



(Formerly Known as Industrial Bank of Taiwan Co., Ltd.)



# 2016

## Annual Report

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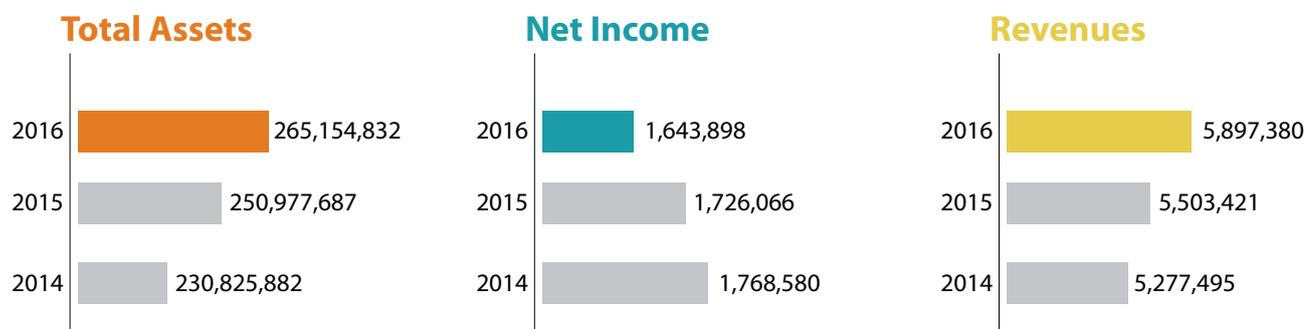
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# Financial Highlights

	2016 Thousands of NT dollars	2015 Thousands of NT dollars	2014 Thousands of NT dollars	2016 Thousands of US Dollars (*)
<b>Total Assets</b>	<b>265,154,832</b>	250,977,687	230,825,882	<b>8,212,973</b>
<b>Net Worth</b>	<b>29,388,658</b>	29,678,133	28,671,261	<b>910,292</b>
<b>Investments Outstanding</b>	<b>53,455,071</b>	56,559,008	42,864,962	<b>1,655,731</b>
<b>Loans Outstanding</b>	<b>146,105,853</b>	129,518,749	118,275,261	<b>4,525,519</b>
<b>Guarantees Outstanding</b>	<b>5,149,000</b>	6,205,860	4,831,446	<b>159,486</b>
<b>Revenues</b>	<b>5,897,380</b>	5,503,421	5,277,495	<b>182,667</b>
<b>Net Income</b>	<b>1,643,898</b>	1,726,066	1,768,580	<b>50,919</b>
<b>Return on Assets</b>	<b>0.64%</b>	0.72%	0.86%	<b>0.64%</b>
<b>Return on Equity</b>	<b>5.57%</b>	5.92%	6.38%	<b>5.57%</b>
<b>BIS Ratio</b>	<b>14.80%</b>	14.12%	14.93%	<b>14.80%</b>
<b>Non Performing Assets Ratio</b>	<b>0.02%</b>	0.28%	0.34%	<b>0.02%</b>

\* U.S. Dollars amounts are converted at the prevailing exchange rate on Dec.31, 2016 of NT\$32.28488=US\$1



# Message from the Chairman and CEO

Looking back at 2016, due to weaker than expected economic growth in the United States and euro zone, as well as a decelerating Chinese economy, the global economy grew only 3.1% according to the International Monetary Fund, which was roughly equal with the previous year. Under this environment, the Taiwan economy was on one hand impacted by the increased autonomy of the Chinese supply chain, causing negative export growth in the first half of the year. On the other hand, exports improved in the second half of the year as the semiconductor market improved. According to the Directorate General of Budget, Accounting, and Statistics (DGBAS), Taiwan's economy grew 1.50% last year, outperforming a forecast of 1.47% at the beginning of 2016. Total pretax profit for Taiwan's domestic banking industry was NT\$300 billion, a 6% decline from the previous year.

The Bank completed all preparations for transition to commercial banking in 2016, and formally restructured and changed its name to "O-Bank" in 2017, entering the retail banking market and aiming to provide consumers a convenient, thoughtful, and safe banking experience through digital financial technology. Reviewing last year's performance, if costs associated with investments in retail banking following to its transition to a commercial bank are excluded, the Bank's 2016 pretax profit was NT\$2.35 billion, up 17% from a year earlier. Return on equity was 7.23%, outperforming the average for the banking sector. If retail banking investments are included, the Bank's pretax profit was NT\$1.86 billion, for a net profit of NT\$1.64 billion and EPS of NT\$0.69.

Looking ahead to 2017, the Global economy is expected to gradually recover, and growth momentum in emerging markets is accelerating. However, uncertainties including U.S. interest rate increases, cooling of the Chinese economy, and the rise of anti-globalism and protectionism warrants continued observation. The Bank's business development plans for 2017 are as follows:



## 1. Creating User-Centric Digital Retail Banking Services

O-Bank is Taiwan's first native digital bank, centered around virtual channels. The Bank uses new digital financial technologies to enable consumers to enjoy a variety of convenient financial services using their mobile devices. It is also Taiwan's first bank to use cloud-based customer service management systems, employing big data to integrate its resources. In addition, the Bank will continue to leverage the far-reaching influence of digital finance to launch a number of unique financial products and deploy a more comprehensive financial product line to achieve our vision of inclusive finance.

## 2. Cultivation of Boutique Corporate Banking Business

O-Bank's total loans outstanding have reached consecutive record highs every year in the past five years, achieving business momentum above the average of its industry peers. The Bank will continue with its "boutique banking" strategy to cultivate corporate banking business and provide clients with optimal solutions, and will also provide enterprise clients with even more diversified services with the launch of its retail banking products.

## 3. Consolidate Resources to Develop Niche Business Opportunities

Going forward, the Bank will proactively bid to qualify for all types of government project finance lending, and at the same time continue to expand its factoring business and integrate its e-factoring system to grasp more business opportunities and create additional cash flow. At the same time, following a recovery in commercial real estate trading and booming demand for high-return investment products, the Bank plans to continue launching asset securitization products and keep developing niche businesses.

## 4. Realize O-Bank's Vision of Mutual Benefit and Prosperity

O-Bank's Chinese name of "Wangdao" ( 王道 ) draws on a spirit of inclusiveness, walking the right path, fulfilling oneself by helping others, pursuing sustainability, and unceasing innovation. Since the establishment of our Corporate Social Responsibility Committee in 2015, the Bank has already completed more than 100 CSR initiatives. Its first CSR Report, published in 2016, was also honored with the "Corporate Sustainability Report Award – Silver Medal" by the Taiwan Institute for Sustainable Energy. Looking ahead, the Bank will continue to move forward with projects in corporate governance, employee caring, customer relations, social engagement, and environmental protection. With sustainable business as our goal, we will realize the "Wangdao" spirit of "helping others to achieve is to fulfill oneself" and our vision of benefiting with employees, winning with customers, sharing with stockholders, co-existing with the environment, and prospering with society.

Looking forward, I believe that with the combined efforts of all our colleagues, our Bank can continue to reach new achievements in every aspect of our business, and we hope for continued guidance and support from our shareholders.



