In 2016, CTBC were recognized as the first financial holding in Taiwan to have more than one-half of the board comprising independent directors. This recognition establishes a new paradigm in corporate governance for financial industries in Taiwan. Given the diverse expertise of independent directors, CTBC’s management teams are given useful suggestions that help them make the appropriate decisions. The Company also draws on the independence of independent directors to implement professional management and become a sustainable enterprise.

CTBC will stay committed to our “We are family” brand spirit and remain a “caring, professional, and trustworthy” service provider who “protects and builds” its core values in order to continue to promote corporate governance system. The Company will protect the interests of its stakeholders, strive toward sustainable development as it develops its brand as a “Taiwan Champion and Asia Leader”. CTBC also aspires to be the most reliable financial institution with the outstanding governance for its customers and shareholders.

Corporate Governance Framework
CTBC believes that a sound corporate governance framework is the foundation of corporate sustainability for realizing the governance philosophy that advocates separating management rights from ownership rights. Therefore, we aspire to be the first financial holding in Taiwan to have more than one-half of the board comprising independent directors. This recognition establishes a benchmark for financial holding companies in Taiwan. Based on a sound board of directors’ structure and the diverse expertise of directors, CTBC’s management teams are given useful suggestions that help them make the appropriate decisions to engage in ethical corporate management through the independent directors.

Board Member Diversity Policy
CTBC actively recruits external directors to the Board; all board members are moreover of non-management backgrounds. Board member is required to have professional background (business, legal affairs, finance, marketing, or technology), special skill, and industrial experience. To strengthen the capabilities of the directors and supervisors to fulfill their duties, CTBC has developed the “Operating Guidelines for Appointment of Directors and Supervisors for Subsidiaries” which requires all board members of subsidiaries to be rigorously vetted by the Nomination Committee on their professional ability based on the nature of the subsidiary’s industry. The composition of CTBC directors follows the director nomination system and Rules for Director Election to seek outstanding talents of different backgrounds who have visions and possess excellent leadership. The 7 directors currently appointed possess a broad range of education and work experiences, and at least 1 director possesses relevant business experience for the subsidiary. To implement gender equality, subsidiary Taiwan Lottery has appointed 2 female directors and CTBC Investments has appointed 1 female director as board members. With regards to the proportion of female directors, the level of female involvement in decision-making will be increased in accordance with the principle of diversity in the future. For details of the directors’ backgrounds, please refer to P.20-22 in the annual report or at: http://ir.ctbcholding.com/html/gov_board.php.
The board shall consider the principle of diversity for its composition and develop an adequate diversification policy based on the operations, mode of operation, and development requirements of the board. Such policy shall include, but shall not be limited to, the following two dimensions:

1. Basic Criteria and Values: Gender, age, nationality, and culture.
2. Expertise and Skills: Professional background (e.g., legal affairs, accounting, industry, finance, marketing, or technology), professional skills, and industry experience.

The knowledge, skills, and literacy required of Board members for executing their duties shall on the whole comprise of the following abilities:

- Ability to make sound business judgments.
- Ability to conduct accounting and financial analysis.
- Ability to manage business activities.
- Ability to handle crisis management.
- Knowledge of the industry.
- An understanding of international markets.
- Leadership.
- Ability to make policy decisions.

Board of Directors Structure

CTBC Holding now having a total of 7 directors with more than half of the Board being independent directors. 18 board meetings were held in 2017 with average attendance rate of 96.82%. Except for 2 directors over the age of 70 years, the other directors are all 50 years or older and with an abundance of related experience. A total of 30 directors are appointed across CTBC subsidiaries, 5 of them are aged 30 to 50 years, while others are 50 years or above. Their expertise and experiences are highly rated in the industry.

CTBC has established a Corporate Governance Department that aims to perfect the corporate governance framework by raising the level of corporate governance issues, implementing corporate governance system and complete planning; coordinating the corporate governance and ethical conducts of CTBC and its subsidiaries.

Functional Committees

To ensure the board of directors plays an effective supervisory role, four functional committees, which are the Audit Committee, the Remuneration Committee, the Risk Management Committee, and the Nomination Committee, were created under the board of directors. The Ethics & Integrity Committee was assembled in April 2018. The Audit Committee consists of all independent directors; the Remuneration Committee consists of 3 independent directors; the Risk Management Committee consists of 1 director and 2 independent directors; the Nomination Committee consists of 1 director and 2 independent directors; and the Ethics & Integrity Committee consists of 2 directors and 1 independent director.

