Financial Holding Co., Ltd. Lee, ○-Min (Shareholder No. 2837094), and Liu, ○-Ting  
(Attendance No. 200032).

## **Report Items**

### **Report No. 1:**

2016 Business Report.

(Please refer to pages 68 to 86 of the handbook.)

Shareholder speech: Lin, ○-Chun shareholder No. 2981883.

### **Report No. 2:**

Audit Committee review of 2016 audited Financial Statements.

(Please refer to pages 66 to 67 of the handbook.)

### **Report No. 3:**

The status of the Bank's distribution of 2016 employee and director remuneration.

(Please refer to page 4 of the handbook.)

The aforementioned reports were acknowledged by all shareholders present.

## **Recognition Items**

**Recognition Item No. 1: Adoption of the Bank's 2016 Business Report and Financial Statements.**

### **Explanation:**

The Bank's 2016 Financial Statements, balance sheet, statement of comprehensive income, statement of changes in equity, and statement of cash flows, etc. (please refer to pages 68 to 96 of the handbook), have been certified by Jerry Gung, CPA and Walter Liu, CPA of Deloitte & Touche, and the Business Report has also been reviewed by the Bank's Audit Committee, and approved by the Board of Directors. Please adopt them.

The chairman had decided to submit an item for a vote.

**7,985,282,582 shares were represented by the shareholders present in person or by proxy, accounting for 89.07% of the total number of voting shares issued by the Bank.**

### **Voting results:**

Approval votes: 5,595,057,559 shares/70.07% (1,070,796,905 shares from E-voting)

Disapproval votes: 43,493 shares (43,493 shares from E-voting)

Abstention votes : 2,390,181,530 shares (305,058,281 shares from E-voting)

**Resolution:** voted and acknowledged as proposed.

**Recognition Item No. 2: Adoption of the Bank's distribution of 2016 profit.**

**Explanation:**

1. The Bank's 2016 net profit after tax was NT\$12,085,971,634.17. After the Bank set aside 30% legal reserve of NT\$3,625,791,491 by law and 0.5% of net profit after tax as special reserve of NT\$60,429,859 in accordance with the May 25, 2016 letter No. 10510001510 (F.S.C) Gin-Guan-Ying to development financial technology and protect the interests of employees in Taiwanese banks along with the "beginning retained earnings" of NT\$86,372,716.47 and the "actuarial loss of defined benefit plan" of NT\$202,105,830.11, the distributable net profit was NT\$8,284,017,170.53. The proposed distribution of profit is scheduled as below:
  - (1) Distribution of dividend and bonus to common stock shareholders – cash (NT\$0.42 per share): NT\$3,765,200,287.
  - (2) Distribution of dividend and bonus to common stock shareholders – stock (NT\$0.5 per share): NT\$4,482,381,290.
  - (3) Unappropriated retained earnings are NT\$36,435,593.53.
2. Upon the approval of the Annual Meeting of Shareholders, it is proposed that the Board of Directors be authorized to resolve the ex-dividend date, ex-rights date, and other relevant issues. The ex-dividend date will be determined after the competent authorities approve the capitalization of earnings case.
3. In line with the integrated income tax, the last annual surplus is assigned in priority order.
4. The total cash dividend amount will be distributed to each individual shareholder to the nearest NT\$1, and fractional amounts less than NT\$1 will be listed in other incomes of the Bank.
5. If the number of outstanding shares is affected by any situations leading to change in shareholder's distribution ratios, the Board of Directors will be authorized to adjust the distribution terms.
6. Attachment: 2016 Profit Distribution Table.

Shareholder speech by Wu, ○-Chun (Shareholder No. 2265007) were responded to by Chairman and others. After responding, no more questions by Wu, ○-Chun.  
 Shareholder speech: Yu, ○-Hui (Attendance No. 200038).

The chairman had decided to submit an item for a vote.

**8,017,220,588 shares were represented by the shareholders present in person or by proxy , accounting for 89.43% of the total number of voting shares issued by the Bank.**

**Voting results:**

Approval votes: 7,541,456,284 shares/94.07% (1,090,957,704 shares from E-voting)

Disapproval votes: 1,050,433 shares (1,050,433 shares from E-voting)

Abstention votes : 474,713,871 shares (283,890,542 shares from E-voting)

**Resolution:** voted and acknowledged as proposed.

**Chang Hwa Commercial Bank, Ltd.**

**2016 Profit Distribution Table**

(Unit: NTD\$)

Beginning retained earnings	86,372,716.47
Less: Actuarial loss of defined benefit plan	(202,105,830.11)
Add: Net profit after tax	12,085,971,634.17
Less: 30% legal reserve	(3,625,791,491.00)
Less:0.5% Special reserve	(60,429,859.00)
Distributable net profit	8,284,017,170.53
Distributable items:	
Dividend to shareholders -Cash dividends: NT\$0.42 per share	3,765,200,287.00
Dividend to shareholders -Stock dividends: NT\$ 0.50 per share	4,482,381,290.00
Unappropriated retained earnings	36,435,593.53

Note:

1. In line with the integrated income tax, the last annual surplus is assigned in priority order.
2. 0.5% of net profit after tax as special reserve in accordance with the May 25, 2016 letter No. 10510001510 (F.S.C) Gin-Guan-Ying to development financial technology and protect the interests of employees in Taiwanese banks.

## Discussion and Election Items

**Discussion Item No. 1: Discussion and ratification of the Bank's issuance of new shares through capitalization of earnings.**

**Explanation:**

1. In order to reinforce working capital, strengthen the financial structure and raise the capital adequacy ratio, the Bank plans to set aside NT\$4,482,381,290 from the stock dividends of distribution of 2016 profit as the capital for issuing new shares with a face value of NT\$10 per share in accordance with Article 240 of the Company Act. It is expected to issue 448,238,129 shares of common stock and, after the capitalization of earnings, the Bank's capital will become NT\$94,130,007,180.
2. For the method of handling fractional shares, please refer to Article 267 of the Company Act. The Board of Directors is authorized to set the record date for the proposed capital increase after receiving approval from the competent authority. The distribution of the new shares should be made to the shareholders with no consideration at the ratio of 50 new shares for every 1,000 shares held by shareholders according to their respective shareholding as stated in shareholders' register book on the record date. Shareholders may, within 7 days from the stock dividend record date, apply to the stock affairs agent of the Bank to combine fractional shares into one share. Odd lots of less than one share thus collected by the Bank will be placed at its par value with specific parties as determined by the Chairman under the authorization of the AGM.
3. The rights and obligations of the newly issued shares will be the same as those of existing shares.
4. As a result of repurchase of the Bank's shares or assignment, conversion and deletion of the treasury stock. The Board of Directors is authorized to adjust the distribution terms if the number of outstanding shares is affected by an amendment to relevant laws or regulations, a request by the competent authorities, or other situations leading to change in shareholder's distribution ratios.

Shareholder speech: Chen, ○-Kung represented Huang, ○-Ching (Shareholder No. 2884267).

The chairman had decided to submit an item for a vote.

**8,017,255,375 shares were represented by the shareholders present in person or by proxy, accounting for 89.43% of the total number of voting shares issued by the Bank.**

**Voting results:**

Approval votes: 7,638,032,466 shares/95.27% (1,092,717,546 shares from E-voting)

Disapproval votes: 1,055,336 shares (1,055,336 shares from E-voting)

Abstention votes : 378,167,573 shares (282,125,797 shares from E-voting)

**Resolution:** voted and approved as proposed.

**Discussion Item No. 2: To comply with the Bank’s business items stated in its registration change form, Article 9 of the Bank’s Articles of Incorporation is proposed for revision.**

**Explanation:**

1. According to the amended Article 8-1 of the Insurance Act, banks may concurrently engage in the insurance agency or insurance brokerage business. As approved by the Financial Supervisory Commission for the establishment of the insurance agency, the Bank added Subparagraph 20 “to engage in the personal insurance agency business” and Subparagraph 21 “to engage in the property and liability insurance agency business” to Article 9 “Commercial Bank Operation Business” of the Bank’s Articles of Incorporation, which was adopted by the shareholders’ regular meeting held on June 8, 2016 and has been registered at the Ministry of Economic Affairs. It is hereby explained.
2. According to the Ministry of Economic Affairs, the “personal insurance agency business” and the “property and liability insurance agency business” shall have their own business item codes respectively, rather than under the business scope subordinate to the commercial bank industry. However, the Bank listed the above two businesses as the items engaged under the commercial bank industry without stating their business item codes, which is inconsistent with the content of the Bank’s change registration form. The Bank was therefore requested to modify the text of Article 9 of its Articles of Incorporation at this regular meeting of shareholders in order to achieve consistency. Hence, it is proposed to specify the business item codes of the “personal insurance agency business” and the “property and liability insurance agency business” in the Article (personal insurance agency: H601011; property and liability insurance agency: H601021) and make required text modification, so as to be consistent with the businesses stated in the Bank’s change registration form.
3. Attachment: Article 9 of the Articles of Incorporation of Chang Hwa Commercial Bank

Co., Ltd. Pre- and Post-Amendment Comparison Table.

The chairman had decided to submit an item for a vote.

**8,017,272,862 shares were represented by the shareholders present in person or by proxy, accounting for 89.43% of the total number of voting shares issued by the Bank.**

**Voting results:**

Approval votes: 7,668,404,525 shares/95.65% (1,090,954,726 shares from E-voting)

Disapproval votes: 1,053,597 shares (1,053,597 shares from E-voting)

Abstention votes : 347,814,740 shares (283,890,356shares from E-voting)

**Resolution:** voted and approved as proposed.

Attachment

**Article 9 of the Articles of Incorporation of Chang Hwa Commercial Bank Co., Ltd. Pre- and Post-Amendment Comparison Table**

Post-amendment	Pre-amendment	Explanation
<p>Article 9</p> <p>The Bank’s business items are H101021 the commercial bank industry, <u>H601011 personal insurance agency and H601021 property and liability insurance agency</u>, and its business scope is as follows:</p> <p>(1) To accept Cheque Deposits;</p> <p>(2) To accept Current Deposits;</p> <p>(3) To accept Time Deposits;</p> <p>(4) To issue Bank Debentures;</p> <p>(5)To extend Short-term, medium-term and long-term loans;</p> <p>(6)To handle discount bills and notes;</p> <p>(7)To invest in government bonds, short-term notes, corporate bonds, Bank Debentures and corporate</p>	<p>Article 9</p> <p>The Bank’s business item is H101021 the commercial bank industry and its business scope is as follows:</p> <p>(1) To accept Cheque Deposits;</p> <p>(2) To accept Current Deposits;</p> <p>(3) To accept Time Deposits;</p> <p>(4) To issue Bank Debentures;</p> <p>(5)To extend Short-term, medium-term and long-term loans;</p> <p>(6)To handle discount bills and notes;</p> <p>(7)To invest in government bonds, short-term notes, corporate bonds, Bank Debentures and corporate</p>	<p>1. Amendment to the Article.</p> <p>2. Given that the “personal insurance agency business” and “property and liability insurance business” referred to in Subparagraph 20 and Subparagraph 21 of the Article respectively have their own respective business item codes, rather than under the business scope subordinate to the commercial bank industry, the Bank’s business item codes shall be specified in this Article and the text of the Article shall be modified accordingly.</p>