**Kenneth C.M. Lo / Chairman & CEO**

# Mission of the Vice Chairman

O-Bank's Chinese name of "Wangdao" (王道) is taken from this Chinese concept's spirit of inclusiveness, choosing the correct way, finding fulfillment in aiding others, seeking sustainability, and continuous creativity. We established our Corporate Social Responsibility Committee in 2015, and it has already carried out over 100 CSR actions. Our hope is that our business principle of integrity can be realized in every facet of what we do, and that we can fulfill our responsibilities to employees, clients, shareholders, suppliers, the public, and all stakeholders. In 2016, O-Bank published its first Corporate Social Responsibility Report, disclosing our CSR achievements over the previous year. With our first report, we were honored to receive the "Corporate Sustainability Report Award – Silver Medal" from the Taiwan Institute for Sustainable Energy.

In 2016, to care for employees, we continued to enhance their competitiveness with relevant courses, trained internal instructors and established an e-learning platform, "O-Bank e-Academy". At the same time, we also strengthened health and safety promotions for employees and launched several initiatives encouraging them to care for their safety and wellness, and our working area was also qualified as a healthy workplace.

In customer service, in addition to compliance and implementation of regulatory requirements, we effectively protected client privacy and ensured transaction safety, as well as provided clients with convenient and timely physical and electronic financial services.

In corporate governance, we are thorough in our transparency and public disclosures, and maintain an audit committee and independent board members to effectively supervise operations. We have also set the "O-Bank Co., Ltd. Procedures for Ethical Management and Guidelines for Conduct" as well as "Principles for Fair Treatment of Clients". In addition, we have established a whistleblower mechanism and set policies against corruption and fraud, and also ensure that our business principle of integrity is carried out in every corner of the Bank through training and promotional activities.



In environmental protection, we advocated energy conservation and carbon reduction, continued to move forward with green purchasing, and have strengthened our water resource management and waste reduction. We have also been gradually requiring suppliers to jointly follow mutual CSR policies. In social engagement, we believe strongly in caring for people and participated in numerous social concerns and public welfare activities. In addition to caring for disadvantaged members of society, we also devoted resources to arts education and encouraged employees to join us in public service.

In 2016, O-Bank's social welfare was focused on two areas: caring for students in underdeveloped areas and promoting social enterprises. We held a "Dream On" public benefit activity to assist individuals, groups, and social enterprises to achieve their dreams of fulfilling themselves by helping others. To help schoolchildren in underdeveloped areas, we provided scholarships to outstanding students, spent holidays with them, and held classes on financial knowledge. More than 20 volunteers of our Volunteer Society also held regular videoconferences with students in remote areas to look after their schoolwork and daily life, supporting and accompanying them as they grow. To support social enterprises, we continued to hold farmers' markets, organized socially conscious group purchases. In 2016, we also held the "Dream On Farm" small farmer's concert, inviting our clients to show their concern for social enterprises and support small farmers. Founders of social enterprises were also invited to speak and promote their social enterprise ideas.

In addition to O-Bank's various social enterprise commitments, I was honored to be appointed by the R.O.C. Presidential Office to be an enterprise representative to the APEC Business Advisory Council (ABAC). ABAC is an important committee under the APEC framework. Each head of state may appoint up to three people to the Council, which provides policy suggestions to APEC leaders each year. It is comprised of five working groups: Regional Economic Integration; Finance and Economics; Sustainable Development; Micro, Small, and Medium Enterprise (MSME) Entrepreneurship; and Connectivity. I was invited to serve as the joint Chairperson of the MSME Entrepreneurship working group, responsible for promotion of "creating a favorable business environment that stimulates innovation, fosters entrepreneurship and promotes good corporate governance". These issues are closely integrated with the principles that I have pushed forward in the past, as well as O-Bank's spirit of "helping others to fulfill oneself". Our wish is that through this influential international platform, we can not only do our part for the prosperity of finance and industry, but also speak up for Taiwan's business community. We hope that through Taiwan's participation in APEC, we can strengthen international bonds, raise Taiwan's profile in the world, and work for a better, more progressive society.



**Tina Y. Lo / Vice Chairman**

# Perspective of the President

Reviewing last year's performance, if costs associated with investments in retail banking following to its transition to a commercial bank are excluded, the Bank's 2016 pretax profit was NT\$2.35 billion and EPS was NT\$0.89 , up more than 17% from a year earlier. Return on equity was 7.23%, outperforming the average for the banking sector. If retail banking investments are included, the Bank's pretax profit was NT\$1.86 billion, for a net profit of NT\$1.64 billion and EPS of NT\$0.69. Taiwan Ratings issued "twA" and "twA-1" ratings for our long and short term credit ratings respectively with an outlook of "stable".

The Bank achieved the following important milestones in 2016:

## **1. Completed Preparations for Transition to Commercial Banking**

2016 was a critical year for O-Bank's transition to commercial banking. Preparations including establishing systems, product planning, setting strategy, and talent recruitment were completed in one short year through dedicated collaboration between all departments of the Bank. Commercial banking operations commenced on January 3, 2017.

## **2. Received Approval for IPO**

To support continued growth, sustainable business, and realize high standards of corporate governance, as well as diversify fundraising channels and increase share liquidity, the Bank applied to regulators for an initial public offering last year and received approval. The share listing is scheduled for second quarter of 2017.



### **3.Achieved Outstanding Credit Quality**

Despite slowing financial market growth and stagnation in the overall domestic lending, O-Bank's total loans outstanding reached NT\$157.8 billion, growing 11.21% from a year earlier to a record high. At the same time, the non-performing loan ratio fell to 0.02%, well below the 0.27% average for domestic banks.

### **4.Continued Growth in Subsidiaries and Affiliates**

Our subsidiary EverTrust Bank, located in the United States, continued to grow in 2016 with net profit of NT\$290 million, increasing 18% from a year earlier. Affiliate company China Bills Finance earned a net profit of NT\$1.63 billion in 2016, and was also honored with the "Best Bills Finance Award" at the eighth Taiwan Banking and Finance Best Practice Awards. In addition, our subsidiaries IBT Leasing, IBT International Leasing, and IBT Tianjin International Leasing all saw continued growth in loans outstanding, further optimized asset quality and strengthened risk management mechanisms to effectively hedge risk and reduce foreign exchange losses. They also established a Central Management Center to enhance management efficiency.

Looking forward, O-Bank's advantage lies in its lack of legacy burden, great organizational flexibility, ability to use the world's most advanced IT systems, high malleability of its organizational structure, and rapid decision-making. Through virtual channels and a fast and flexible business model, it provides clients with high-quality financial services at a reasonable price. In addition, O-Bank has accumulated 17 years worth of resources from enterprise and group customers, providing a strong foundation for retail banking. The Group will pursue a strategy of comprehensive and integrated services extending from its existing corporate and individual clients to its new business in retail banking. The Bank will persist in achieving the goal of business growth and stable increase in profitability.



**Tony C. Y. Yang / President**

A modern office lounge area featuring bright orange modular sofas arranged in a semi-circle. Small white side tables are placed between the sofas, some holding a smartphone. In the foreground, a large white cylindrical table with a dark top is visible. The background shows a reception desk with a 'BANK' sign, a glass-walled office area, and more seating. The ceiling is white with recessed linear lighting and several large, circular, illuminated pendant lights. An orange diagonal graphic element is overlaid on the right side of the image.