Corporate Governance System

To improve board functions and strengthen board efficiency, CTBC has established board performance regulations, which require directors attend a minimum of 70% of the board meetings in the current year, avoid conflicts of interest during board meetings, and comply with the minimum requirement of continuing education every year. To ensure effective ethical corporate management, CTBC has established the Ethical Corporate Governance Best Practice Principles, Code of Conduct, and related guidelines. Effectiveness of the system and compliance with regulatory requirements are reviewed every year as part of the effort to maintain a well-established corporate governance system and consistency with the direction of international development. To ensure integrity of the corporate governance system and the planning process, CTBC has established the Corporate Governance Department and assigned corporate governance issues to be handled at a higher level of authorization. The department oversees corporate governance and ethical management related activities conducted by CTBC and its subsidiaries so to make the corporate governance framework more encompassing.
Ethical Corporate Management

To ensure effective ethical corporate management, CTBC has established the “Ethical Corporate Management Best Practice Principles”, “Procedures for Ethical Management and Guidelines for Conduct”, “Code of Conduct”, and “Corporate Governance Best Practice Principles” as a testament to its commitment to ethical corporate management. The Ethical Management Committee serves the purposes of supporting the board of directors in formulating ethical management policies and prevention programs, reporting the status of practices in related areas regularly to the board of directors, and helping the board of directors and the management ensure the effectiveness of prevention measures installed to facilitate ethical management. Furthermore, CTBC organizes training and campaigns in coordination with existing corporate governance and internal audit measures to help employees understand the company’s ethical corporate management policy, prevention plans, operating procedures, and consequences of unethical conducts.

CTBC also regularly compiles a summary of cases in which subsidiaries have violated integrity management regulations within the past six months, and submits it to the Board of Directors. The Company supervises relevant divisions to conduct reviews and make improvements, thereby ensuring the effective implementation of its ethical management policies. When a new director or supervisor takes office, CTBC will provide the necessary education and training as well as regular ethical management training for all directors and supervisors every year.

Avoidance of Conflicts of Interest

According to CTBC’s specification of Procedure for Board of Directors, directors of CTBC are required to abstain from discussion and voting of agendas that pose a conflict of interest to themselves, to the corporate shareholders they represent, or in situations where directors consider it appropriate to do so. In addition, directors who have abstained themselves are not allowed to delegate voting rights to other directors.

Continuing Education for Directors

The “Directions for the Implementation of Continuing Education for Directors and Supervisors of TWSE Listed and TPEx Listed Companies” requires that all directors of the Company undergo continuing education to understand the latest corporate governance, corporate social responsibility, and risk management practices. In addition, CTBC has arranged directors to undergo regular professional training and continue education. The purpose of training is to help Directors to be better informed on CTBC’s business operation and development trends that are happening in Taiwan and around the world and to make the right decisions. In 2017, board members participated in CSR-related courses, including Corporate Social Responsibility and Sustainability Business Strategy and Governance in the Financial Sector, How do Directors and Supervisors Assist the Company in Risk and Crisis Management, and Insider Trading and Corporate Social Responsibility Seminar. Directors are all enrolled in the directors’ liability Insurance to reduce the risk of losses incurred to directors when performing their duties.

Director Performance Evaluation

To improve board functions and strengthen board efficiency, CTBC has established board performance evaluation policy, which require board performance appraisals to be conducted in December every year. The performance appraisals not only evaluate the overall operations of the Board, but also require a self-assessment to be performed by each director. There are five levels in the assessment rating: Excellent, very good, good, acceptable, and require improvement; the assessment results are reported to the Board of Directors so that suggestions on areas needing improvement can be proposed.

Review and Revision of Internal Regulations

CTBC conducts annual reviews on its course of action over the previous year and devises more complete internal regulations and policies as required by the competent authority for the new fiscal year in the interest of pursuing more stable and sustainable growth.