<b>Post-amendment</b>	<b>Pre-amendment</b>	<b>Explanation</b>
<p>stocks;</p> <p>(8)To handle domestic and foreign remittances;</p> <p>(9)To accept commercial drafts;</p> <p>(10)To issue domestic and foreign Letters of Credit;</p> <p>(11) To guarantee the issuance of corporate bonds;</p> <p>(12) To provide guarantee for domestic and foreign transactions;</p> <p>(13) To act as collecting and paying agent;</p> <p>(14)To act as agent to sell government bonds, treasury notes, corporate bonds and stocks;</p> <p>(15)To conduct credit card business;</p> <p>(16) To conduct trust business;</p> <p>(17)To conduct securities business;</p> <p>(18)To conduct warehousing, custody and agency businesses in relation to the businesses in the preceding 17 items subparagraphs;</p> <p>(19)To engage in futures introducing broker business;</p> <p>(20) To conduct life insurance agency business;</p> <p>(21)To conduct property insurance agency business; and</p> <p>(22) To conduct other relevant businesses which may be authorized by the Competent Authority.</p>	<p>stocks;</p> <p>(8)To handle domestic and foreign remittances;</p> <p>(9)To accept commercial drafts;</p> <p>(10)To issue domestic and foreign Letters of Credit;</p> <p>(11) To guarantee the issuance of corporate bonds;</p> <p>(12) To provide guarantee for domestic and foreign transactions;</p> <p>(13) To act as collecting and paying agent;</p> <p>(14)To act as agent to sell government bonds, treasury notes, corporate bonds and stocks;</p> <p>(15)To conduct credit card business;</p> <p>(16) To conduct trust business;</p> <p>(17)To conduct securities business;</p> <p>(18)To conduct warehousing, custody and agency businesses in relation to the businesses in the preceding 17 items subparagraphs;</p> <p>(19)To engage in futures introducing broker business;</p> <p>(20) To conduct life insurance agency business;</p> <p>(21)To conduct property insurance agency business; and</p> <p>(22) To conduct other relevant businesses which may be authorized by the Competent Authority.</p>	



**Discussion Item No. 3:**      **In conjunction with the amendment to the “Regulations Governing the Acquisition and Disposal of Assets by Public Companies” set up by the Financial Supervisory Commission, the Bank’s handling procedure for asset acquisition and disposal (hereafter referred to as the “Procedure”) is proposed for revision.**

**Explanation:**

1. To be processed in accordance with the “Regulations Governing the Acquisition or Disposal of Assets by Public Companies” amended, promulgated and enforced in accordance with the Doc. No. 1060001296 Chin-Kuan-Cheng-Fa-Tzu-Ti issued by the Financial Supervisory Commission on February 9, 2017.
2. The main points of this time of amendment are explained as follows:
  - (1) Specifically define the terms used by the government agencies for the Procedure (Amend Articles 10 and 12).
  - (2) The domestic money market fund acquired or disposed of by the Bank from or for its related parties as referred to in the Procedure is the money market fund issued by the agency engaging in the securities investment trust business and approved by the Financial Supervisory Commission in accordance with the Securities Investment Trust and Consulting Act. Hence, it is amended (amend Paragraph 1 of Article 15 and Subparagraph 1 of Paragraph 1 and item (3) of Subparagraph 6 of Paragraph 1 of Article 31).
  - (3) Given that either the merger of a company with its 100 percent-owned subsidiary or the merger between subsidiaries 100 percent owned by the company in accordance with the Business Mergers and Acquisitions Act shall be deemed an organizational adjustment of the same group, such a merger can be exempt from rationality opinions from experts on the merger. Hence, the amendment is specifically made accordingly (amend the proviso of Article 23).
  - (4) In view of the fact that the Bank’s frequent announcements and declarations of equipment acquired or disposed of for business operating purposes will reduce the importance of the information disclosure for reference, the standard for announcement and declaration of non-related party’s business equipment transactions is relaxed (amend Subparagraph 4 of Paragraph 1 of Article 31).
  - (5) By considering that the common corporate bonds subscribed, offered and issued by those that specialize in investment in the domestic primary market and the general financial bonds without equity involvement are the regular business, and, due to underwriting businesses, a securities serves as a recommended securities firm to guide

an emerging-listed company which makes it necessary to subscribe securities, the announcements and declarations are specified to be exempt (amend Item (2) of Subparagraph 6 of Paragraph 1 of Article 31).

(6) It is specified that when any error or omission is made in the Bank’s announcement, the total items shall be re-announced and re-declared within 2 days after learning the error or omission (amend Paragraph 5 of Article 31).

3. Attachment: Procedures for Acquisition or Disposal of Assets by Chang Hwa Commercial Bank Ltd. Pre- and Post-Amendment Comparison Table.

The chairman had decided to submit an item for a vote.

**8,017,274,078 shares were represented by the shareholders present in person or by proxy, accounting for 89.43% of the total number of voting shares issued by the Bank.**

**Voting results:**

Approval votes: 7,668,305,482 shares/95.65% (1,090,853,663 shares from E-voting)

Disapproval votes: 1,155,716 shares (1,155,716 shares from E-voting)

Abstention votes : 347,812,880 shares (283,889,300 shares from E-voting)

**Resolution:** voted and approved as proposed.

Attachment

**Procedures for Acquisition or Disposal of Assets by Chang Hwa Commercial Bank Ltd. Pre- and Post-Amendment Comparison Table**

<b>Post-amendment</b>	<b>Pre-amendment</b>	<b>Explanations</b>
Article 10 In acquiring or disposing of real property or equipment where the transaction amount reaches 20 percent of the company’s paid-in capital or NT\$300 million or more, the company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment for business use, shall obtain an appraisal report prior to the date of occurrence of the	Article 10 In acquiring or disposing of real property or equipment where the transaction amount reaches 20 percent of the company’s paid-in capital or NT\$300 million or more, the company, unless transacting with a government agency, engaging others to build on its own land, engaging others to build on rented land, or acquiring or disposing of equipment for business use, shall obtain an appraisal report prior to the date of occurrence of the	According to the ”Regulations Governing the Acquisition and Disposal of Assets by Public Companies” (hereafter referred to as the Regulation), the Article is only applicable to the transactions with government agencies and the transactions are limited to the asset acquisition or disposal from or for central and local government agencies. In so doing, such transactions are less likely to have price manipulation, so expert opinions can be exempt. Hence, the text

<b>Post-amendment</b>	<b>Pre-amendment</b>	<b>Explanations</b>
<p>event from a professional appraiser and shall further comply with the following provisions:</p> <ol style="list-style-type: none"> <li>1. Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors, and the same procedure shall be followed for any future changes to the terms and conditions of the transaction.</li> <li>2. Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.</li> <li>3. Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of Statement of Auditing Standards No. 20 published</li> </ol>	<p>event from a professional appraiser and shall further comply with the following provisions:</p> <ol style="list-style-type: none"> <li>1. Where due to special circumstances it is necessary to give a limited price, specified price, or special price as a reference basis for the transaction price, the transaction shall be submitted for approval in advance by the board of directors, and the same procedure shall be followed for any future changes to the terms and conditions of the transaction.</li> <li>2. Where the transaction amount is NT\$1 billion or more, appraisals from two or more professional appraisers shall be obtained.</li> <li>3. Where any one of the following circumstances applies with respect to the professional appraiser's appraisal results, unless all the appraisal results for the assets to be acquired are higher than the transaction amount, or all the appraisal results for the assets to be disposed of are lower than the transaction amount, a certified public accountant shall be engaged to perform the appraisal in accordance with the provisions of Statement of Auditing Standards No. 20 published</li> </ol>	<p>of Paragraph 1 of the Article is amended in accordance with Paragraph 1 of Article 9 of the Regulation.</p>

<b>Post-amendment</b>	<b>Pre-amendment</b>	<b>Explanations</b>
<p>by the ROC Accounting Research and Development Foundation (ARDF) and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:</p> <p>(1) The discrepancy between the appraisal result and the transaction amount is 20 percent or more of the transaction amount.</p> <p>(2) The discrepancy between the appraisal results of two or more professional appraisers is 10 percent or more of the transaction amount.</p> <p>4. No more than 3 months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.</p>	<p>by the ROC Accounting Research and Development Foundation (ARDF) and render a specific opinion regarding the reason for the discrepancy and the appropriateness of the transaction price:</p> <p>(1) The discrepancy between the appraisal result and the transaction amount is 20 percent or more of the transaction amount.</p> <p>(2) The discrepancy between the appraisal results of two or more professional appraisers is 10 percent or more of the transaction amount.</p> <p>4. No more than 3 months may elapse between the date of the appraisal report issued by a professional appraiser and the contract execution date; provided, where the publicly announced current value for the same period is used and not more than 6 months have elapsed, an opinion may still be issued by the original professional appraiser.</p>	
<p>Article 12 Where the Bank acquires or disposes of memberships or intangible assets and the transaction amount reaches 20 percent or more of paid-in capital or NT\$300 million or more, except in transactions with a government agency, the company shall engage a certified</p>	<p>Article 12 Where the Bank acquires or disposes of memberships or intangible assets and the transaction amount reaches 20 percent or more of paid-in capital or NT\$300 million or more, except in transactions with a government agency, the company shall engage a certified</p>	<p>The reason for the amendment to this Article is same as that for Article 10.</p>

Post-amendment	Pre-amendment	Explanations
public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price; the CPA shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.	public accountant prior to the date of occurrence of the event to render an opinion on the reasonableness of the transaction price; the CPA shall comply with the provisions of Statement of Auditing Standards No. 20 published by the ARDF.	
<p>Article 15 When the Bank intends to acquire or dispose of real property from or to a related party, or when it intends to acquire or dispose of assets other than real property from or to a related party and the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or <u>repurchase of money market funds issued by domestic securities investment trust enterprises</u>, the company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the audit committee and the board of directors :</p> <ol style="list-style-type: none"> <li>1. The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.</li> <li>2. The reason for choosing the related party as a trading counterparty.</li> <li>3. With respect to the acquisition</li> </ol>	<p>Article 15 When the Bank intends to acquire or dispose of real property from or to a related party, or when it intends to acquire or dispose of assets other than real property from or to a related party and the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more, except in trading of government bonds or bonds under repurchase and resale agreements, or subscription or <u>redemption of domestic money market funds</u>, the company may not proceed to enter into a transaction contract or make a payment until the following matters have been approved by the audit committee and the board of directors :</p> <ol style="list-style-type: none"> <li>1. The purpose, necessity and anticipated benefit of the acquisition or disposal of assets.</li> <li>2. The reason for choosing the related party as a trading counterparty.</li> <li>3. With respect to the acquisition</li> </ol>	<p>The domestic money market funds referred to in Paragraph 1 of Article 14 of the Regulation is the money market fund issued by the agency engaging in the securities investment trust business and approved by the Financial Supervisory Commission pursuant to the Securities Investment Trust and Consulting Act. Hence, the text of Paragraph 1 of the Article is amended.</p>

<b>Post-amendment</b>	<b>Pre-amendment</b>	<b>Explanations</b>
<p>of real property from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with Article 16 and Article 17.</p> <p>4. The date and price at which the related party originally acquired the real property, the original trading counterparty, and that trading counterparty’s relationship to the company and the related party.</p> <p>5. Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.</p> <p>6. An appraisal report from a professional appraiser or a CPA’s opinion obtained in compliance with the preceding article.</p> <p>7. Restrictive covenants and other important stipulations associated with the transaction.</p> <p>The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with Article 31, paragraph 2 herein, and “within the preceding year” as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the</p>	<p>of real property from a related party, information regarding appraisal of the reasonableness of the preliminary transaction terms in accordance with Article 16 and Article 17.</p> <p>4. The date and price at which the related party originally acquired the real property, the original trading counterparty, and that trading counterparty’s relationship to the company and the related party.</p> <p>5. Monthly cash flow forecasts for the year commencing from the anticipated month of signing of the contract, and evaluation of the necessity of the transaction, and reasonableness of the funds utilization.</p> <p>6. An appraisal report from a professional appraiser or a CPA’s opinion obtained in compliance with the preceding article.</p> <p>7. Restrictive covenants and other important stipulations associated with the transaction.</p> <p>The calculation of the transaction amounts referred to in the preceding paragraph shall be made in accordance with Article 31, paragraph 2 herein, and “within the preceding year” as used herein refers to the year preceding the date of occurrence of the current transaction. Items that have been approved by the</p>	