# Business Review

*O-Bank's domestic offices comprise its headquarters in Taipei and branches in the Hsinchu Science Park, Taichung, and Kaohsiung, as well as regional service offices in Taoyuan and Tainan approved by regulatory authorities. In addition to offering our financial products, these sites provide comprehensive financial services to manufacturers and technology industry clients around the island. Our first overseas site, the Hong Kong branch, began operations in April 2009, and extends financial services and product platforms to Hong Kong and the Greater China region. It also provides convenient services to industrial clients and Taiwan-owned companies, creating win-win outcomes through long-term partnerships based on mutual trust and mutual benefit.*

## 1. Credit Extension

The Bank continued to actively develop domestic and overseas clients in 2016. To pursue stable growth while diversifying operational risk, we persisted with a conservative and stable approach, carefully maintaining both loan asset quality and reasonable returns. As of end-2016, the Bank's total credit extension, including domestic and foreign currency, was NT\$157.8 billion (including letter of credit), an 11.2% increase from end-2015. Asset quality was healthy with a non-performing loan ratio of only 0.02% and a loan loss coverage ratio of 7678.53%.

By industry, fund, investment, leasing, and other financial companies made up the largest proportion of the Bank's loans, making up 15.76% of corporate credit extended at the end of 2016. Other industries included: petrochemicals and textiles at 12.87%, construction, cement, and real estate at 11.80%, electronics at 11.79%, communications, machinery, transportation and equipment at 11.65%, steel and metal manufacturing at 9.60%, and retail and wholesale at 8.02%. Other sectors made up 18.51%.

Out of the electronics industry, the electronic components sector was the largest borrower at 3.75% of credit extended, the semiconductor sector received 3.09%, information hardware was 2.37%, opto-electronics was 0.93%, channels and other electronics products was 0.73%, solar energy was 0.72%, while information software was 0.02%.



O-Bank is actively developing overseas and domestic customers, and to pursue stable growth and diversification of operating risks, we are not only securing our core customer base, but also working to enter the medium-sized enterprise market segment, which will serve as an important foundation for our cross-selling efforts.

The primary focus of our credit extension business is corporate syndicated loans. The Bank maintains a Structured Finance Division under the Corporate Finance Department which is adept at quickly and accurately providing custom-made financial solutions to successfully raise funds for customers or resolve key issues. The Bank's target customers are primarily located in the Greater China area (Hong Kong, China, and Taiwan), and their industries encompass branded retail, electronics, opto-electronics, steel, transportation, machinery, textiles, food, petrochemicals, leasing, construction, securities, broadcast communications and others. Their credit is used to fund factory construction, equipment purchases, mergers and acquisitions, construction development and other capital spending, as well as medium-term operational funding to improve financial structure. Our meticulous professional services both support the continued growth of these enterprises and improve their competitiveness in the market.

Many businesses reduced capital spending in 2016 due to moderating global and domestic economic growth, and lower demand for syndicated loans led to difficult competition to serve as lead manager. O-Bank has nevertheless built strong customer relationships with a focus on enterprise clients with strong growth prospects, and is able to leverage its group cross-selling mechanisms and expertise in cross-border structural projects. The Bank led 13 syndicated loans in 2016 in sectors including paper, textiles, real estate, department store retail, petrochemicals, communications, jewelry, and branded retail totaling approximately NT\$25.7 billion.

## 2. Deposits

O-Bank's funds are primarily deployed over the medium and long term. Due to considerations of liquidity, security, and currency structure of deposits, the Bank not only pays careful attention to the durations of its time deposits, it is also making great efforts to attract savings deposits. At the end of 2016, the Bank's total domestic and foreign currency deposits totaled NT\$164.1 billion, up 5.5% from end-2015.

In addition, as foreign currency loans continue to grow, the Bank is also actively expanding foreign currency deposits. In spite of a highly competitive market, the Bank's foreign currency-denominated deposits grew 8.49% year-on-year to NT\$57.5 billion by end-2016.

## 3. Foreign Exchange and Offshore Banking

In 2016, the Bank continued to expand its foreign currency operations and pursued a business strategy of expanding lending spreads. By the end of the year, export-import business was US\$1.021 billion, and foreign currency lending totaled NT\$49.2 billion, growing 24.09% from a year earlier. By December 2016, U.S. dollar lending spreads were up 0.26% from a year earlier to 2.24%.

In offshore banking, we not only serve clients with multinational business by helping them obtain the offshore funds they require, we are also active in cross-strait DBU and OBU operations. Additionally, in response to the rapid growth in cross-strait trade and also to enhance service quality to Taiwan enterprises in China, our OBU and Hong Kong branch both offer Renminbi-related services. These services will further diversify our business development and also draw more business opportunities.

#### 4. Direct Investment

After receiving Financial Supervisory Commission approval to restructure to commercial banking in March 2015, the Bank has halted new direct investments due to regulations regarding the business scope of commercial banks. At the end of 2016, the Bank held 46 foreign and domestic direct investments totaling NT\$1.577 billion. In addition to venture capital, the overall portfolio includes pharmaceuticals and biotechnology, chemical materials manufacturing, as well as retail and wholesale and others. Pharmaceuticals and biotechnology occupied the largest portion of the portfolio at approximately 22.4%, followed by 22.2% for chemical materials manufacturing.

<b>Investment Portfolio Analysis</b>			
<b>Industry</b>	<b>Number of Invested Companies</b>	<b>Investment Amount (NT\$ Million)</b>	<b>Percentage (%)</b>
<b>Pharmaceuticals/Biotechnology</b>	<b>7</b>	353	22.39
<b>Chemical Materials Manufacturing</b>	<b>3</b>	351	22.23
<b>Wholesale and Retail</b>	<b>4</b>	189	11.97
<b>Machinery &amp; Instrument</b>	<b>5</b>	176	11.16
<b>Opto-electronics</b>	<b>5</b>	110	6.97
<b>Solar Energy</b>	<b>2</b>	77	4.92
<b>Semiconductor</b>	<b>6</b>	61	3.86
<b>Transportation and Equipment</b>	<b>1</b>	39	2.51
<b>Information (software)</b>	<b>2</b>	25	1.58
<b>Information(hardware)</b>	<b>2</b>	18	1.13
<b>Internet &amp; Multimedia</b>	<b>2</b>	10	0.61
<b>Electronic Components</b>	<b>1</b>	7	0.44
<b>Channels and other Electronic Products</b>	<b>1</b>	6	0.38
<b>Venture Capital Funds</b>	<b>5</b>	155	9.85
<b>Total</b>	<b>46</b>	1,577	100.00



## 5. Financial Product Trading

O-Bank's financial product trading business includes both the trading and the marketing of financial products. The Bank trades in foreign exchange, interest rate products, and derivatives, as well as fund dispatching and fixed income investments. Financial product marketing chiefly provides clients with diversified financial services and products as well as hedging tools.

In 2016, the Bank adapted to international financial market volatility, and continued to strengthen risk management of overall positions, monitored market pricing, and strengthened education and training of sales staff. With global interest rates remaining at low levels in the first half of the year, followed by a U.S. economic recovery in the second half with members of the U.S. Federal Reserve Board of Governors advocating an early rate hike, the Bank's fixed income continued to make a respectable performance.