Director and Manager Remuneration Policy

Director Remuneration

Directors’ remuneration policy is based on the “Non-independent Directors Remuneration Policy” and “Independent Directors Remuneration Policy”. Directors’ salary, based on market salary surveys and financial industry level, is approved in accordance with general pay levels in the industry and takes into account the individual’s performance, the time spent by the individual and their responsibilities, the reasonableness of the correlation between the individual’s performance and the Company’s operational performance and future risk exposure, with respect to the achievement of short-term and long-term business goals and the financial position of the Company. The aforementioned directors’ remuneration is approved by the Remuneration Committee and Board of Directors. The Company will review the remuneration systems in a timely manner according to business operations and relevant laws and regulations and endeavor to maintain a balance between sustainable management and risk management.

Manager Remuneration Policy

Managers’ talents and their abilities to plan and execute strategies are key to the company’s performance. To align managers’ personal goals with those of the company and the shareholders, CTBC has set managers’ base salaries at levels that are competitive in the market, with additional incentives that vary according to the company’s operations and managers’ individual performance. Overall speaking, the variable incentives account for a higher portion of managers’ total remuneration than base salaries. Incentives were designed in such a way that prompts managers to focus on the company’s long-term goals and to deliver a win-win situation between the company, the employees, and the shareholders. Remunerations that the company pays to its directors, President, and Vice Presidents include certain percentages of long-
term incentives that are offered in the form of shares or stock appreciation rights. These incentives are not fully awarded in the year the earnings results are concluded. The values of these incentives were designed to correlate with share price movements, and therefore serve as a common interest between the managers and the company.

Procedure for Deciding Remuneration

According to the ‘Manager Remuneration Policy’ of CTBC and subsidiaries, the compensation structure of managers is based on market salary surveys as well as annual market competition analysis to ensure that their standard of remuneration are in line with market rates and superior to market average. In accordance with regulatory and actual operational requirements, the remuneration for individual managers is based on the education level, experience, managerial functions, job position, and performance of managers and presented to the Remuneration Committee and Board of Directors in accordance with the remuneration scale stipulated in the ‘Manager Remuneration Policy’. The Remuneration Committee also assists the board in regularly assessing and supervising remuneration throughout the company every year as well as the designing and promoting of remuneration regulations and systems in order to protect the interests of shareholders.

Directors’ (Including Independent Directors), President’s and Vice Presidents’ Remuneration as a Percentage of After-Tax Profit

CTBC and all companies included in the consolidated statements paid remunerations totaling NTD 918,144,000 to the directors, president and vice presidents of CTBC in 2017 (representing 2.47% of 2017 consolidated after-tax profit). Although the amount of remuneration paid in 2017 was 0.91% less than the NTD 926,565,000 paid in 2016, the decreased remuneration was mainly due to the appointment changes of directors, president and vice presidents.

Transparency and Integrity

CTBC has invariably pursued transparent and ethical corporate governance by developing implementation guidelines for information disclosure and disclosing financial information and board resolutions on the company’s website. The Company also communicates an overview of its operations to domestic and foreign investors through investor conferences. CTBC publishes CSR reports every year to inform its stakeholders of company’s CSR practices and performance. To address different stakeholders, CTBC have set up a Stakeholder page, thereby providing an effective communication platform for various types of stakeholders.

Regulatory Compliance

In addition to actively expanding our business, we are always mindful of the importance of abiding by applicable laws and regulations. We pay close attention to and constantly respond to changes in financial policies, laws and regulations at home and abroad. Every department and subsidiary under CTBC is required to conduct compliance self-assessment every 6 months to ensure that all service activities comply with regulations.

Internal and External Compliance Guidelines

Every department and subsidiary under CTBC has been instructed to comply with external regulations in all aspects of operations. If necessary, the compliance unit will also assist each department and subsidiary in setting up internal policies.

• Should a violation occur, the regulatory compliance unit will supervise to make sure that the violation has been investigated and improved upon. Any fraudulent activities and major flaws are reported to the Board of Directors, thus keeping them timely informed to make proper decisions.

Compliance Rating System

• CTBC conducts regulatory compliance self-assessments every 6 months to determine whether violations have been committed and improved upon in any part of the group.