<b>Post-amendment</b>	<b>Pre-amendment</b>	<b>Explanations</b>
<p>audit committee and the board of directors need not be counted toward the transaction amount. When a matter is submitted for discussion by the board of directors pursuant to paragraph 1 and preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.</p> <p>The matters for which paragraph 1 shall be approved by more than half of all audit committee members and then submitted to the board of directors for a resolution, and shall be subject to mutatis mutandis application of Article 6, paragraphs 2 and 3.</p>	<p>audit committee and the board of directors need not be counted toward the transaction amount. When a matter is submitted for discussion by the board of directors pursuant to paragraph 1 and preceding paragraph, the board of directors shall take into full consideration each independent director's opinions. If an independent director objects to or expresses reservations about any matter, it shall be recorded in the minutes of the board of directors meeting.</p> <p>The matters for which paragraph 1 shall be approved by more than half of all audit committee members and then submitted to the board of directors for a resolution, and shall be subject to mutatis mutandis application of Article 6, paragraphs 2 and 3.</p>	
<p>Article 23</p> <p>The Bank that conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the board of directors to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the board of directors for deliberation and passage.</p> <p><u>However, the requirement of obtaining an aforesaid opinion on reasonableness issued by an</u></p>	<p>Article 23</p> <p>The Bank that conducts a merger, demerger, acquisition, or transfer of shares, prior to convening the board of directors to resolve on the matter, shall engage a CPA, attorney, or securities underwriter to give an opinion on the reasonableness of the share exchange ratio, acquisition price, or distribution of cash or other property to shareholders, and submit it to the board of directors for deliberation and passage.</p>	<p>According to the purpose of the amendment to the Regulation, the merger of a company with its 100 percent -owned subsidiary or the merger between the subsidiaries 100 percent owned by the company shall be deemed the organization adjustment in a same group, so the requirement of an opinion on reasonableness issued by an expert may be exempted. Hence, in conjunction with Article 22 of the Regulation, a proviso is added to the Article.</p>

Post-amendment	Pre-amendment	Explanations
<p><u>expert may be exempted in the case of a merger by the Bank of a subsidiary in which it directly or indirectly holds 100 percent of the issued shares or authorized capital, and in the case of a merger between subsidiaries in which the Bank directly or indirectly holds 100 percent of the respective subsidiaries' issued shares or authorized capital.</u></p>		
<p>Article 31 Under any of the following circumstances, the Bank acquiring or disposing of assets shall publicly announce and report the relevant information on the FSC's designated website in the appropriate format as prescribed by regulations within 2 days counting inclusively from the date of occurrence of the event:</p> <ol style="list-style-type: none"> <li>1. Acquisition or disposal of real property from or to a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or repurchase of <u>money market funds issued by domestic</u></li> </ol>	<p>Article 31 Under any of the following circumstances, the Bank acquiring or disposing of assets shall publicly announce and report the relevant information on the FSC's designated website in the appropriate format as prescribed by regulations within 2 days counting inclusively from the date of occurrence of the event:</p> <ol style="list-style-type: none"> <li>1. Acquisition or disposal of real property from or to a related party, or acquisition or disposal of assets other than real property from or to a related party where the transaction amount reaches 20 percent or more of paid-in capital, 10 percent or more of the company's total assets, or NT\$300 million or more; provided, this shall not apply to trading of government bonds or bonds under repurchase and resale agreements, or subscription or redemption of <u>domestic money market funds.</u></li> </ol>	<p>In conjunction with Article 30 of the Regulation, the Article is amended as follows:</p> <ol style="list-style-type: none"> <li>1. The reason for amending Subparagraph 1 of Paragraph 1 and item (3) of Subparagraph 6 of Paragraph 1 of the Article is same as that for Article 15.</li> <li>2. The equipment acquired or disposed for the business operating purpose is the item required by a company for daily business. Frequent announcements and declarations will reduce the importance of the information disclosure for reference. Hence, Item (4) of Subparagraph 4 of Paragraph 1 of the pre-amended Article is amended and moved to Subparagraph 4 of Paragraph 1 of the Article by referring to Subparagraph 4 of Article 30 of the Regulation for a public company whose paid-in capital is NT\$10 billion or more, the transaction amount reaches NT\$1 billion or more.</li> </ol>



Post-amendment	Pre-amendment	Explanations
<p><u>securities investment trust enterprises.</u></p> <p>2. Merger, demerger, acquisition, or transfer of shares.</p> <p>3. Losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the company.</p> <p>4. Where the type of asset acquired or disposed is equipment / machinery for business use, the trading counterparty is not a related party, and <u>the transaction amount reaches NT\$1 billion or more.</u></p> <p>5. Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the Bank expects to invest in the transaction is less than NT\$500 million.</p> <p>6. Where an asset transaction other than any of those referred to in the preceding <u>five</u> subparagraphs, a disposal of receivables by the Bank, or an investment in the mainland China area reaches 20 percent or more of paid-in capital or</p>	<p>2. Merger, demerger, acquisition, or transfer of shares.</p> <p>3. Losses from derivatives trading reaching the limits on aggregate losses or losses on individual contracts set out in the procedures adopted by the company.</p> <p>4. Where an asset transaction other than any of those referred to in the preceding <u>three</u> subparagraphs, a disposal of receivables by the Bank, or an investment in the mainland China area reaches 20 percent or more of paid-in</p>	<p>3. Move Item (5) of Subparagraph 4 of Paragraph 1 of the pre-amended Article to Subparagraph 5 of Paragraph 1 of the Article, and move Subparagraph 4 of Paragraph 1 of the pre-amended Article to Subparagraph 6 of Paragraph 1 of the Article.</p> <p>4. By referring to the following reason for amending Item 2 of Subparagraph 4 of Paragraph 1 of Article 30 of the Regulation: the common corporate bonds acquired, offered and issued by those that specialize in investment in the domestic primary market and the general financial bonds without equity involvement are the regular business and the transaction purpose is mainly and simply for earning interest while, according to the existing regulations, no announcement is required for sales of the bonds in the secondary market, and by considering the effect and consistency of information disclosure, the bond related matters shall be excluded from the announcement applicable scope. On the other hand, it has been found that, due to requirements of undertaking businesses, a securities firm may serve as a recommended securities firm to guide an emerging listed company. As</p>

Post-amendment	Pre-amendment	Explanations
<p>NT\$300 million; provided, this shall not apply to the following circumstances:</p> <p>(1) Trading of government bonds.</p> <p>(2) Securities trading by investment professionals on foreign or domestic securities exchanges or over-the-counter markets, or <u>subscription by investment professionals of ordinary corporate bonds or of general bank debentures without equity characteristics that are offered and issued in the domestic primary market, or subscription by a securities firm of securities as necessitated by its undertaking business or as an advisory recommending securities firm for an emerging stock company, in accordance with the rules of the Taipei Exchange.</u></p> <p>(3) Trading of bonds under repurchase / resale agreements, or <u>repurchase of money market funds issued by domestic securities investment trust enterprises.</u></p>	<p>capital or NT\$300 million; provided, this shall not apply to the following circumstances:</p> <p>(1) Trading of government bonds.</p> <p>(2) Securities trading by investment professionals on foreign or domestic securities exchanges or over-the-counter markets, or <u>subscription of securities by a securities firm, either in the primary market or in accordance with relevant regulations.</u></p> <p>(3) Trading of bonds under repurchase / resale agreements, or <u>subscription or redemption of domestic money market funds.</u></p> <p>(4) <u>Where the type of asset acquired or disposed is equipment/machinery for business use, the trading counterparty is not a related party, and the transaction amount is less than NT\$500 million.</u></p>	<p>such, according to Taipei Exchange, the subscription of the un-listed securities of the emerging-listed company in question shall also be excluded from the announcement applicable scope. Hence, Item (2) of Subparagraph 4 of Paragraph 1 of the pre-amended Article is amended and moved to Item (2) of Subparagraph 6 of Paragraph 1 of the Article.</p> <p>5. The reason for amending Item (3) of Subparagraph 4 of Paragraph 1 of the pre-amended Article is same as that for Article 15, and the amendment is moved to Item (3) of Subparagraph 6 of Paragraph 1 of the Article.</p> <p>6. Also, according to Paragraph 5 of Article 30 of the Regulation, it is specifically prescribed that, for the items required to be announced, if any error or omission is made in the announcement which requires correction, the total items shall be re-announced and re-declared in 2 days after learning the error or omission. Hence, Paragraph 5 of the Article is amended.</p>

Post-amendment	Pre-amendment	Explanations
<p>The amount of transactions above shall be calculated as follows:</p> <ol style="list-style-type: none"> <li>1. The amount of any individual transaction.</li> <li>2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.</li> <li>3. The cumulative transaction amount of real property acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project within the preceding year.</li> <li>4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.</li> </ol>	<p><u>(5)</u> Where land is acquired under an arrangement on engaging others to build on the company's own land, engaging others to build on rented land, joint construction and allocation of housing units, joint construction and allocation of ownership percentages, or joint construction and separate sale, and the amount the Bank expects to invest in the transaction is less than NT\$500 million.</p> <p>The amount of transactions above shall be calculated as follows:</p> <ol style="list-style-type: none"> <li>1. The amount of any individual transaction.</li> <li>2. The cumulative transaction amount of acquisitions and disposals of the same type of underlying asset with the same trading counterparty within the preceding year.</li> <li>3. The cumulative transaction amount of real property acquisitions and disposals (cumulative acquisitions and disposals, respectively) within the same development project within the preceding year.</li> <li>4. The cumulative transaction amount of acquisitions and disposals (cumulative acquisitions and disposals, respectively) of the same security within the preceding year.</li> </ol>	

Post-amendment	Pre-amendment	Explanations
<p>“Within the preceding year” as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Procedures need not be counted toward the transaction amount.</p> <p>The Bank shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by itself and any subsidiaries, and enter the information in the prescribed format into the information reporting website designated by the FSC by the 10th day of each month.</p> <p>When the Bank at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety <u>within two days counting inclusively from the date of knowing of such error or omission.</u></p> <p>The Bank acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the Bank, where they shall be retained for 5 years except where another act provides otherwise.</p>	<p>“Within the preceding year” as used in the preceding paragraph refers to the year preceding the date of occurrence of the current transaction. Items duly announced in accordance with these Procedures need not be counted toward the transaction amount.</p> <p>The Bank shall compile monthly reports on the status of derivatives trading engaged in up to the end of the preceding month by itself and any subsidiaries, and enter the information in the prescribed format into the information reporting website designated by the FSC by the 10th day of each month.</p> <p>When the Bank at the time of public announcement makes an error or omission in an item required by regulations to be publicly announced and so is required to correct it, all the items shall be again publicly announced and reported in their entirety.</p> <p>The Bank acquiring or disposing of assets shall keep all relevant contracts, meeting minutes, log books, appraisal reports and CPA, attorney, and securities underwriter opinions at the Bank, where they shall be retained for 5 years except where another act provides otherwise.</p>	

**Election Item No. 4: Election of 25th term of the Bank's Directors (including Independent Directors).**

**Explanation:**

1. When holding its first extraordinary shareholders' meeting of 2014 (December 8, 2014), the Bank specifically amended Paragraph 2 of Article 18 of its Articles of Incorporation to revise the term of office of the 24th term of Directors to be two years and seven months, so the election of its 25th term of Directors can occur at this year's Shareholders' Meeting. Nevertheless, no re-election was timely held when the term of office of the 23rd term of Directors and Supervisors expired (November 25, 2014) which resulted in the circumstance where the term of office of the entire body of the 24th term of the Bank's Directors will continue until after the day when Shareholders' Meeting is held. This is contrary to the purpose of the aforesaid amendment to the Articles of Incorporation. Hence, to fulfill the purpose of the aforesaid amendment to the Articles of Incorporation and timely reflect shareholders' opinions on the Bank operation, an early full re-election of Directors is proposed.
2. This Shareholders' Meeting will elect 9 Directors (including 3 Independent Directors) for the 25th term, with the term of office from June 16, 2017 to June 15, 2020 for a total of three years.
3. The Director (including Independent Director) candidate list for this election was already passed by the review of the Bank's Directors in the 29th meeting of the 24th term of the Board of Directors, which was held on April 25, 2017. The details are as per the attachment.