## 6. Securities Trading

O-Bank's primary securities trading is investment in domestically-listed companies. Risk factors continued to increase in 2016; the United States was expected to enter a rate increase cycle at the beginning of the year, leading to a sharp depreciation in the Renminbi. This was followed by the domestic presidential election, the Brexit vote, and the election of Donald Trump as U.S. President as well as other events. These factors, added to existing concerns over contraction of the Taiwan economy, led to continued contraction in trading volumes as domestic funds retreated to the sidelines. O-Bank's traders maintained relatively low equity positions last year due to low turnover and risk considerations, and the securities trading business showed a slight loss. As of end-2016, the Bank's total equity holdings were NT\$650 million.

## 7. Project Finance

Project finance encompasses both project funding and financial advising. Project funding is the provision of diverse financing and project development services to enterprises and government for projects such as major public construction including transportation, energy, and environmental infrastructure, as well as commercial facilities, educational facilities, commercial real estate development, and urban renewal. The Bank can provide comprehensive project financial planning, investment feasibility estimates, syndicated loan structure design, transfer of trust beneficiary rights, negotiation strategy, and support in attracting funding and equity investment. The Bank's financial advising services provide clients with custom-made solutions including debt structuring, mergers and acquisitions, corporate restructuring, fundraising, M&A financing, tax planning, and other consulting services.

## 8. Trust Business

O-Bank's trust businesses are primarily in development trusts, securitization, and asset management. The Bank's trust operations focus on money and real estate trusts, while the securitization business works to develop a variety of securitized products. The asset management business chiefly assists clients with asset allocation.

At end-2016, net assets in trust were NT\$6.2 billion, decreasing 42.06% from a year earlier as assets were returned to clients due to real estate and money trust agreements coming to the end of their terms. Total net custodian assets were NT\$280 million, down 67.05% from a year earlier due to client capital reduction.

## 9. Cash Management and e-Banking

Following the launch of O-Bank's corporate Internet banking in 2015, the Bank has continued to extend its online platform, providing Internet banking services to clients of the Hong Kong branch in July 2016. Clients can complete a number of integrated collections and payments operations on this electronic platform, and receive account information and account transaction reports in real time. To satisfy customers needs for multinational business development, we provide consolidation of information and cash flow on a single platform, allowing easy transactions across countries and regions, further reducing customers' financial costs and improving capital efficiency. These stable, secure, and efficient services improve customer loyalty and lead them to choose O-Bank as their primary bank. In addition, automated transaction platform lowers the costs and trading risk related to manual operations, improving the Bank's internal trading security and efficiency.

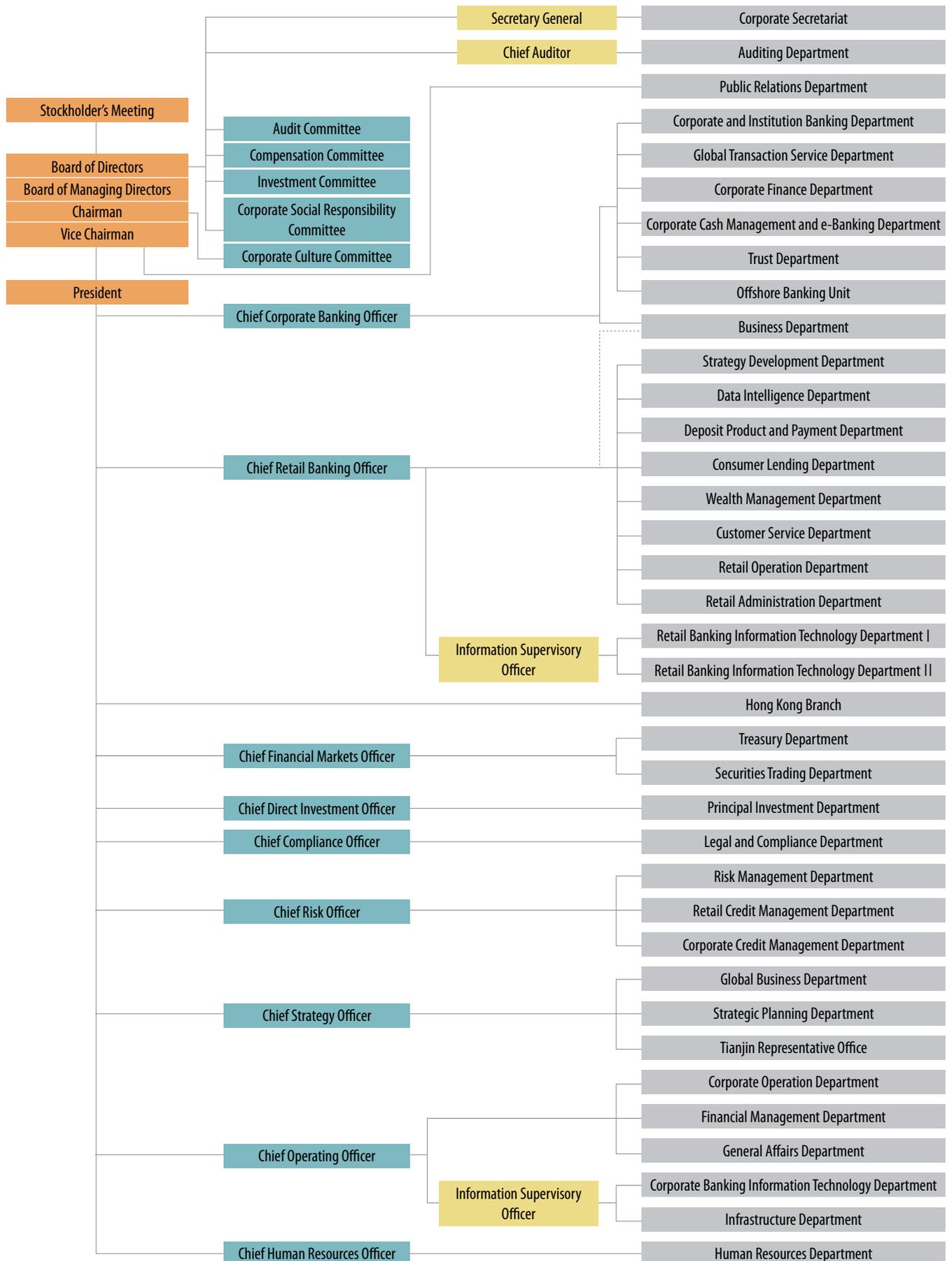
In addition to promoting our online transaction platform and automated transactions, development goals for our cash management business also include expanding stable funding and increasing liquid asset allocation services to satisfy our clients diverse asset allocation needs. We began promoting demand deposits in 2016, and launched "Corporate Tier Rate Campaign for Fresh Funds in NTD Saving Account" projects in February and August. This gives clients additional incentive to deposit at O-Bank, enabling the Bank to lower capital costs and increase deposit income by raising NT dollar deposits.