• To ensure effective execution of the regulatory compliance policy, CTBC and its banking and insurance subsidiaries have implemented a rating system that each of the compliance units uses to evaluate degree of compliance within the organization. Since 2017, other subsidiaries have also comprehensively incorporated a regulatory compliance rating system to raise the compliance awareness within the Group and to make compliance one of the key elements of the corporate culture.

• Since 2018, CTBC and its subsidiaries in Taiwan simultaneously incorporated a rating system for compliance officers and anti-money laundering and counter-terrorism financing officers in each unit.

Training and Communication

• CTBC has implemented a system that enables communication, consultation and coordination of regulatory affairs between CTBC departments and subsidiaries. The compliance unit constantly provides regulatory updates and changes to regulatory compliance officers of each department. Training sessions, conferences and forums are also regularly held to highlight important laws and regulations.

• CTBC’s compliance unit officer and personnel as well as compliance officers in each unit have completed 30 hours of training and ceased tests in August 2017. The Company has organized in-house education and training that covers new and amended laws and regulations, new services, and new financial products.

• Regular meetings are held with subsidiaries’ regulatory compliance officers to convey the company’s main policies and systems. The meetings are used for the coordination, exchange and sharing of experiences to ensure consistency throughout the group.
CTBC Employee Code of Conduct

To ensure that all employees can adopt our longstanding cultural value, we have established the "CTBC Employee Code of Conduct" which outlines the basic principles that regulate employees’ conduct, including employment ethics, legal requirements, employee relations, gifts policy, protection of customer privacy, protection of intellectual property rights, anti-money laundering, prevention of discriminatory behavior, anti-bribery, avoiding conflicts of interest, protection of the company’s capital and reputation and human rights advocacy. The implementation of business and execution units as well as monitoring by compliance and risk management units are also used by CTBC to ensure that sales discipline for financial products are followed to protect the interests of customers and reduce negative impacts on business reputation.

Protection of Personal Information and Intellectual Property

To protect personal information, CTBC has established a set of internal procedures including "Personal Data Management Policy" and "Personal File Security Policy". Personal information protection operations have been carried out each year to ensure the legitimate gathering and use of personal information from customers and employees.

In order to comply with the intellectual property regulations, the Company requires all units to inspect their software licenses every 6 months and ensure that the software used is legally licensed to prevent any infringement of intellectual property rights.

AML/CFT Policy

CTBC has established the "Anti-Money Laundering and Countering the Financing of Terrorism Policy (Plan)", "Procedure for Identifying, Measuring, Controlling, Mitigating and Reporting Money Laundering and Terrorism Financing Risks", "Procedure for Sharing and Using Group Customer Information", and "Procedure for Screening Persons other than a Related Party of a Transaction against Counter-Terrorism Financing Act Sanction". In order to comply with the AML/CFT regulations, templates, and guidelines of associations and competent authorities of each industry. CTBC Bank, Taiwan Life, CTBC Securities, and CTBC Investments have established the AML/CFT Committees to effectively control and prevent the implementation of business and execution units as well as monitoring by compliance and risk management units.

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CTBC has set up a stakeholder page on the company website to understand the expectations and needs of its stakeholders in order to provide responses to CSR topics of their concern. In addition, the Company has also established an internal reporting mechanism. Any negligence and misconduct by employees can be reported through the employee complaints hotline, mailbox, or in writing. In response to regulatory and social trends, CTBC has appointed compliance units, in addition to employee complaint mechanism, to process complaints and set up a dedicated committee to conduct investigation and review of filed complaints. CTBC has stipulated in the guidelines the confidentiality obligations of complaint handlers and investigators and prohibition against detrimental treatment for whistleblowers in order to protect the whistleblowers’ right to work. We have been dedicating to build honest and transparent corporate culture.

Risk Management

To increase shareholders equity and capital value, the Company strives to achieve an optimal balance between risk and opportunity by using active risk management techniques so that resources are allocated more efficiently to establish stronger core values and engage in risk management and assessment with principles of steady management.

Risk Management Framework

The Company’s risk management framework is based on a risk management core strategy with the support of an internal control system and internal auditing system in order to manage risks more systematically. CTBC is fully aware of the impact of emerging risks and, by shaping a risk culture within the organization where employees are constantly mindful of the need to manage risks in their daily activities.

Risk Management Policy

The “Risk Governance Policy” is a set of top-level guidelines on risk management procedures for formulating risk management units and responsibilities, implementing risk identification, measuring, monitoring, reporting and disclosure.