Shareholders Speech : Representative of CHB Corporate Union Tsao, ○-Kun (Shareholder No.2629040) said that when the director candidate of TSFHC was the president of CHB in 2007, he instructed to transfer half amount of line of credit to Taishin Bank in a case of 1.3 billion syndication loan. Tsao proposed the question about the conflict of interest and the qualification of the director and asked CHB to deal with the matter. Representative of Chung-Hsin Leisure Life Development Business Co., Ltd., Liu, ○-An (Shareholder No.2837110) spoke.

Before the election, the chairman asked 5 shareholders volunteered to be the ballot examiner to scrutinize balloting. Because more than 5 shareholders volunteered to be the ballot examiner, the Bank drew lots to decide the ballot examiner.

A total of 67 shareholders were registered to attend the draw. After the chairman selected four people and asked the shareholder Mr. Wang to select the fifth people from lots, the five shareholders, Shareholder No. 3003547 Huang, ○-Dong, Shareholder No. 2778876 Taiwan Cooperative Bank Co., Ltd. representative Liu, ○-Xin, Shareholder No. 3002740 Huang, ○-Zhen, Shareholder No. 2587990 Wang, ○-Yun and Attendance No. 600010 Kang, ○-Ling, were chosen as the scrutineers.

8,050,915,421 shares were represented by the shareholders present in person or by proxy at the time of starting voting, amounting to 89.80% of the total number of voting shares issued by the Bank; 8,584,183,886 shares were represented by the shareholders present in person or by proxy while beginning counting votes, accounting for 95.75% of the total number of voting shares issued by the Bank.

**Election results:**

List of elected Directors:

Name	Elected Votes
Chang, Ming-Daw (Delegate of Ministry of Finance (MOF))	8,099,935,069
Juan, Ching-Hwa (Delegate of MOF)	8,098,752,433
Lin, Chih-Hsien (Delegate of National Development Fund, Executive Yuan)	8,074,824,326
Lee, Shih-Tsung (Delegate of Lee Investment Co., Ltd.)	8,068,286,331
Chen, Hwai-Chou (Delegate of Taishin Financial Holding Co., Ltd.(TSFHC))	6,936,479,677
Wu, Cheng-Ching (Delegate of TSFHC)	6,936,398,604

List of elected Independent Directors:

Name	Elected Votes
Liang , Kuo-Yuan	7,357,721,627
Pan, Jung-Chun	6,486,048,389
Yu, Chi-Chang	4,589,323,230

**Discussion Item No. 5: The release of non-competition restrictions for the Bank's directors (including independent directors) of the 25th term is proposed for approval.**

**Explanation:**

1. According to Paragraphs 1 and 5, Article 209 of Company Act, a director who does anything for himself or on behalf of another person that is within the scope of the company's business, shall explain to the meeting of shareholders the essential contents of such an act and secure its approval. In case a director violates the regulation, the meeting of shareholders may, by a resolution, consider the earnings in such an act as earnings of the company. In addition, in light of letter No. 89206938, released by Ministry of

Economic Affairs on April 24th, 2000, in case a legal person acts as a shareholder of a company or a delegate elected as director pursuant to Paragraph 2, Article 27 of Company Act, both the delegate and the legal person shall abide by non-competition restrictions.

2. For the Bank's 25th term of directors (including independent directors) and the legal persons represented by them, when conducting any activities or taking on any post for himself or on behalf of another person within the scope of the Bank's business, on the premise without prejudice to the Bank's interests, the release of non-competition restrictions is proposed for approval in accordance with Article 209 of the Company Act.
3. In order to facilitate shareholders exercising their voting rights by electronic transmission, the "list of candidates for the Bank's 25th term of non-independent directors and independent directors to be released from non-competition restrictions" (as attached) is enclosed in the handbook. After electing the non-independent directors and independent directors in the meeting of shareholders, the final list will be confirmed.

Shareholder Speech: Representative of Taishin Financial Holding Co., Ltd. Lee, ○-Min (Shareholder No. 2837094).

The chairman had decided to submit an item for a vote.

**8,584,184,229 shares were represented by the shareholders present in person or by proxy, accounting for 95.75% of the total number of voting shares issued by the Bank.**

**Voting results:**

Approval votes: 5,892,976,433 shares/68.65% (1,090,551,387 shares from E-voting)

Disapproval votes: 372,931 shares (372,417 shares from E-voting)

Abstention votes : 2,690,834,865 shares (284,974,875 shares from E-voting)

**Resolution:** voted and approved as proposed.

## Attachment

### **2017 Annual General Meeting of CHB List of the Bank's 25th term of Directors (including Independent Directors) to be released from non-competition restrictions**

Name	Current Positions in other Companies
Ministry of Finance (MOF)	Director of Taiwan Financial Holding Co., Ltd. Director of Mega Financial Holding Co., Ltd. Director of Hua Nan Financial Holdings Co., Ltd. Director of First Financial Holding Co., Ltd. Director of Taiwan Cooperative Financial Holding Co., Ltd. Director of Land Bank of Taiwan Co., Ltd. Director of Taiwan Business Bank Co., Ltd.
Delegate of MOF: Juan, Ching-Hwa	Supervisor of Bank Taiwan Insurance Brokers Co., Ltd.
National Development Fund, Executive Yuan	Director of iPASS Corporation Director of Mega Financial Holding Co., Ltd.
Taishin Financial Holding Co., Ltd (TSFHC)	Director and Supervisor of Taishin International Bank Co., Ltd. Director and Supervisor of Taishin Securities Co., Ltd. Director and Supervisor of Taishin Asset Management Co., Ltd.
Delegate of TSFHC: Wu, Cheng-Ching	Director of TSFHC Director of China Investment & Development Co., Ltd.

## Questions and Motions

Shareholders Speech: Representative of CHB Corporate Union Tsao, ○-Kun (Shareholder No.2629040) proposed that: The Bank should appoint accountants or attorneys to start an investigation into a foresaid syndication loan in 2007 or similar cases; The Bank should seal up the votes of the directors election and proceed an investigation into the independent directors election to find out that if TSFHC voted FOR candidate Pan, Jung-Chun. Shareholder Du, ○-Cheng (Attendance No. 600003) proposed an objection to the procedure for convening the shareholders' general meeting and the method of adopting resolutions. Shareholder Syu, ○-Huai (Attendance No.600006) proposed not to vote on a certain shareholder's proposal. Shareholder Lin, ○- Hong (Shareholder No.2265095) proposed that the Bank should vigorously protest and file a lawsuit against TSFHC for its hostile speech to the Bank in the future. Shareholder Yu, ○- Huei (Attendance No.200038) stated her support and encouragement to the Bank's management team.

**The adjournment: 1:25 p.m**



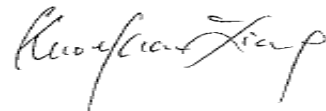
**Chang Hwa Commercial Bank, Ltd.**  
**Audit Report of Audit Committee**  
**February 24, 2017**

**To: Shareholders of Chang Hwa Commercial Bank, Ltd.**

The Board of Directors has prepared the 2016 Report on Business Operations and various financial statements (including Balance Sheet, Statement of Comprehensive Income, Statement of Changes in Equity, and Cash Flow Statement). All the financial statements have been certified by Jerry Gung, CPA and Walter Liu, CPA of Deloitte & Touche, and upon which a Standard Unqualified Opinion has been issued. These statements referred to above present fairly the financial position as of December 31, 2016 and the operation results and cash flows in 2016 of the company. The Audit Committee has reviewed the above-mentioned statements in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act and hereby provides such audit report.

The Audit Committee, Chang Hwa Commercial Bank, Ltd.


Independent Director & Chairman: Kuo-Yuan Liang



Independent Director: Shang-Chen Chen



Independent Director: Jung-Chun Pan



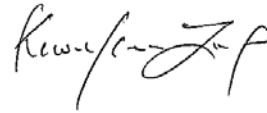
**Chang Hwa Commercial Bank, Ltd.**  
**Audit Report of Audit Committee**  
**April 25, 2017**

**To: Shareholders of Chang Hwa Commercial Bank, Ltd.**

The Board of Directors has prepared the 2016 Earnings Distribution Proposal. The Audit Committee has reviewed the aforementioned Proposal in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of the Company Act, and confirmed its consistency with related laws and rules. The Audit Committee hereby provides the said audit report.

The Audit Committee, Chang Hwa Commercial Bank, Ltd.

Independent Director & Chairman: Kuo-Yuan Liang



Independent Director: Shang-Chen Chen



Independent Director: Jung-Chun Pan



## **2016 Business Report of Chang Hwa Commercial Bank, Ltd.**

In January 2017, the International Monetary Fund (IMF) published its world economic outlook that revised the 2016 global economic growth down to 3.1%. The report highlighted a drop in corporate investments in the United States during the first half of the year, impacted by the weakened market demand and strong dollar. However, the recovery of the labor market combined with wage growth fueled private spending and the real estate market, contributing to an expected annual growth rate of 1.6%. Meanwhile, political and economic uncertainty increased in the Eurozone after Brexit, which undermined confidence among corporations and consumers. Fortunately, the crisis was alleviated by the British interest rate cuts and continued loose monetary policy in the Euro zone, which as a result, boosted economic momentum with annual economic growth expected to be 1.7%. Growth in Mainland China continued to slow with estimated annual economic growth of 6.7%, mainly affected by rising debt risk, sustained economic restructuring, the elimination of excess capacity. In Japan, Prime Minister Shinzo Abe's decision to delay a sales tax increase, followed by his 28.1-trillion Yen financial incentives announced in early August 2016, is expected to stimulate domestic demands and private spending, especially when corporate demand for labor has increased. Annual economic growth is estimated to reach 0.9% for the year.

With regards to the domestic economy, the Directorate-General of Budget, Accounting, and Statistics (Executive Yuan) published its report on January 25, 2017, which revised economic growth to 1.4% for 2016. The report showed strong private spending in the first half of the year due to holiday spending (Chinese New Year, Qingming and Duanwu). The peak season was followed by slower salary growth coupled with reduction in net demand for labor that undermined private consumption. As a result, private spending growth rate has been revised down from 2.68% in 2015 to 1.99%. In terms of private investment, ongoing decrease in the price and volume of real estate transactions has discouraged private construction projects since 2015, and private investments continued to weaken given the nation's lack of incentives for business ventures as compared to many other Asian countries. Nevertheless, private investments still expanded by 1.68% as semiconductor manufacturers and suppliers invested extensively to maintain technological advantage and to accommodate newer, smarter applications of their products.

Import-Export trade had suffered in the first half of the year due to the world's stagnant economy and competition from Chinese suppliers. It was not until the second half when demands for new consumer electronics increased that growth gradually rebounded quarter by quarter, and contributed to the rise of imports. Overall, export and import trade were estimated to grow by 2.14% and 3.34%, respectively. Consumer price index (CPI) is expected to rise by 1.40% for the year, as food price increased due to impact of local climate and typhoons, while global prices of commodities are also showing signs of recovery. With regards to the interest rates, the Central Bank has maintained discount rate, accommodations

with collateral rate, and accommodations without collateral rate unchanged at 1.375%, 1.75% and 3.625%, respectively. Given the recovery of export growth and moderate increase in private spending, investment, and consumer price, the Central Bank is expected to maintain interest rates unchanged over the short term, as opposed to following the Fed's rate hike footsteps. As for exchange rate movement, the TWD strengthened moderately between January and August 2016 due to quantitative easing undertaken by European Central Bank (ECB) and Bank of Japan (BOJ). The Fed's decision to postpone interest rate hike in the first half of the year that attracted global capital back into Asia, and positive export growth rate in July and August 2016. Later, as the Fed started to raise interest rates, the TWD weakened against the USD.