# EXPAND VERTICALS



# Organization Chart



# Board of Directors

<b>Chairman</b>	Kenneth C. M. Lo	Chairman & CEO , O-Bank Co., Ltd.
<b>Vice Chairman</b>	Tina Y. Lo	Vice Chairman , O-Bank Co., Ltd.
<b>Managing Directors</b>	Nelson An-Ping Chang	Chairman , Taiwan Cement Corp.
	Gordon W.C. Lin	Chairman , IBT Leasing Co., Ltd.
<b>Independent Managing Director</b>	Hou-Sheng Chan	Chairman , Cross-Straits Common Market Foundation
<b>Directors</b>	Shih-Tze Chen	Chairman , Ming Shan Investment Co., Ltd.
	George Tcheng	General Manager , San Ho Plastics Fabrication Co., Ltd.
	Mark Lee	General Manager , Heng Kuo Co., Ltd.
	Bobby Sheng	Chairman & CEO , Bora Pharmaceuticals Co., Ltd.
	Tony C.Y. Yang	President , O-Bank Co., Ltd.
	Nina Lo	CEO , O-Bank Education Foundation
	Eddie Huang	Managing Director , Glory Pacific Shipping (S) Pte. Ltd.
	Ta-Nien Tung	Section Chief , Wang Hsiang Co., Ltd.
<b>Independent Directors</b>	Thomas Yue	C. P. A. , Tien-Yeh Accounting Firm
	Richard R. C. Liu	Director , Ta Chong Venture Capital Co., Ltd.

# The Management Team

1  
**Tony Yang**  
President



2  
**David C.C. Chang**  
**Deputy President & Chief Operating Officer**  
Supervising Financial Management, General Affairs, Corporate Banking Information Technology, Infrastructure, and Corporate Operation Departments



3  
**Elton F.Y. Lee**  
**Deputy President**  
Hong Kong Branch

4  
**Roger Y.F. Lin**  
**Deputy President & Chief Corporate Banking Officer**  
Supervising Business, Corporate Finance, Global Transaction Service, Corporate Cash Management and e-Banking, Trust, Corporate and Institution Banking Departments, Offshore Banking Unit, and Domestic Branches



5  
**Tessie Y.H. Chen**  
**Senior Executive Vice President & Chief Financial Markets Officer**  
Supervising Treasury and Securities Trading Departments

6  
**Nancy S.F. Liu**  
**Senior Executive Vice President & Chief Compliance Officer**  
Supervising Legal and Compliance Department



7  
**Indra Y.C. Huang**  
**Senior Executive Vice President & Chief Risk Officer**  
Supervising Risk Management, Corporate Credit Management, and Retail Credit Management Departments

8  
**Jonathan C.H. Wei**  
**Senior Executive Vice President & Chief Strategy Officer**  
Supervising Global Business, Strategic Planning Departments, and Overseas Representative Office



9  
**Jerry C.J. Sung**  
**Senior Executive Vice President & Chief Retail Banking Officer**  
Supervising Strategy Development, Data Intelligence, Deposit Product and Payment, Consumer Lending, Wealth Management, Customer Service, Retail Operation, Retail Administration Departments, Retail Banking Information Technology Department I & II

10  
**Sophia Y.C. Chung**  
**Executive Vice President & Chief Auditor**  
Supervising Auditing Department



11  
**Angela T.C. Wang**  
**Executive Vice President & Chief Human Resources Officer**  
Supervising Human Resources Department



12

**Tony M.H. Wu**

**Executive Vice President & Information Supervisory Officer**

Supervising Corporate Banking Information Technology, and Infrastructure Departments



13

**Tom A.K. Lin**

**Executive Vice President & Information Supervisory Officer**

Supervising Retail Banking Information Technology Department I & II

14

**Brian Y.L. Lin**

**Executive Vice President**

Taipei Region IV, Business Department



15

**Teddy Y.T. Chin**

**Executive Vice President**

Taipei Region III, Business Department

16

**Joseph L.J. Lai**

**Executive Vice President**

Taichung Branch



17

**Paul C.H. Jen**

**Executive Vice President**

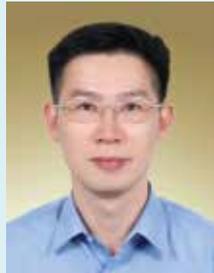
Kaohsiung Branch

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**Sherry H.Y. Yeh**

**Executive Vice President**

Corporate Finance Department



19

**Wen W.C. Shao**

**Executive Vice President**

Tianjin Representative Office

20

**Seline M.C. Hsu**

**Executive Vice President**

Strategy Development Department



21

**Jonathan W.T. Kuo**

**Executive Vice President**

Retail Credit Management Department

22

**Michelle C.W. Mo**

**Executive Vice President**

Retail Administration Department





# Business Plans

*Following evaluation of current domestic and foreign economic and political conditions, as well as positive and negative factors for O-Bank's development, the Bank actively pursues growth and has set the following short, medium, and long term development plans.*

## **1. Short Term Business Development Plans**

### **(1) Create a Competitive Digital Bank**

Following its transition to a commercial bank, O-Bank has adopted a pioneering business strategy to stand out in a highly competitive market. As social media and mobile devices proliferate, the Bank will adopt a new digital banking mindset to revolutionize traditional banking, centering ourselves around virtual channels to provide consumers with more convenient and user-friendly financial services.

As O-Bank does not have the legacy IT systems burden of traditional banks, O-Bank's IT system structure is free to leverage open cloud-based service platforms using the most advanced cloud computing technologies to realize our concept of digital banking. The



mobile devices at everyone's fingertips (e.g. mobile phones) will be one of the Bank's primary channels. At the same time, all aspects of financial products, including planning, procedures, interfaces, and customer interactions will be designed around "mobile phones" as their starting point, creating a native mobile bank to provide clients with innovative customized services to meet the needs of the Bank's future mainstream customers, lower the entry barriers for financial products, and provide banking services with value for the general public.

**(2) Execute our strategy of "careful cultivation" and develop niche services for corporate banking**

O-Bank will continue its strategic direction of "careful cultivation" to seek a breakthrough, effectively lowering capital costs and widening spreads through a series of action plans. Secondly, the Bank will continue to leverage its advantage by consolidating group resources, bringing in customers through group companies as well as enterprise and retail banking, and maximizing synergies to create more business achievements. In addition, the Bank will continue to keep abreast of developments in financial markets and build on the solid foundation of the business it has accumulated to develop niche services such as securitized products.

**2. Medium and Long Term Business Development Plans**

**(1) Build cross-industry alliances and cooperative opportunities with FinTech to create a unique banking service experience**

As O-Bank plans to expand its customer base in retail banking, it will also actively pursue strategic cooperation with other industries, such as e-commerce and gaming, to connect usage scenarios for a variety of financial services, and create value across a number of industries. By seizing business opportunities from related cash flows and payments, O-Bank can provide financial services throughout a consumer's daily life, further improving the smoothness of the transaction experience and raising the bank's permeation to clients as well as stickiness from them.

**(2) Seek Appropriate Opportunities for M&A**

O-Bank is scheduled to make its initial public offering in the second quarter of this year, and will continue moving forward with its merger with China Bills Finance to further consolidate group resources. The Bank will continue to enhance business development and improve profitability to strengthen business performance, attract outstanding talent, and diversify funding channels. In addition, the Bank does not rule out any appropriate opportunities for mergers and acquisitions to quickly scale up assets and business scope.



# FINANCIAL REPORT

# INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Industrial Bank of Taiwan

## Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2016 and 2015, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the Criteria Governing the Preparation of Financial Reports by Public Banks, Criteria Governing the Preparation of Financial Reports by Public Bills Finance Firms, Criteria Governing the Preparation of Financial Reports by Securities Firms, Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants, 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 of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountant of the Republic of China, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

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

The description of each key audit matters of the consolidated financial statements for the year ended December 31, 2016 are as follows:

### Allowance for Credit Losses

Concerning the accounting policy of allowance for credit losses, refer to Note 4 to the consolidated financial statements; the critical accounting judgments, estimates and accuracy of assumptions for loan impairment, refer to Note 5 to the consolidated financial statements, and the allowance for credit losses, refer to Note 12 to the consolidated financial statements.