Each subsidiary then defines their own risk management policies and regulations based on the nature of their own business operations, risk characteristics and management requirements in accordance with the governance directions stipulated in the Policy.

Risks exist in a variety of forms in transactions we make, products we offer, and daily tasks we perform. Main risks that are common to all companies can be categorized by business characteristics and risk attributes as: credit risks, financial market risks, liquidity risks, operational risks, and country risks. Risk management policies are formulated for all major risks as the highest guiding principle, with content covering management goals, organizational structure, duties and authorities, and risk management procedures, so as to effectively identify, measure, and control various risks and to implement risk management measures.

Risk Management Organization

Because risks are influential, we integrate risks by employing an organizational framework that comprises the board of directors, General Auditor, Executive Committee, Credit Approval Committee, and Risk Management Department. CTBC uses a rigorous control and reporting mechanism to effectively manage risks.

Internal Control

To ensure proper implementation of internal controls and operating procedures, CTBC requires all units to review internal policies and identifies discrepancies with external regulations to avoid operational risks and violations. CTBC also requires all units to conduct self-assessment on aspects of management supervision and control culture, risk identification, control activities and segregation of duties, information, communication, supervisory activities, and corrective measures.

CTBC continues to implement the three lines of defense as part of its internal control system to ensure the effectiveness of its design and operation. When conducting business activities, the business units and support units at the front line will ensure compliance with risk management guidelines and enforce risk control practice on a daily basis. The second line of defense consists of business management units such as compliance, risk management and other related management units, and is responsible for establishing management mechanism, and monitoring the implementation of the first line of defense. The third line of defense is the internal audit system, which is responsible for independent verification and evaluation of internal controls.
Emerging Risk Identification Process

**STEP 1**
Financial Holdings Identify Emerging Risks
- The financial holding compiles a list of risk factors with reference to external emerging risk reports and investigation results and provides the list to the subsidiary for assessment.

**STEP 2**
Subsidiary Assesses Emerging Risks
- Subsidiary’s internal unit engages in discussion and decides on the three major emerging risks according to the list of risk factors.

**STEP 3**
Emerging Risks of Financial Holdings
- Financial holdings collates the emerging risk of its subsidiary, identifies its emerging risk according to the probability of risk occurrence and level of influence, and formulates response strategies.
- Present emerging risk identification result to the financial holdings board of directors.
- Conduct monitoring and management regularly.

Internal Audit
CTBC establishes the general auditor system and sets up the internal audit unit that is directly subsidiary to the board of directors in accordance with the “Implementation Rules of Internal Audit and Internal Control System of Financial Holding Companies and Banking Industries”. The internal audit unit manages all audit activities in an objective and fair manner, and provides appropriate suggestions to ensure that the internal control system is implemented and to help the board of directors and executive management to inspect and evaluate the effectiveness of internal control. The internal audit unit conducts a full-scope audit on CTBC annually, and limited-scope audits on CTBC and all its subsidiaries’ finance, risk management, and compliance with applicable acts and regulations at least semiannually.

Emerging Risks
As the overall environment changes, numerous new or unexpected emerging risks might be generated. An emerging risk identification mechanism was developed to prepare the company for future challenges. This mechanism is mainly used to identify emerging risks and assess the impact of these risks. Based on the results, risk mitigation measure or management mechanism is developed and submitted, along with the risk identification result, to the board of directors.

Employee Risk Awareness
The foundation and outcomes of risk management are the product of employees’ concerted efforts. The risk awareness of employees hinges on daily training and culture creation. Training programs are provided to comprehend risk management concepts in daily risk decisions, and risk management outcomes are included in employees’ performance appraisal.