Despite the challenging economic and financial environment, the Bank still managed to deliver exceptional results in 2016, owing to the contribution of all employees, with cumulative pre-tax earnings reaching TWD 14.083 billion, making 2016 the 7th consecutive year in which the Bank has earned more than TWD 10 billion in earnings, living up to shareholder's expectations. In terms of asset quality, the Bank managed to maintain its non-performing loan ratio at 0.25% and loan loss coverage ratio at 458.58%. Furthermore, the Bank was selected a composition of the TWSE Corporate Governance 100 Index by Taiwan Stock Exchange in 2016. At the same time, the Bank was also evaluated as top 5% among Taiwan listed companies in corporate governance by Taiwan Stock Exchange in 2016, which represented an acknowledgment of the Bank's sound management practices in a number of aspects including corporate governance, finance, business growth, and solid operation. We would like to thank all our shareholders for their long-term support and encouragement. In the future, the Bank will continue to strive for excellence.

The details of the 2016 business results of the Bank, the 2017 Annual Business Plan, the Future Development Strategy, and the impact of the external competitive environment, the regulatory environment and the overall business environment and the latest credit rating are summarized as follows:

## **A. 2016 Results of Operations**

### **(a) Organization changes**

1. To enhance the functionality and increase competitiveness of the organization, the Bank made the decision to separate its Wealth Management Section from the Domestic Banking Division, which became the Wealth Management Division on April 1, 2016.
2. To reduce the business tax burden, support government policy and offer better protection for consumers, the Bank undertook a short form merger to acquire the life insurance business from its former subsidiary, CHB Life Insurance Agency Company, Ltd. and non-life insurance business from CHB Insurance Brokerage Company, Ltd. Under this arrangement CHB, assumed all rights and obligations of the respective subsidiaries, and established the Insurance Agency Division on

April 1, 2016 to provide life and non-life insurance agency services.

3. To centralize loan management activities for better operating efficiency, the Bank reorganized its collection team on July 25, 2016. Under this adjustment, the loan management team that previously operated as a sub-section under the Commercial Regional Center now belongs to the Loan Asset Management Division.
4. To more effectively promote securities underwriting services, an Underwriting Section and a Brokerage Section were created under the Domestic Banking Division to oversee the Bank's securities underwriting and brokerage activities.

**(b) Accomplishments**

1. Corporate banking:  
Launched new corporate lending solutions, including: loans against fund account, photovoltaic project lending, machinery upgrade loans, and machinery export loans, and supply chain factoring.
2. Consumer banking:  
Launched new personal lending solution, including: green energy motorcycle hire purchases, privileged employee loans, and investment-backed loans.
3. Syndicated loans:  
A total of 106 syndicated loan cases were completed by domestic business units in 2016. CHB served as lead arranger in 7 of these cases, and co-arranger in 42 and ordinary participant in the 57 remaining cases.
4. Deposits:  
Provided new services interbank cash deposits over ATM and cardless withdrawals.
5. Credit card:
  - (1) Issued VISA Infinite and MasterCard World cards; launched HCE mobile credit card service.
  - (2) Enabled credit cards and debit cards to be used for payment at government agencies, and enabled credit cards to be used as carriers for digital invoices.
  - (3) Launched credit card marketing campaigns including: \$1,000 shopping credit for new cardholders with spending requirement, 5% cashback on Taiwan Railway purchases, \$100 rebate for \$888 spent at Welcome, 40% off movie tickets daily at selected cinemas, cashback and installment option for insurance premiums, Taiwan High Speed Rail business class upgrades and standard class discounts, discounts at selected restaurants, installment option for online shopping, and concessions for shopping at department stores.
6. Foreign Exchange:
  - (1) All branches of the Bank have become full-fledged foreign currency units,

while 70 of them are full-service foreign currency units and 116 of them are designated foreign exchange units.

(2) Launched foreign currency NCD and foreign currency clearance/settlement banking services.

7. Trust:

(1) In 2016, the Bank added 114 new domestic funds, 80 new offshore funds, 23 foreign bonds and 31 overseas ETF to the product portfolio. As of the end of 2016, the Bank had a total of 746 domestic funds, 1,157 offshore funds, 23 foreign bonds and 31 overseas ETF, distributed to the market, giving investors a broad range of selections to choose from.

(2) The Bank added 2 new domestic funds launched to its custodial services. In terms of the size of assets under custody, the Bank ranked 6th among local peers.

8. Wealth Management:

(1) Adopted two separate training programs for general employees and financial advisors, and took measures to enhance the professional capacity of financial advisors.

(2) Eight investment seminars of distinctive themes were organized in 2016 to raise customers' satisfaction towards the Bank.

9. E-banking:

(1) Developed a hospital-exclusive mobile app that offers useful features such as appointment booking, payment, and medicine collection. The app allows customers to make real-time inquiries and payments while reducing waiting time.

(2) Actively promoted the use of the Web ATM service due to its many advantages, including low cost, high collection efficiency, and applicability in a wide range of business activities (including but not limited to healthcare and meat auctions). This service continues to exhibit growing transaction volume.

(3) In response to increasing demand for third-party collection and payment services, CHB has launched an O2O solution based on QR Code to accommodate domestic transactions; for cross-border transactions, CHB has collaborated with Tenpay to launch an O2O solution based on the WeChat Pay service, which enables users to make and collect payments using the same account.

(4) The Bank's official website underwent a makeover that gives users the optimized web page layout depending on the type of device they use, and hence provides customers with a whole new user experience.

10. Information Technology:

- (1) The Bank's information system had passed the ISO 27001: 2013 reevaluated certification.
- (2) Continued efforts in implementing various information systems, while developing new electronic payment systems to support new services.
- (3) The Bank continues to maintain and develop its offshore branch core account system and Internet banking system. Improvements are being made to the 2nd generation payment system in China, while on-site backups are being developed for all branches located in China.

11. Risk Management:

- (1) Established Industry Limit Guidelines for effective diversification across a broad range of industries. Meanwhile, credit risk management practices are being escalated for overseas credit exposure, including China.
- (2) Implemented the Bank's 2016 risk appetite statement so that every business and management activity was properly aligned with the target risk appetite, therefore ensuring compliance with financial supervisory regulations and best corporate governance practices.

12. Non-performing loan management:

As of the end of December 2016, non-performing loans amounted to NT\$3.516 billion or 0.25%, and the loan loss coverage ratio stood at 458.58%.

13. Relocation of domestic branches:

Relocate Neihu Branch (the Bank's first digital branch) and Siyuan Branch.

14. New overseas branches:

Set up a subsidiary, Chang Hwa Bank (China) Ltd. and a Nanjing Branch in China, in addition to Yangon Representative Office in Myanmar, Manila Branch in Philippines, and Chang Hwa Bank (Cambodia) Specialized Bank, Ltd. in Phnom Penh.

15. Awards:

- (1) The Bank was given an excellent performance rating in the FSC's 2015 (10th) SME lending review.
- (2) Received the 2015 Excellent Credit Guarantee Partner Award, Guaranteed Credit Growth Award, and Outstanding Credit Manager commendation from Ministry of Economic Affairs, R.O.C.
- (3) Received the 2016 "Electronic Banking Excellence Award - Best System and Best Innovation - Domestic Bank Division" from Financial Information Service Co., Ltd.
- (4) Received the Diamond Award (2nd) - RMB Futures Market Maker of the Year from Taiwan Futures Exchange.

16. Participation in social welfare:

- (1) Made donations to the “Tainan City Bureau of Social Affairs Social Aid Account” to assist the Tainan City Government in disaster relief and reconstruction following the recent earthquake in southern Taiwan.
  - (2) Made donations to the “Taitung County Government Social Aid Account” to assist Taitung County Government in reconstruction from the aftermath of Typhoon Nepartak.
  - (3) Made donations to Chinese Taipei Olympic Committee to fund the silver medal and the bronze medal incentives during the 2016 Rio Olympics, and encouraged the best performance from the nation’s top athletes.
  - (4) Made donations to the Taitung County Sports Association to assist in the training of top performers and potential athletes, and thereby contributed to sports development.
  - (5) Sponsored the efforts of Huashan Social Welfare Foundation in delivering New Year meals and mobilizing volunteer services to lone elders.
  - (6) Made donations to the “Tuition Support Program” organized by Taiwan Fund for Children and Families, which assisted financially disadvantaged elementary school and junior high school students in their studies.
  - (7) Made donations to the program - “Tuition Subsidy for Financially Disadvantaged High School Students” organized by Twilight Elite Development Association R.O.C.
  - (8) Sponsored Commercial Times in organizing its first FinTech Creativity Challenge in the hope of bringing Taiwan into the new era of financial technology.
  - (9) Sponsored the Department of Finance, National Sun Yat-sen University College of Management, in organizing its 24th Conference on the Theories and Practices of Securities and Financial Market.
  - (10) Sponsored Global Views - Commonwealth Publishing Group in organizing the 14th Annual Global Views Leaders Forum.
  - (11) Made donations to Children’s Lantern during the 2016 Taiwan Lantern Festival organized by the Tourism Bureau, Ministry of Transportation and Communication R.O.C.
17. Corporate Social Responsibility:
- (1) Published the Bank’s 2015 corporate social responsibility report and obtained the certification of British Standards Institute (BSI).
  - (2) The Bank’s energy management system was certified by Societe Generale de Surveillance (SGS) for ISO 50001: 2011.

**(c) Budget Execution**



1. The total deposit volume (excluding the deposit transferred from postal savings) reached NT\$1,553,286,413 thousand or 99.95% of the original budget target.
2. The total loans volume was NT\$1,347,855,030 thousand or 97.67% of the original budget target.
3. The total investment business (securities) volume was NT\$310,753,535 thousand or 102.19% of the original budget target.
4. The foreign exchange transactions totaled US\$122,587,053 thousand amounting to 88.46% of the original budget target.
5. The securities brokerage transactions totaled NT\$62,237,009 thousand or 83.40% of the original budget target.
6. The wealth management business volume was NT\$69,081,454 thousand or 81.87% of the original budget target.
7. The assets under custody totaled NT\$130,408,600 thousand or 89.35% of the original budget target.
8. The total card transaction volume (retail spend) reached NT\$16,221,641 thousand representing 100.21% of the original target.

**(d) Financial Highlights**

1. Net interest income: NT\$21,726,769 thousand
2. Net income other than net interest income : NT\$9,281,712 thousand
3. Net revenue and gains: NT\$31,008,481 thousand
4. Provisions for bad debts expenses and guarantee liability : NT\$1,138,044 thousand
5. Total operating expenses: NT\$15,787,396 thousand
6. Income Before income Tax: NT\$14,083,041thousand
7. Income Tax expenses: NT\$1,997,069 thousand
8. Net income After income Tax: NT\$12,085,972 thousand
9. Other comprehensive income (loss),net of Tax: NT\$-1,077,343 thousand
10. Total comprehensive income: NT\$11,008,629 thousand
11. After tax EPS: NT\$1.35
12. Return on Assets (ROA):0.62%.
13. Return on Equity (ROE):9.05%

**(e) Research and Development**

- 1.Active development of digital banking service that resulted in patent registration:

Financial technology (FinTech) is the latest trend in the global financial industry. In response to this trend, the Bank has taken pro-active steps to develop patented proprietary FinTech and combined them with relevant technologies to improve the

quality, efficiency and added value of conventional banking services. The Bank is confident that this development will yield higher profits and make the organization more competitive in digital banking. The Bank filed 8 patent applications in 2016. So far, the Intellectual Property Office, Ministry of Economic Affairs, has approved 4 new patents for the Bank's Internet banking login system, electronic payment security system, bill payment system, and cheque system. All of them have been implemented to banking services. The other 4 patents, including the customer development system, marketing system, integrated account system and fax transaction authentication system, have progressed to the review stage.