Management performs loan impairment tests to establish and recognize allowances for credit losses. Loans that are assessed as not individually impaired are further assessed for impairment on a collective basis, and the assessment utilizes default probabilities and expected recoverable ratios based on historical experience to estimate the impairment value for loans. For loans which are assessed for impairment on an individual basis, the assessment includes evaluating the expected individual recoverable amounts in order to evaluate the impairment loss. Management also refers to the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” to calculate the minimum allowance for credit losses. The aforementioned default probabilities, expected recoverable ratios and expected recoverable amounts involve estimations and judgments, which affect the adequacy of allowance for credit losses; therefore, we consider the allowance for credit losses to be a key audit matter.

**In response to this key audit matter, we:**

- Understood and tested the internal control design and implementation by management for assessing the expected recoverable amount when determining the allowance for credit losses.
- Assessed whether the default probability and the expected recoverable ratio used in assessing loan impairment on a collective basis were accurate.
- Reviewed the assessment reports on assessments for individually impaired loans, including the estimations of expected recoverable amounts, the collateral values and the appropriations of the use of discount rates by management.
- Verified whether the classification of loans is in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” and assessed whether the allowances for credit losses were adequate by performing recalculations.

### Goodwill

Concerning the accounting policy of goodwill impairment, refer to Note 4 to the consolidated financial statements, and details on goodwill impairment, refer to Note 22 to the consolidated financial statements.

Goodwill was recognized from IBT Holdings Corp. for purchasing shares of EverTrust Bank. Management is required to carry out an annual impairment test for goodwill when there is any indication of impairment by using the net present value of the cash-generating units' forecasted cash flows. The aforementioned forecasted cash flows involve estimations and judgments, which affect the assessment of goodwill impairment; therefore, we consider goodwill to be a key audit matter.

**In response to this key audit matter, we:**

- Appointed external specialists to provide us with a goodwill impairment valuation report, and we assessed the competence, capabilities and objectivity of the external specialists as well as reviewed the goodwill impairment valuation report, including understanding and evaluating the appropriateness of the assumptions and methods applied by the external specialists.
- Assessed the estimation basis of the forecasted cash flows and discount rates used for the goodwill impairment valuation report to verify whether they were in accordance with the current condition of the Company and its industry-specific environment.

### Assessment of Reserve for Guarantee Liabilities

Concerning the accounting policy of the reserve for losses on guarantees, refer to Note 4 to the consolidated financial statements; significant accounting judgments, estimations and uncertainty of assumptions of the reserve for losses on guarantees, refer to Note 5 to the consolidated financial statements, and the reserve for losses on guarantees is detailed in Note 12 to the consolidated financial statements.

Management focuses on if the reserve for guarantee liabilities is likely to be necessary and if there will be any possible cash inflow that may arise from the resulting guarantee obligation. Management also performs an evaluation and classification of credit assets, and a reserve for guarantee liabilities is set aside by a bills finance company in accordance with the “Regulations Governing the Procedures for Bills Finance Companies to Evaluate Assets, Set Aside Loss Reserves, and Handle Non-performing Credit, Non-accrual Loans, and Bad Debt”. The evaluation process is inherently subjective, and the evaluation and classification of credit assets will affect the amount of the reserve for guarantee liabilities; therefore, we consider the reserve for guarantee liabilities to be a key audit matter.

**In response to this key audit matter, we:**

- Documented and assessed the design and implementation of controls in place for the Company’s assessment of the adequacy of the reserve for guarantee liabilities.
- Evaluated the completeness of the balance of commercial papers exposed to guarantee liabilities of the provision for losses on guarantees as shown in the loss reserves evaluation report.
- Reviewed management’s calculation of the value of collateral for the specific impairment of credit assets, and we also checked that the collateral was categorized properly in the loss reserves evaluation report.
- Recalculated the amount of reserve for guarantee liabilities shown in the provision for loss reserves evaluation report to confirm the mathematical accuracy of the provision for loss reserves.

### **Other Matter**

We have also audited the parent company only financial statements of Industrial Bank of Taiwan (the “Bank”) as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Criteria Governing the Preparation of Financial Reports by Public Banks, Criteria Governing the Preparation of Financial Reports by Public Bills Finance Firms, Criteria Governing the Preparation of Financial Reports by Securities Firms, Criteria Governing the Preparation of Financial Reports by Futures Commission Merchants, 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements 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 Chen-Hsiu Yang and Li-Chi Chen.

*Deloitte & Touche*

Taipei, Taiwan  
Republic of China  
March 22, 2017

#### Notice to Readers

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

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

## INDUSTRIAL BANK OF TAIWAN AND SUBSIDIARIES

### CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	2016		2015	
	Amount	%	Amount	%
<b>ASSETS</b>				
CASH AND CASH EQUIVALENTS	\$ 5,979,980	1	\$ 7,850,486	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS	17,126,977	3	9,028,597	2
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS	147,722,285	30	159,678,561	33
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	200,092	-	4,100,000	1
RECEIVABLES, NET	19,046,408	4	19,759,425	4
CURRENT TAX ASSETS	200,582	-	207,351	-
DISCOUNTS AND LOANS, NET	162,544,641	33	146,443,247	30
AVAILABLE-FOR-SALE FINANCIAL ASSETS	126,981,565	26	115,841,981	24
HELD-TO-MATURITY FINANCIAL ASSETS	5,544,703	1	9,849,587	2
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD	107,981	-	170,642	-
RESTRICTED ASSETS	148,214	-	450,649	-
OTHER FINANCIAL ASSETS	1,520,931	-	1,837,635	-
PROPERTIES, NET	3,771,171	1	3,017,250	1
INVESTMENT PROPERTIES	-	-	8,157	-
INTANGIBLE ASSETS, NET	1,499,011	-	1,408,773	-
DEFERRED TAX ASSETS	565,263	-	554,623	-
OTHER ASSETS	<u>3,924,946</u>	<u>1</u>	<u>5,779,178</u>	<u>1</u>
TOTAL	<u>\$ 496,884,750</u>	<u>100</u>	<u>\$ 485,986,142</u>	<u>100</u>