### 2018 Emerging Risks

<table>
<thead>
<tr>
<th>Risk Factor</th>
<th>Description</th>
<th>Impact or Influence on Business Operation</th>
<th>Mitigation Measures /Response Strategies</th>
</tr>
</thead>
</table>
| Network Security and Information Security Risk | Information leakage, hacker invasion, RFI (Denial of Service) attack, terminals and breaches | Material financial loss, reputation loss, sanction by competent authority | 1. Continue to raise employees' awareness on information security; 2. Strengthen the capability of SOC to monitor information security; 3. Attacking the STC's firewall and anti-virus system.
| | The products or services provided by the Company's subsidiaries may be used as a tool or medium for money laundering or terrorist financing, and engage in other illicit or improper transactions. | | 1. Periodic reports of institutional risk assessment, completion of AML/CFT plans based on the results and business nature; 2. Annual self-inspection report and an audit of the internal control system.
| Risks of Money Laundering and Terrorist Financing | Rigorous financial supervision will be imposed on the financial industry, particularly its overseas business, and severity of punishment will increase. | | 1. Collate media reports, participate in trade associations, and organize education on legal compliance.

### Three Lines of Defense in the Internal Control System

<table>
<thead>
<tr>
<th>Unit &amp; Role</th>
<th>Function &amp; Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>First Line of Defense</strong></td>
<td>Business Unit Supporting Unit, Main Risk Taker and Manager,</td>
</tr>
<tr>
<td><strong>Second Line of Defense</strong></td>
<td>Risk Management Unit Compliance Unit Other Dedicated Unit; Assist/monitor the first line on the management of risk</td>
</tr>
<tr>
<td><strong>Third Line of Defense</strong></td>
<td>Internal Audit</td>
</tr>
<tr>
<td>Type</td>
<td>2015</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>New Recruits</td>
<td></td>
</tr>
<tr>
<td>Number of Trainees</td>
<td>1,901</td>
</tr>
<tr>
<td>Number of Trainees that</td>
<td>1,751</td>
</tr>
<tr>
<td>Completed Training Coverage (%)</td>
<td>92.21</td>
</tr>
<tr>
<td>Total Hours</td>
<td>1,257.5</td>
</tr>
<tr>
<td>Hosted by Koo College</td>
<td></td>
</tr>
<tr>
<td>Newly Appointed Managers</td>
<td></td>
</tr>
<tr>
<td>Number of Trainees</td>
<td>38</td>
</tr>
<tr>
<td>Number of Trainees that</td>
<td>35</td>
</tr>
<tr>
<td>Completed Training Coverage (%)</td>
<td>92.11</td>
</tr>
<tr>
<td>Total Hours</td>
<td>52.5</td>
</tr>
<tr>
<td>Course for Each Business Unit (including improvement training/separate staff)</td>
<td></td>
</tr>
<tr>
<td>General Staff</td>
<td></td>
</tr>
<tr>
<td>Number of Classes</td>
<td>65 classes</td>
</tr>
<tr>
<td>Number of Trainees</td>
<td>701</td>
</tr>
<tr>
<td>Total Hours</td>
<td>4,641</td>
</tr>
</tbody>
</table>

Note: Coverage = Number of trainees that completed training/numerator/total number of trainees (denominator)

We encourage employees to take actions in identifying potential risks, which can be subjected to risk identification, assessment, measurement, and monitoring procedures through management tools such as Risk and Control Self-Assessment (RCSA) and Key Risk Indicators (KRI). When discovered the results are presented to the head of operations and are regularly submitted to upper management and the board of directors. Risk units also compile all types of events and summarize them into instructional materials that serve to warn employees of such events. These materials are shared among all units during internal meetings to prevent recurrence of such events.

### Risk Management Excellence Award and Operational Risk Management Contribution Award

- **Risk Management Excellence Award**: Encourages improvements in application of technologies, tools, and risk management processes to enhance efficiency and increase benefits.
- **Best Risk Defense Award**: Acknowledges performance in proper evaluation of potential risks and proposal of specific protective measures during case planning, review, or monitoring processes.
- **Operational Risk Management Contribution Award**: Provides rewards for employees who completed implementing the following management and defense mechanism:
  - Carefully identifying and analyzing causes and development of risks, including external threats or internal weaknesses in control operations, and evaluating their effects.
  - Establishing a comprehensive and cost-effective risk management and control mechanism that prevents risks or contain risk effects to lower risk impact.

### Conclusion

We will stay committed to achieving sustainable development, persist in implementing and refining corporate governance, and continue protecting stakeholders’ interests. In the future, we will continue to explore growth on top of sound business operations. The company will capture new markets and new businesses in Asia and the rest of the world by building an international financial brand that employees, shareholders, customers and the global Chinese population can all be proud of.