Enhancement of digital banking infrastructure: with regards to mobile communication, the Bank has adopted new mobile communication technologies to support the new version of its mobile securities trading service as well as the new personal banking app, mobile payment (TSM and HCE), iPay O2O, WeChat Pay O2O and other innovative services. In terms of cloud service, cloud technology is being adopted to support various types of FinTech service, given the technology's potential to reduce system development costs. As for the big data project, the Bank has completed the integration of external open data with internal data warehouse. In 2017, the Bank plans to collect data on users' browsing history on the CHB official website and their personal Internet banking system, and develop a more advanced big data platform to analyze data in a way that more effectively supports business development in all directions. In terms of blockchain development, the Bank has been invited to participate in the "Financial Blockchain Research and Application Development Committee" assembled by Financial Information Service Co., Ltd., and is starting practical development of blockchain technology for the corporate banking segment in 2017.

## 2. Research on economic and industry dynamics:

The world's financial market has become more unpredictable and changeable year after year. In an attempt to grasp the ongoing economic, political, and industrial developments around the world, the specific unit-in-charge of the Bank has extensively analyzed the economic and industry dynamics. The Bank closely monitored developments in key industries. These efforts were aimed to identify turning points in the business environment, and the reports were distributed to all branches and the Commercial Regional Center on a regular basis via video conferencing.

### 3. Business research and development reports and publications:

The Bank's management units had identified prevailing issues relating to business operations and the financial environment. Employees compiled these issues into research reports. A total of 22 studies were completed in 2016. The research reports were placed on reserve in the Bank's library and made accessible by all employees, thereby promoting their new knowledge as well as professional skills to improve and develop the Bank's business.

## **B. 2017 Highlights of Business Plans**

### **(a) Business Directions and Operational Policies**

#### 1. Deposits:

- (1) Introduce new digital banking solutions, enhance electronic banking service and develop a third-party payment platform to provide customers with greater convenience and security. Attract NTD and foreign currency deposits to expand the overall deposit size while increase the source of current deposits.
- (2) Expand the Bank's foreign currency deposit pool by launching promotional campaigns in line with market trends for popular currencies such as USD, CNY, EUR, etc. The expansion of the deposit pool will help the Bank capture foreign currency opportunities to a greater extent.

#### 2. Lending:

- (1) Support the government's innovative industry development policy by introducing project financing solutions. Promote supply chain financing as a means to the growth of both volume and utilized credit exposure among small and medium enterprises.
- (2) Promote consumer loans and personal investment loans as the two supporting pillars for the growth in retail banking.
- (3) Actively explore opportunities to lead-arrange, co-arrange, and take part in prominent international syndicated loans for greater volume and increase international visibility.
- (4) Explore opportunities in cross-strait financing as China introduces further deregulations on cross-border RMB lending. Deeply engage overseas local markets to enhance the proportion of direct lending.
- (5) Restructure loan portfolio to increase the weight of high-margin or high-income customers and shift towards small and medium enterprises for better net return on capital.
- (6) Adopt a quality and quantity balanced focus when developing business. Maintain credit asset quality and focus on risk segmentation in addition to

pursuing volume growth.

3. Foreign exchange:
  - (1) Urge branches to take initiative in visiting premium customers for more opportunities to provide import, export, and foreign exchange services.
  - (2) Strengthen relationships with depositary banks and correspondent banks; collaborate in expanding foreign exchange and its related services.
  - (3) Promote cross-border payment collection as a means to increase the volume and market share of the Bank's foreign exchange service. Generate foreign exchange income in the form of fees income.
4. Investment:
  - (1) Develop a multitude of financial products in line with market trends; promote financial products as solutions to corporate finance for greater profit potential.
  - (2) Exercise sound judgment of financial product trends and timely adjust investment portfolio.
5. Trust:
  - (1) Select funds, offshore bonds and offshore ETFs that conform to current market trend and offer them to customers as part of the Bank's investment consulting service. Increase fee revenues by launching a broader variety of custodian services.
  - (2) Provide customers with broader variety of trust services including real estate trust, real estate transaction trust, the elderly trust and disability trust.
6. Wealth management:
  - (1) Enhance performance of the wealth management system as well as the training and retention of wealth management personnel.
  - (2) Expand investment product variety for higher penetration of wealth management customers.
7. Insurance agency service:
  - (1) Intensify promotional efforts on conventional protection-type and investment-linked insurance products of longer duration. Continue efforts in growing personal non-life insurance in the retail segment.
  - (2) Utilize digital marketing solutions to improve the penetration of mortgage and life insurance products. Enhance collaboration across different departments for maximum cross-selling results.
8. Cards:

Launch credit cards with exclusive features and privileges designed for specific customer groups. Expand the card base and grow transaction acquisition services by applying segmented marketing.
9. E-commerce / Online banking:

- (1) Integrate collection/payment services into e-commerce and online transactions, and guide existing as well as new customers to making the best use of them.
  - (2) Combine the Bank's advantage in financial technology, social media and payment service to develop its exclusive brand image and a fully featured mobile payment app.
  - (3) Devote resources into developing a mobile banking app that focuses on distributing real-time messages. Build closer relationship and learn more about customers' needs through the use of social media.
10. Services expansion in Overseas:
- Broaden the variety of cross-strait banking services and achieve deeper penetration of featured services and products. Expand the Bank's global financial services and enhance global visibility.
11. Securities brokerage:
- Explore opportunities in the securities market by increasing market share of the Bank's online securities trading service. Increase revenue by guiding branches in exploring customers for underwriting services.
12. Operational management:
- (1) Improve the quality of employees' core training. Develop digital banking and international finance talent. Raise overall talent quality for greater corporate competitiveness.
  - (2) Develop advanced capital planning and asset/liability management; maintain adequate capital that supports business development and covers potential risks.
  - (3) Take pragmatic steps toward corporate governance and conduct various business activities under robust supervision to secure shareholder interest and strive to attain the best results in corporate governance evaluation.
13. Risk management operations:
- (1) Continue to improve its credit portfolio risk management and monitoring practices in a manner that conforms with its risk management policy, business characteristics, the latest Basel Capital Accord, and qualitative indicators and aims to provide the most accurate and timely information for executive risk managers.
  - (2) Use risk assessment tools such as application/behavioral models to develop objective and consistent reviews on individual credit customers. Quantify risks to facilitate identification, assessment, monitoring and communication.
14. Internal Control:
- Implement the three lines of defense as part of the Bank's internal control. Integrate the first (self-audit), second (regulatory compliance and risk management) and third (internal audit) lines of defense to ensure the effectiveness

of the Bank's internal control policy.

15. Regulatory compliance:

- (1) Enforce the Bank's compliance policy and practices.
- (2) Enhance the Bank's anti-money laundering and counter terrorist financing practices.

16. Back-end operations:

- (1) Enhance IT security control; raise efficiency and availability of IT operations by improving existing workflow.
- (2) Increase non-operating revenues in the form of financial lease income. Reduce expenses and control procurement costs.
- (3) Aim to reduce 50,000KG of CO2 emission each year in support of government policies.

**(b) Business Operational Targets**

1. Deposit Volume: NT\$1,600,258,052 thousand
2. Loans Volume: NT\$1,375,932,275 thousand
3. Investment Business (Securities): NT\$331,787,211 thousand
4. Foreign Exchange Transactions: US\$118,764,579 thousand
5. Securities Brokerage Transactions: NT\$64,048,151 thousand
6. Wealth Management Transactions: NT\$74,125,000 thousand
7. Assets under custody: NT\$134,500,000 thousand
8. Credit Card (Transaction Amount): NT\$17,700,000 thousand

**C. Future Development Strategy**

**(a) Deposits**

Introduce new, upgraded banking services starting with the launch of digital foreign currency deposit accounts.

**(b) Lending**

1. Design domestic and cross-border foreign currency financing features for the "supply chain online financing system," and thereby expand the diversity of financial services offered to customers.
2. Continually adjust the credit portfolio and place more emphasis on SME lending for higher margin. Actively utilize SME credit guarantee fund as a means to improve credit quality and capital adequacy.

**(c) Investment**

Pay close attention to the movement of international capital market and changes in

counterparty credit ratings and actively develop diversified channels. Exercise robust liquidity management; optimize long term and short term allocation of funds by striking the right balance between liquidity and revenues.

**(d) Foreign Exchange**

Strive to become the agency bank for the foreign currency collection services of Financial Information Service Co., Ltd., and thereby increase the volume of foreign exchange transactions.

**(e) Overseas Business**

Support the government's New Southbound Policy by establishing local branches and merging local financial institutions in potential ASEAN countries. Search for suitable merger targets or investees and use them to quickly enter to local financial markets.

**(f) Securities brokerage**

Respond to new digital banking trends by introducing an online securities brokerage account opening system that has the potential to explore new customers and grow the securities brokerage business in volume and market share.

**(g) Insurance agency service**

Introduce innovative insurance products combined with the latest financial technology to satisfy customers' needs.

**(h) Wealth Management**

1. Assemble a professional investment service team (with product, taxation, and asset planning specialists) that focuses on exploring and maintaining relationships with high net worth individuals and corporate customers, and carrying out differentiated marketing strategies and services.
2. Connect trading platforms of peers for product offerings such as sub-brokerage, private equity funds, and innovative investments. Meanwhile, the Bank will progressively optimize its asset allocation and adjust the portfolio of products sold by introducing new marketing campaigns.

**(i) Trust**

Upgrade and test the existing fund system. Develop "New Generation Special Purpose Money Trust Trading System" to improve service efficiency and satisfy customers' investment requirements.

**(j) Cards**

1. To accommodate changes in consumers' payment methods, the Bank will be consolidating multiple services into a single card as a means to provide more incentives for using the CHB card and for raising customer loyalty.
2. Analyze data gathered from the "Open Financial Data and Application Program" to explore ways to complement the existing product line. Apply more advanced customer segmentation to help source new customers, increase card spending, and expand the card base more effectively.

**(k) E-commerce / Online Banking**

1. Introduce upgrades to the personal Internet banking and mobile banking systems.
2. Develop the collection payment app and the corporate Internet banking app.
3. Launch cloud-based payment (HCE ATM card) service.
4. Replace and upgrade the customer service system for better service efficiency.

**(l) Operational Management**

1. Develop a versatile talent training system that conforms with the Bank's business strategies. Implement an employee transformation program that provides them with the professional capacity needed to embrace the challenges of the Bank 3.0 era.
2. Continue raising the transparency of information disclosed to achieve sound corporate governance.
3. Achieve full utilization of assets held on hand to derive maximal benefits. For real estate properties under management, the Bank will adopt a variety of value-adding solutions such as leasing, superficies set-up, participation in city renewals, and cooperation with professional developers to maximize gains by utilizing the Bank's real estate.
4. Adopt a broad variety of pro-active debt collection strategies; monitor debt recovery progress on a regular basis and offer incentives to collectors for recovering overdue loans; resolve bad loans to maintain the Bank's asset quality.

**(m) Risk Management Operations**

1. Continue monitoring and management of credit exposure in China.
2. Develop credit risk management techniques and quantitative models for expected losses.
3. Improve existing operational risk management tools, and enhance the connection and integration of different management practices.