	2016		2015	
	Amount	%	Amount	%
<b>LIABILITIES AND EQUITY</b>				
<b>LIABILITIES</b>				
Due to the Central Bank and other banks	\$ 56,697,931	11	\$ 47,840,792	10
Financial liabilities at fair value through profit or loss	2,377,872	1	6,289,076	1
Securities sold under agreement to repurchase	163,304,781	33	171,238,096	35
Accounts payable	3,753,143	1	4,477,081	1
Current tax liabilities	75,726	-	55,409	-
Deposits	184,587,611	37	172,776,282	36
Bank debentures	17,450,000	4	14,950,000	3
Other financial liabilities	18,831,642	4	18,317,578	4
Provisions	1,801,044	-	1,741,005	-
Deferred tax liabilities	248,870	-	230,434	-
Other liabilities	1,885,021	-	1,789,099	-
Total liabilities	<u>451,013,641</u>	<u>91</u>	<u>439,704,852</u>	<u>90</u>
<b>EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK</b>				
Capital stock	<u>23,905,063</u>	<u>5</u>	<u>23,905,063</u>	<u>5</u>
Capital surplus	<u>3,193</u>	<u>-</u>	<u>1,773</u>	<u>-</u>
Retained earnings				
Legal reserve	2,390,828	1	1,880,726	1
Special reserve	1,173,293	-	1,178,307	-
Unappropriated earnings	<u>1,631,566</u>	<u>-</u>	<u>1,700,341</u>	<u>-</u>
Total retained earnings	<u>5,195,687</u>	<u>1</u>	<u>4,759,374</u>	<u>1</u>
Other equity	<u>284,715</u>	<u>-</u>	<u>1,030,616</u>	<u>-</u>
Treasury stock	-	-	(18,693)	-
Total equity attributable to owners of the Bank	<u>29,388,658</u>	<u>6</u>	<u>29,678,133</u>	<u>6</u>
<b>NON-CONTROLLING INTERESTS</b>	<u>16,482,451</u>	<u>3</u>	<u>16,603,157</u>	<u>4</u>
Total equity	<u>45,871,109</u>	<u>9</u>	<u>46,281,290</u>	<u>10</u>
<b>TOTAL</b>	<u>\$ 496,884,750</u>	<u>100</u>	<u>\$ 485,986,142</u>	<u>100</u>

## INDUSTRIAL BANK OF TAIWAN AND SUBSIDIARIES

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

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

	2016		2015		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
<b>NET INTEREST</b>					
Interest revenues	\$ 6,874,444	89	\$ 6,273,240	88	10
Interest expenses	(2,723,007)	(35)	(2,888,663)	(40)	(6)
Net interest	4,151,437	54	3,384,577	48	23
<b>NET REVENUE OTHER THAN INTEREST</b>					
Commissions and fee revenue, net	2,019,270	26	1,540,442	22	31
Gain on financial assets and liabilities at fair value through profit or loss	1,415,729	18	1,644,762	23	(14)
Realized income from available-for-sale financial assets	309,321	4	426,905	6	(28)
Foreign exchange gain (loss), net	(345,901)	(4)	97,506	1	(455)
Loss from asset impairment	(34,333)	-	(141,028)	(2)	(76)
Investment income (loss) recognized under equity method	6,891	-	(1,489)	-	563
Realized income from financial assets carried at cost	94,176	1	64,518	1	46
Consulting revenue	23,481	-	31,504	-	(25)
Other non-interest net gains	81,900	1	77,908	1	5
Net revenue other than interest	3,570,534	46	3,741,028	52	(5)
<b>TOTAL NET REVENUE</b>	7,721,971	100	7,125,605	100	8
<b>PROVISIONS</b>	(609,637)	(8)	(401,890)	(5)	52
<b>OPERATING EXPENSES</b>					
Personnel expenses	2,217,836	29	1,834,834	26	21
Depreciation and amortization	201,859	3	171,018	2	18
Others	1,116,854	14	1,038,867	15	8
Total operating expenses	3,536,549	46	3,044,719	43	16
INCOME BEFORE INCOME TAX	3,575,785	46	3,678,996	52	(3)
INCOME TAX EXPENSE	833,742	11	690,425	10	21
PROFIT FROM CONTINUING OPERATIONS	2,742,043	35	2,988,571	42	(8)
NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS	92,956	1	(67,821)	(1)	237
NET PROFIT FOR THE YEAR	2,834,999	36	2,920,750	41	(3)

(Continued)

	2016		2015		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plan	(19,763)	-	(26,931)	-	(27)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	(273,625)	(4)	205,608	3	(233)
Unrealized gain (loss) on available-for-sale financial assets	(862,672)	(11)	290,695	4	(397)
Share of the other comprehensive income of associates and joint ventures	(16,369)	-	(24,815)	-	(34)
Income tax relating to the components of other comprehensive income	73,111	1	(28,060)	(1)	361
Other comprehensive income (loss) for the year, net of income tax	(1,099,318)	(14)	416,497	6	(364)
<b>TOTAL COMPREHENSIVE INCOME</b>	<u>\$ 1,735,681</u>	<u>22</u>	<u>\$ 3,337,247</u>	<u>47</u>	<u>(48)</u>
<b>NET PROFIT ATTRIBUTABLE TO:</b>					
Owners of the Bank	\$ 1,643,898	21	\$ 1,726,066	24	(5)
Non-controlling interests	<u>1,191,101</u>	<u>16</u>	<u>1,194,684</u>	<u>17</u>	-
	<u>\$ 2,834,999</u>	<u>37</u>	<u>\$ 2,920,750</u>	<u>41</u>	<u>(3)</u>
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>					
Owners of the Bank	\$ 892,217	11	\$ 1,928,227	27	(54)
Non-controlling interests	<u>843,464</u>	<u>11</u>	<u>1,409,020</u>	<u>20</u>	<u>(40)</u>
	<u>\$ 1,735,681</u>	<u>22</u>	<u>\$ 3,337,247</u>	<u>47</u>	<u>(48)</u>
<b>EARNINGS PER SHARE</b>					
From continuing and discontinued operations					
Basic	<u>\$ 0.69</u>		<u>\$ 0.72</u>		
Diluted	<u>\$ 0.69</u>		<u>\$ 0.72</u>		
From continuing operations					
Basic	<u>\$ 0.65</u>		<u>\$ 0.75</u>		
Diluted	<u>\$ 0.65</u>		<u>\$ 0.75</u>		

## INDUSTRIAL BANK OF TAIWAN AND SUBSIDIARIES

### CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

(In Thousands of New Taiwan Dollars)

	Equity Attributable				
	Capital Stock		Capital Surplus	Retained	
	Shares (Thousands)	Amount		Legal Reserve	Special Reserve
BALANCE AT JANUARY 1, 2015	\$ 2,390,506	\$ 23,905,063	\$ -	\$ 1,351,779	\$ 899,153
Appropriation of 2014 earnings					
Legal reserve	-	-	-	528,947	-
Special reserve	-	-	-	-	279,154
Cash dividends distributed by the Bank	-	-	-	-	-
Disposal of subsidiaries	-	-	-	-	-
Net income for the year ended December 31, 2015	-	-	-	-	-
Other comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	-
Total comprehensive income for the year ended December 31, 2015	-	-	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-
Capital reduction of subsidiaries for cash received by non-controlling interest	-	-	-	-	-
Transmission of treasury stock for employees	-	-	1,773	-	-
<b>BALANCE AT DECEMBER 31, 2015</b>	<b>2,390,506</b>	<b>23,905,063</b>	<b>1,773</b>	<b>1,880,726</b>	<b>1,178,307</b>
Appropriation of 2015 earnings					
Legal reserve	-	-	-	510,102	-
Special reserve	-	-	-	-	(5,014)
Cash dividends distributed by the Bank	-	-	-	-	-
Net income for the year ended December 31, 2016	-	-	-	-	-
Other comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	-
Cash dividends distributed by subsidiaries	-	-	-	-	-
Changes in percentage of ownership interest in subsidiaries	-	-	-	-	-
Transmission of treasury stock for employees	-	-	1,420	-	-
Capital reduction of subsidiaries for cash received by non-controlling interest	-	-	-	-	-
<b>BALANCE AT DECEMBER 31, 2016</b>	<b>\$ 2,390,506</b>	<b>\$ 23,905,063</b>	<b>\$ 3,193</b>	<b>\$ 2,390,828</b>	<b>\$ 1,173,293</b>