**(n) Regulatory compliance**



1. Ensure compliance in all aspects. Avoid being penalized by the supervisory authorities and suffering financial losses or damage to reputation for violations of the law. Continually assist all departments of the Bank in reviewing and revising operational guidelines, and thereby maintain the effectiveness of the internal control system.
2. Enforce anti-money laundering (AML) and countering terrorist financing (CTF) practices. Make plans for the evaluation and management of AML and CTF risks.
3. Continually enhance training intensities to raise employees' professional capacity while at the same time reduce compliance risks of the Bank.

**(o) Back-end Operations**

1. The Bank has made regulatory compliance, AML, CTF, information security, and financial derivative service as the key focuses of its audit effort. Steps have been taken to enhance the quality of internal audit. Improvements are being suggested to the management at appropriate time to ensure that the internal control system remains effective.
2. Upgrade to the latest information technology to accommodate the changing trends. Enhance information and network security control to give customers a safe transaction environment.
3. Adopt centralized processing for highly manual works and for services that have the potential to achieve economies of scale in purpose of lower operational risk and cost. For operations which centralized processing is unsuitable, the Bank will focus on improving system functions and simplifying procedures to cut down the amount of manual works involved.

**D.The Impact of the External Competitive Environment, Regulatory Environment, and Macroeconomic Environment**

**(a) External Competitive Environment**

1. In response to the new FinTech era, the Financial Supervisory Commission has proposed its Financial Technology Development Strategy White Paper, which introduced detailed actions, goals and strategies toward achieving “Innovative Digital Technology in Smart Finance” by 2020. To contribute to this vision, the Bank has been invited by Financial Information Service Co., Ltd. to take part in the Corporate Finance Research Consulting Team of the Financial Blockchain Research and Application Development Committee, where it began practical development of blockchain technology for the corporate banking segment. It is the Bank's hope to raise the efficiency of financial services delivered by introducing innovative applications of the blockchain technology.

2. In an attempt to prevent the negative interest margin from widening to an extent that may threaten the financial security and solvency of insurance companies, the authorities have made an announcement to adjust assumed interest rate for reserves of new insurance contracts in 2017 (interest rates for NTD, USD and AUD insurance plans will be reduced by 25–50 basis points). This policy is expected to cause a rise in premiums across all types of insurance products in 2017. Although customers' anticipation in rising premiums may stimulate sales growth in the short term, high premiums would ultimately deter customers from purchasing insurance over the long run, which may negatively affect the Bank's business performance as an insurance agency in the future. The Bank will continue to observe changes in market interest rates, and make appropriate adjustments to its product strategy to minimize the impact of interest rate changes on the performance of the Bank's insurance business.
3. FundRich Securities Co. Ltd. is founded with the assistance of Taiwan Depository and Clearing Corporation. In September 2016, the company's online fund trading platform was launched. This new platform allows investors to open accounts and place orders online, and offers several advantages including lower subscription fees (as compared to orders placed through banks) and waived trust management fees. More than 8 thousand online accounts have been opened using the platform, which makes it a prominent competitor to conventional banks. The Bank will devote greater attention to improving products and services, including the quality of Internet banking services, the range of investment products offered, the user experience in the fund/bond system, and the training of financial advisors, to mitigate impact of price competition.

#### **(b) Regulatory Environment**

1. Establishment of the Countering Terrorist Financing Act:

The Countering Terrorist Financing Act was implemented under the President's order on July 27, 2016 to prevent and suppress funding to terrorism, terrorists and organizations and to enable international cooperation for the protection of national security and basic human rights. It provides a more robust foundation to the nation's counter terrorist financing efforts. According to the Counter Terrorist Financing Act, the Ministry of Justice serves as the competent authority for the Act, while the Executive Yuan is responsible for developing CTF policies, regulation review, planning, and general supervision of CTF activities. The competent authority is required to assemble a "Countering Terrorist Financing Review Committee" that specializes in reviewing the list of sanctioned terrorists

and organizations and devising appropriate measures.

Any individual, legal entity or organization that has been identified in the United Nations Security Council's resolution regarding terrorists, terrorist organizations, or the prevention of weapons proliferation need to be added to the sanction list and announced immediately by the competent authority.

2. Amendment of Notes on Anti-money Laundering and Countering Terrorist Financing for Banks:

In an attempt to enhance AML and CTF practices within the nation, the Financial Supervisory Commission reviewed and made several amendments and text correction to Notes on Anti-money Laundering and Countering Terrorist Financing for Banks on December 2, 2016 based on the 40 recommendations announced by the Financial Action Task Force (FATF).

For banks, the boards of directors and executive management are required to understand how their organizations are exposed to risk of money laundering and terrorist financing, as well as the types of AML and CTF measures in place. In addition, steps must be taken to develop proper AML and CTF culture within their organizations.

Each bank is required to establish an independent department that specializes in AML and CTF activities; in addition, the board of directors must appoint one senior manager to the role of AML/CTF Officer and provide the officer with adequate authority to serve as the second line of defense. This AML/CTF Officer shall report to the board of directors and supervisors at least once every six months.

Every branch, local and abroad, must have a senior manager assigned to supervise execution of AML/CTF policies and procedures, and conduct self-audits on related matters.

3. Amendment to Articles 7 and 8 of Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business:

The Financial Supervisory Commission has tightened supervision over the launch of complex, high-risk financial derivatives by banks. In order to address the riskiness of complex high-risk products while protecting investors and ensuring

stable and sound growth of financial institutions and the market, the Financial Supervisory Commission made amendments to Articles 7 and 8 of “Regulations Governing Internal Operating Systems and Procedures for Banks Conducting Financial Derivatives Business” (referred to as the Regulation below), which requires banks to seek prior approval or prior acknowledgment from the competent authority before offering complex high-risk products to customers other than institutional investors and high net worth corporate investors:

Products that involve foreign currencies would require approval from the Central Bank and acknowledgement from the Financial Supervisory Commission. New complex high-risk products that have not been permitted for offering, or have been permitted for offering for less than six months, would require prior approval before launch. Products that have been permitted for offering for more than six months are subject to follow-up reporting process. These amendments were made for the purpose of encouraging financial product innovation.

#### 4. Amendment of electronic payment regulations:

Since the implementation of Act Governing Electronic Payment Institutions on May 3, 2015, the Financial Supervisory Commission has been helping electronic payment institutions grow business by making a series of deregulations, including amendment of “Regulations Governing the Standards for Information System and Security Management of Electronic Payment Institutions” on August 17, 2016, and amendment of “Rules Governing the Administration of Electronic Payment Business” and “Regulations Governing the Organization and Administration of Sinking Fund Established by Electronic Payment Institutions” on September 10, 2016. Meanwhile, banks are being encouraged to engage electronic payment institutions in business collaborations for the benefit of both parties.

The Bank will aim to capitalize on the ongoing deregulation and the growing demand for mobile payment by expanding its electronic payment services. In addition to O2O payment solutions, the Bank will also introduce new security measures such as pattern lock, hand gesture and fingerprint recognition to simplify transaction procedures in the age of cashless payment, and thereby attract different customer profiles.

### **(c) Macroeconomic Environment**

1. Some of the most significant uncertainties presented to the world’s economy in

2017 include: U.S. policies under the Trump administration, localized supply chain and adjustment of economic structure in China, performance of the European economy, timing of Brexit from the EU, and election outcomes in Germany and France. All of these will affect financial market volatility. The Bank will continue monitoring the above developments and respond with caution.

- The Bank is in pursuit of excellence while maintaining a sound business philosophy. The Bank has planned to focus on five major initiatives for the coming year: “corporate banking, retail banking, wealth management, and overseas business as core areas,” “broad and deep employee training,” “prioritizing information security for new financial technology,” “immediate compliance supervision,” and “delivering recognition for employees, value for shareholders and social welfare for society.” Through integrated digital and physical banking channels, we will provide customers with more innovative and diversified financial services, and position ourselves as one of Taiwan’s top banks.

#### E. Latest Credit Ratings

Rating Agency	Release Date	Global Rating		National Rating		Outlook
		Long-term	Short-term	Long-term	Short-term	
Taiwan Ratings	2016/11	-	-	twAA	twA-1+	Stable
S&P	2016/11	BBB+	A-2	-	-	Stable
Moody’s	2016/12	A2	P-1	-	-	Stable

Note: Compared to January 2016, the latest rating published by Moody’s has maintained the Bank’s long-term and short-term ratings and prospect unchanged, whereas baseline credit assessment (BCA) was adjusted upwards from Baa3 to Baa2.

## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors and Shareholders  
Chang Hwa Commercial Bank, Ltd.

### **Opinion**

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

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

### **Basis for Opinion**

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

### **Key Audit Matters**

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

The following are the descriptions of the key audit matters in the audit of the financial statements of the Bank for the year ended December 31, 2016.

#### **Recognition of Loan Interest Revenue**

Loan interest revenue is the most important source of revenue for the Bank. For the year ended December 31, 2016, loan interest revenue was \$27,051,838 thousand, accounting for 83% of the Bank's total interest income; thus, it is a very significant account in the financial statements. Refer to Notes 4 and 29 to the Bank's financial statements for related information.

Loan interest revenue greatly depends on an automated calculation performed by the Bank's information system. The input controls of the program and the automated arithmetic logic of the system parameters have a great influence on the correctness of interest revenue. Therefore, our evaluation of the correctness of the loan interest revenue mainly included understanding and testing the internal control procedures for the calculations of revenue from loan and related interest. We selected samples from the loan system and checked the original data of the lender. We tested the design and operating effectiveness of the related controls over the system. We used the loans from 2016 as the sample population and selected all the lenders in November as a sample to check the completeness of the loan cases and to test the accuracy of the loan interest revenue recognized for that month.

#### Impairment Assessment of Loans and Receivables

Loans and receivables are the most important asset items for the Bank. As of December 31, 2016, the total amount of loans and receivables were \$1,387,540,151 thousand, accounting for 69% of the Bank's total assets. Refer to Notes 4, 5, 8 and 9 to the Bank's financial statements for related information. In addition, evaluating the impairment of loans and receivables depends on management's estimation of future cash flows, and the business cycles of any particular industry may lead to an increase in the operation risk of that particular industry, or it may lead to a higher credit risk due to the decline in the value of collateral. Therefore, we considered the impairment assessment of loans and receivable to be a key audit matter.

When assessing the appropriateness of the impairment of loans and receivables, we understood and tested the internal control procedures for lending operations and determining provisions for impairment losses. We collected publicly available market information to identify whether there are any instances in which a company may have objective evidence of impairment relating to the loans and receivables of the Bank but has not been included in the Bank's impairment assessment. We reviewed whether the Bank considered the value of the collateral appropriately when evaluating the impairment. For the combined cases involving an impairment assessment, we evaluated the rationality of the assessment model with regard to the main assumptions and the input value used by the Bank. Finally, we examined the rationality and consistency of the incidence of impairment, the account recovery rate, and other parameters which were used by the Bank.

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 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 Bank'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 Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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



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

The engagement partners on the audit resulting in this independent auditors' report are Tza Li Gung and Shui En Liu.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

February 24, 2017

Notice to Readers

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

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

# CHANG HWA COMMERCIAL BANK, LTD.

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

ASSETS	2016		2015	
	Amount	%	Amount	%
Cash and cash equivalents	\$ 45,199,330	2	\$ 31,225,679	2
Due from the Central Bank and call loans to banks	194,825,223	10	146,654,212	8
Financial assets at fair value through profit or loss	34,699,024	2	43,518,615	2
Derivative financial assets for hedging	86,265	-	192,521	-
Receivables, net	20,280,261	1	19,729,443	1
Current tax assets	56,689	-	55,436	-
Loans, net	1,367,259,890	68	1,321,934,363	69
Available-for-sale financial assets, net	76,824,866	4	67,415,202	3
Held-to-maturity financial assets, net	204,864,541	10	205,777,255	11
OTHER FINANCIAL ASSETS, NET				
Financial assets carried at cost	4,167,009	-	4,167,009	-
Debt investments without active market	88,555	-	2,051,074	-
Other miscellaneous financial assets	<u>18,842,264</u>	<u>1</u>	<u>25,530,337</u>	<u>2</u>
Other financial assets, net	<u>23,097,828</u>	<u>1</u>	<u>31,748,420</u>	<u>2</u>
Property and equipment, net	20,801,823	1	22,253,008	1
Investment property, net	13,753,981	1	12,536,509	1
Intangible assets, net	423,465	-	500,710	-
Deferred tax assets	2,447,734	-	2,367,489	-
Other assets	<u>530,584</u>	<u>-</u>	<u>348,357</u>	<u>-</u>
TOTAL	<u>\$ 2,005,151,504</u>	<u>100</u>	<u>\$ 1,906,257,219</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>				
Due to the Central Bank and banks	\$ 139,162,582	7	\$ 124,025,228	7
Finance due to banks	-	-	3,879,840	-
Financial liabilities at fair value through profit or loss	18,093,146	1	22,732,139	1
Securities sold under repurchase agreements	2,954,981	-	4,612,047	-
Payables	33,834,971	2	23,164,932	1
Current tax liabilities	550,984	-	146,692	-
Deposits and remittances	1,624,429,817	81	1,547,739,711	81
Bank note payables	31,375,226	2	35,176,580	2
Other financial liabilities	2,718,964	-	1,075,196	-
Reserve for liabilities	4,524,224	-	4,371,316	-
Deferred tax liabilities	6,672,201	-	6,644,859	1
Other liabilities	<u>3,310,883</u>	<u>-</u>	<u>3,213,720</u>	<u>-</u>
Total liabilities	<u>1,867,627,979</u>	<u>93</u>	<u>1,776,782,260</u>	<u>93</u>
<b>EQUITY</b>				
Capital stock				
Common stock	89,647,626	5	84,573,232	5
Retained earnings				
Legal reserve	23,784,945	1	20,291,944	1
Special reserve	12,020,521	1	12,020,521	1
Unappropriated earnings	11,970,239	-	11,613,831	-
Other equity				
Exchange differences on translation of foreign financial statements	(8,125)	-	733,874	-
Unrealized gains on available-for-sale financial assets	<u>108,319</u>	<u>-</u>	<u>241,557</u>	<u>-</u>
Total equity	<u>137,523,525</u>	<u>7</u>	<u>129,474,959</u>	<u>7</u>
TOTAL	<u>\$ 2,005,151,504</u>	<u>100</u>	<u>\$ 1,906,257,219</u>	<u>100</u>

## CHANG HWA COMMERCIAL BANK, LTD.

### STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
INTEREST INCOME	\$ 32,589,526	105	\$ 32,991,503	111
INTEREST EXPENSES	<u>(10,862,757)</u>	<u>(35)</u>	<u>(12,075,574)</u>	<u>(40)</u>
NET INTEREST INCOME	<u>21,726,769</u>	<u>70</u>	<u>20,915,929</u>	<u>71</u>
NET INCOME OTHER THAN NET INTEREST INCOME				
Net service fee and commissions income	5,411,772	17	4,905,306	16
Gain on financial assets and liabilities at fair value through profit or loss	2,071,330	7	406,788	1
Realized gain on available-for-sale financial assets	432,225	1	280,188	1
Foreign exchange gains	279,662	1	1,647,056	6
Other miscellaneous net income	<u>1,086,723</u>	<u>4</u>	<u>1,501,767</u>	<u>5</u>
Net income other than net interest income	<u>9,281,712</u>	<u>30</u>	<u>8,741,105</u>	<u>29</u>
NET REVENUE AND GAINS	<u>31,008,481</u>	<u>100</u>	<u>29,657,034</u>	<u>100</u>
BAD DEBTS EXPENSES AND GUARANTEE LIABILITY PROVISIONS	<u>(1,138,044)</u>	<u>(4)</u>	<u>(329,372)</u>	<u>(1)</u>
OPERATING EXPENSES				
Employee benefits expenses	(10,549,116)	(34)	(10,193,168)	(35)
Depreciation and amortization expenses	(717,900)	(2)	(702,268)	(2)
Other general and administrative expenses	<u>(4,520,380)</u>	<u>(15)</u>	<u>(4,686,025)</u>	<u>(16)</u>
Total operating expenses	<u>(15,787,396)</u>	<u>(51)</u>	<u>(15,581,461)</u>	<u>(53)</u>
INCOME BEFORE INCOME TAX	14,083,041	45	13,746,201	46
INCOME TAX EXPENSE	<u>(1,997,069)</u>	<u>(6)</u>	<u>(2,102,864)</u>	<u>(7)</u>
NET INCOME	<u>12,085,972</u>	<u>39</u>	<u>11,643,337</u>	<u>39</u>

(Continued)

## CHANG HWA COMMERCIAL BANK, LTD.

### STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2016		2015	
	Amount	%	Amount	%
<b>OTHER COMPREHENSIVE INCOME</b>				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	\$ (243,501)	-	\$ (445,513)	(1)
Income tax relating to items that will not be reclassified subsequently to profit or loss	41,395	-	75,737	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(883,139)	(3)	(10,707)	-
Unrealized gain (loss) on available-for-sale financial assets	(127,868)	-	551,907	2
Income tax relating to items that may be reclassified subsequently to profit or loss	<u>135,770</u>	<u>-</u>	<u>(95)</u>	<u>-</u>
Other comprehensive income for the year, net of income tax	<u>(1,077,343)</u>	<u>(3)</u>	<u>171,329</u>	<u>1</u>
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>\$ 11,008,629</u>	<u>36</u>	<u>\$ 11,814,666</u>	<u>40</u>
<b>EARNINGS PER SHARE</b>				
Basic	<u>\$ 1.35</u>		<u>\$ 1.30</u>	
Diluted	<u>\$ 1.34</u>		<u>\$ 1.29</u>	

**CHANG HWA COMMERCIAL BANK, LTD.**

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

	Equity Attributable to Owners of the Bank					Other Equity		Total Equity
	Capital Stock		Retained Earnings			Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets	
	Shares (Thousand)	Amount	Legal Reserve	Special Reserve	Unappropriated Earnings			
BALANCE, JANUARY 1, 2015	7,904,040	\$ 79,040,404	\$ 17,022,790	\$ 12,020,521	\$ 10,723,060	\$ 750,956	\$ (316,630)	\$ 119,241,101
Appropriation of 2014 earnings								
Legal reserve	-	-	3,269,154	-	(3,269,154)	-	-	-
Cash dividends	-	-	-	-	(1,580,808)	-	-	(1,580,808)
Stock dividends	553,283	5,532,828	-	-	(5,532,828)	-	-	-
Net income for the year ended December 31, 2015	-	-	-	-	11,643,337	-	-	11,643,337
Other comprehensive income for the year ended December 31, 2015, net of tax	-	-	-	-	(369,776)	(17,082)	558,187	171,329
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	11,273,561	(17,082)	558,187	11,814,666
BALANCE, DECEMBER 31, 2015	8,457,323	84,573,232	20,291,944	12,020,521	11,613,831	733,874	241,557	129,474,959
Appropriation of 2015 earnings								
Legal reserve	-	-	3,493,001	-	(3,493,001)	-	-	-
Cash dividends	-	-	-	-	(2,960,063)	-	-	(2,960,063)
Stock dividends	507,439	5,074,394	-	-	(5,074,394)	-	-	-
Net income for the year ended December 31, 2016	-	-	-	-	12,085,972	-	-	12,085,972
Other comprehensive income for the year ended December 31, 2016, net of tax	-	-	-	-	(202,106)	(741,999)	(133,238)	(1,077,343)
Total comprehensive income for the year ended December 31, 2016	-	-	-	-	11,883,866	(741,999)	(133,238)	11,008,629
BALANCE, DECEMBER 31, 2016	8,964,762	\$ 89,647,626	\$ 23,784,945	\$ 12,020,521	\$ 11,970,239	\$ (8,125)	\$ 108,319	\$ 137,523,525

# CHANG HWA COMMERCIAL BANK, LTD.

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

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income before income tax	\$ 14,083,041	\$ 13,746,201
Non-cash (revenues and gains) or expenses and losses		
Bad debts expenses and guarantee liability provisions	1,138,044	329,372
Depreciation expenses	557,514	567,004
Amortization expenses	160,386	135,264
Interest income	(32,589,526)	(32,991,503)
Interest expenses	10,862,757	12,075,574
Dividends income	(789,842)	(345,033)
Net (gain) losses on financial assets and liabilities at fair value through profit or loss	(2,378,874)	297,723
Gain on disposal of investments	(288,460)	(181,117)
Unrealized foreign exchange losses (gain)	307,544	(704,511)
Other adjustments	(366,905)	(112,546)
Changes in operating assets and liabilities		
(Increase) decrease in due from the Central Bank and banks	(12,866,982)	7,455,792
Decrease (increase) in financial assets at fair value through profit or loss	9,520,686	(5,590,573)
(Increase) decrease in receivables	(1,037,630)	1,639,599
Increase in loans	(45,806,771)	(63,078,423)
Increase in available-for-sale financial assets	(7,595,267)	(19,278,268)
Decrease (increase) in held-to-maturity financial assets	912,772	(22,140,196)
Decrease in other financial assets	8,626,729	46,950,053
(Increase) decrease in other assets	(181,428)	71,764
(Decrease) increase in due to the Central Bank and banks	(3,121,308)	11,201,771
Increase in deposits and remittances	76,690,106	94,770,426
Increase (decrease) in payables	10,837,328	(6,081,578)
(Decrease) increase in financial liabilities at fair value through profit or loss	(3,760,030)	1,976,567
Decrease in reserve for liabilities	(177,474)	(98,774)
Increase in other financial liabilities	1,643,768	450,780
Increase in other liabilities	<u>78,779</u>	<u>264,593</u>
Cash generated from operations	24,458,957	41,329,961
Interest received	31,386,075	32,563,180
Dividend received	789,842	345,033
Interest paid	(11,030,981)	(12,356,946)
Income taxes refund	-	529,830
Income taxes paid	<u>(1,468,515)</u>	<u>(2,004,534)</u>
Net cash generated from operating activities	<u>44,135,378</u>	<u>60,406,524</u>

(Continued)

# CHANG HWA COMMERCIAL BANK, LTD.

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

	2016	2015
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	\$ (333,887)	\$ (566,799)
Acquisition of investment property	(1,122)	(998)
Acquisition of intangible assets	(77,281)	(108,820)
Proceeds from disposal of property and equipment	<u>38</u>	<u>32</u>
Net cash used in investing activities	<u>(412,252)</u>	<u>(676,585)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in due to the Central Bank and call loans from banks	14,378,822	(8,401,985)
Proceeds from issuance of bank notes	6,300,000	-
Repayment of bank notes	(9,624,000)	(13,350,000)
Cash dividends distributed	(2,960,063)	(1,580,808)
(Decrease) increase in securities sold under repurchase agreements	<u>(1,657,066)</u>	<u>85,353</u>
Net cash generated from (used in) financing activities	<u>6,437,693</u>	<u>(23,247,440)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(883,139)</u>	<u>(10,707)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	49,277,680	36,471,792
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>118,700,025</u>	<u>82,228,233</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 167,977,705</u>	<u>\$ 118,700,025</u>
Reconciliation of cash and cash equivalents		
Cash and cash equivalents in balance sheet	\$ 45,199,330	\$ 31,225,679
Call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 permitted by the Financial Supervisory Commission	<u>122,778,375</u>	<u>87,474,346</u>
Cash and cash equivalents at end of period	<u>\$ 167,977,705</u>	<u>\$ 118,700,025</u>