to Owners of the Bank								
Earnings		Other Equity						
Unappropriated Earnings	Total	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available -for-sale Financial Assets	Treasury Shares	Owner of the Bank	Non-controlling Interests	Total Equity	
\$ 1,753,003	\$ 4,003,935	\$ 247,842	\$ 565,041	\$ (50,620)	\$ 28,671,261	\$ 16,311,405	\$ 44,982,666	
(528,947)	-	-	-	-	-	-	-	
(279,154)	-	-	-	-	-	-	-	
(955,055)	(955,055)	-	-	-	(955,055)	-	(955,055)	
-	-	-	-	-	-	(334,628)	(334,628)	
1,726,066	1,726,066	-	-	-	1,726,066	1,194,684	2,920,750	
(15,572)	(15,572)	158,198	59,535	-	202,161	214,336	416,497	
1,710,494	1,710,494	158,198	59,535	-	1,928,227	1,409,020	3,337,247	
-	-	-	-	-	-	(692,625)	(692,625)	
-	-	-	-	-	-	(90,015)	(90,015)	
-	-	-	-	31,927	33,700	-	33,700	
1,700,341	4,759,374	406,040	624,576	(18,693)	29,678,133	16,603,157	46,281,290	
(510,102)	-	-	-	-	-	-	-	
5,014	-	-	-	-	-	-	-	
(1,195,253)	(1,195,253)	-	-	-	(1,195,253)	-	(1,195,253)	
1,643,898	1,643,898	-	-	-	1,643,898	1,191,101	2,834,999	
(5,780)	(5,780)	(215,050)	(530,851)	-	(751,681)	(347,637)	(1,099,318)	
1,638,118	1,638,118	(215,050)	(530,851)	-	892,217	843,464	1,735,681	
-	-	-	-	-	-	(798,442)	(798,422)	
(6,552)	(6,552)	-	-	-	(6,552)	(160,075)	(166,627)	
-	-	-	-	18,693	20,113	-	20,113	
-	-	-	-	-	-	(5,653)	(5,653)	
<b>\$ 1,631,566</b>	<b>\$ 5,195,687</b>	<b>\$ 190,990</b>	<b>\$ 93,725</b>	<b>\$ -</b>	<b>\$ 29,388,658</b>	<b>\$ 16,482,451</b>	<b>\$ 45,871,109</b>	

## INDUSTRIAL BANK OF TAIWAN AND SUBSIDIARIES

### CONSOLIDATED 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>		
Income before income tax	\$ 3,575,785	\$ 3,678,996
Income (Loss) before income tax from discontinued operations	117,974	(66,059)
Adjustments for:		
Depreciation expenses	159,950	152,643
Amortization expenses	57,043	40,723
Recognition of provisions	609,637	401,890
Net gain on disposal of financial assets at fair value through profit or loss	(1,411,667)	(1,807,277)
Interest revenue	(6,925,241)	(6,368,437)
Interest expenses	2,725,733	2,915,107
Dividends income	(69,093)	(101,673)
Realized gain on the transactions with associates and joint ventures	(8,729)	(1,515)
Gain on disposal of properties	(129)	(702)
Impairment loss recognized on financial assets	34,333	141,028
Gain on disposal of investments	(339,550)	(389,750)
Changes in operating assets and liabilities		
Due from the Central Bank and call loans to banks	(1,004,431)	(403,669)
Financial assets at fair value through profit or loss	11,977,391	(18,985,969)
Receivables	351,876	(2,811,619)
Discounts and loans	(16,355,994)	(15,553,740)
Due to the Central Bank and other banks	8,857,139	4,254,625
Financial liabilities at fair value through profit or loss	(3,911,204)	481,566
Securities sold under agreements to repurchase	(7,933,315)	-
Accounts payable	(768,888)	1,705,520
Deposits	11,811,329	16,260,200
Provisions	258,630	32,948
Cash generated from (used in) operations	1,808,579	(16,425,164)
Interest received	6,275,748	5,058,668
Interest paid	(2,680,001)	(2,989,063)
Dividends received	94,211	124,036
Income tax paid	(802,646)	(787,738)
Net cash generated from (used in) operating activities	4,695,891	(15,019,261)

(Continued)

	<b>2016</b>	<b>2015</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of financial assets designated as at fair value through profit or loss	(873,045)	(2,527,818)
Proceeds on sale of financial assets designated as at fair value through profit or loss	2,249,473	2,263,977
Purchase of available-for-sale financial assets	(66,015,344)	(168,080,165)
Proceeds on sale available-for-sale financial assets	54,560,305	148,866,811
Purchase of held-to-maturity financial assets	-	(5,350,000)
Received principal of held-to-maturity financial assets	4,305,000	382,800
Purchase of financial assets measured at cost	(47,964)	(45,927)
Proceeds on sale of financial assets carried at cost	284,634	68,034
Received principal of financial assets carried at cost	3,889	83,027
Other dividends received	-	2,656
Received principal of investments under equity method	55,021	44,937
Payments for properties	(1,084,582)	(325,696)
Proceeds from disposal of properties	28,162	5,008
Decrease (increase) in refundable deposits	1,974,366	(726,094)
Payments for intangible assets	(195,196)	(30,735)
Loss on disposal of intangible assets	21,809	-
Decrease in other financial assets	-	210,932
Decrease in other assets	181,190	94,426
Net cash used in investing activities	<u>(4,552,282)</u>	<u>(25,063,827)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from (repayments of) short-term borrowings	(3,019,859)	1,310,854
Increase (decrease) in commercial papers	2,484,843	(1,814,665)
Proceeds from issue bank debentures	3,000,000	1,000,000
Repayments of bank debentures	(500,000)	(1,030,000)
Proceeds from (repayments of) long-term borrowings	1,121,688	876,156
Increase in securities sold under agreements to repurchase	-	34,718,610
Partial disposal of interests in subsidiaries	(166,627)	-
Payments for buy-back of common stocks	20,113	33,700
Capital reduction for cash received by non-controlling interest of subsidiaries	(5,653)	(90,015)
Decrease in other financial liabilities	(72,608)	(1,511,843)
Dividends paid to ownership of the Bank	(1,195,253)	(955,055)
Dividends paid to non-controlling interest	(798,442)	(692,625)
Increase in other liabilities	80,742	312,286
Net cash generated from financing activities	<u>948,944</u>	<u>32,157,403</u>

(Continued)

	<b>2016</b>	<b>2015</b>
<b>EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES</b>	<u>230,982</u>	<u>(442,960)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	1,323,535	(8,368,645)
<b>CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR</b>	<u>17,962,137</u>	<u>26,330,782</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	<u>\$ 19,285,672</u>	<u>\$ 17,962,137</u>

Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets at December 31, 2016 and 2015:

	<b>December 31</b>	
	<b>2016</b>	<b>2015</b>
Cash and cash equivalents in consolidated balance sheets	\$ 5,979,980	\$ 7,850,486
Due from the Central Bank and call loans to banks that meet the definition of cash and cash equivalents in IAS 7	13,105,600	6,011,651
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	<u>200,092</u>	<u>4,100,000</u>
Cash and cash equivalents in consolidated statements of cash flow	<u>\$ 19,285,672</u>	<u>\$ 17,962,137</u>

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