



中國信託金控
CTBC HOLDING

2022 Tax Transparency Report CTBC Holding





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A low-angle photograph of a modern glass skyscraper with a skybridge, reflecting the sky and surrounding buildings. The image is partially obscured by a dark green header bar.

CTBC Group Tax Governance

- Tax Policy and Principles
- Tax Governance and Control Framework
- Principles of Transfer Pricing
- Related-Party Transactions
- Tax Risk Identification and Response Management

Tax Policy and Principles

CTBC Group endeavors to fulfill its corporate social responsibility while simultaneously creating business value and effectively controlling its tax risks. Tax compliance is a fundamental part of the business operations of CTBC Group.

Accordingly, CTBC Group has developed a Tax Governance Policy based on the relevant standards of the Organization for Economic Co-operation and Development (“OECD”) and the Global Reporting Initiative.

The policy was approved by the Board of Directors, which is CTBC Holdings’ supreme governance unit. Given the rapidly changing nature of the tax landscape, the Tax Governance Policy is reviewed annually by the Financial Management Department, which is responsible for formulating the Company’s tax-related policies and tax governance framework.

Tax Policy and Principles

According to the Tax Governance Policy, CTBC Holdings and its subsidiaries at home and abroad shall adhere to the following eight principles:

1. Comply with the spirit as well as the letter of any applicable tax laws and regulations

- We are committed to complying with the tax laws of the jurisdictions in which we operate by comprehending and interpreting their meaning and legislative intent and paying appropriate taxes. In situations where a tax law contains a gap, ambiguity, or contradiction, we further look to the essential spirit and underlying purpose of the law, and proactively discuss the issue with external tax advisers and tax authorities to ensure that our interpretation is appropriate.

2. Analysis always one step ahead of actions

- We ensure full compliance with tax laws for our tax planning and optimization activities, supported by proper commercial purposes and economic rationale through advanced analysis. By complying with tax laws and reducing tax costs by eliminating double taxation, we create long-term value for our shareholders.

Tax Policy and Principles

3. Sustain open and appropriate relations with tax authorities

- We seek constructive, collaborative, and appropriate relationships with the respective tax authorities where we operate. Complicated tax issues of significance are resolved in consultation with external tax advisers or tax authorities for authoritative interpretation.

4. Maintain transparency in tax disclosures

- We ensure tax transparency by complying with financial reporting and disclosure requirements, such as the Global Reporting Initiative Standards for tax transparency.

5. Manage tax risks effectively

- We are committed to full compliance with tax laws as well as accurate and timely reporting to avoid unnecessary disputes. When assessing tax risk, we take not only economic influence but also reputational consequences into account.

Tax Policy and Principles

6. Enhance the proficiency of tax management professionals through continual training

- We provide ongoing training through professional courses and on-site training in order to maintain an up-to-date knowledge and understanding of tax compliance.

7. Comply with the OECD's Transfer Pricing Guidelines and local transfer pricing regulations

- We make efforts to implement the arm's length principle, economic substance principle, and compliance principle in related-party transactions. Our transactions are always conducted with a reasonable commercial and economic rationale and not for profit shifting or tax avoidance.

8. Anti-tax avoidance

- We do not engage in tax avoidance schemes, such as shifting profits to a low-tax jurisdiction (i.e., "tax haven) or implementing a complex investment structure for tax avoidance or tax evasion.

Tax Governance and Control Framework

Board of Directors

The Board of Directors is the supreme unit in the decision-making, supervision, and assessment of the Tax Governance Policy, to ensure the effective implementation of tax governance.

Significant tax issues and material tax controversies involving a tax amount of NT\$300 million or more are reported on an ad hoc basis to the Audit Committee and the Board of Directors.

Financial Management Dept.

The Financial Management Department is responsible for formulating the Company's tax-related policies, tax governance framework, and tax matter guidelines as well as for continually monitoring the conformity of taxation practices with the principles. CTBC Holdings' Tax Governance Policy is reviewed by the department yearly and amended as necessary.

Regulation-required tax reporting includes tax transparency reports, corporate income tax returns, and three-tier transfer pricing reports, and applications for tax appeals shall be approved by the Chief Financial Officer.

Accounting units

Accounting units initiate tax-related projects, such as tax health checks, to identify and mitigate tax risks. The daily management of CTBC Holdings' tax affairs is delegated to the accounting units, which have a reporting line to the Chief Financial Officer. All accounting units are responsible for tax compliance, such as estimating income tax expenses and other tax expenses, filing tax returns, and paying taxes by the statutory deadlines.

All tax matters and issues are reported to the Financial Management Department on schedule.

Principles of Transfer Pricing

CTBC Group complies with the OECD's Transfer Pricing Guidelines and local transfer pricing regulations. Specifically, we subscribe to the three following transfer pricing principles:



Arm's length principle

CTBC Group must conduct related-party transactions in line with unrelated-party transactions in similar functional and risk circumstances or business terms. We adopt a four-step approach to apply the arm's length principle in related-party transactions.

Step 1: Conduct a comparability analysis

Step 2: Identify the most appropriate transfer pricing method and the tested party

Step 3: Determine the arm's length range

Step 4: Prepare and maintain transfer pricing documents



Economic substance principle

CTBC Group's profit is generated and taxed in the countries where we conduct our economic activities. We optimize our tax structure and transactions only based on a reasonable commercial and economic rationale, not for profit shifting or tax avoidance.



Compliance principle

CTBC Group applies the letter as well as the spirit of the OECD Transfer Pricing Guidelines, base erosion and profit shifting action plans, and the local transfer pricing regulations of the countries where we operate. Since 2017, we have prepared three tiers of transfer pricing documentation, namely a master file, a local file, and a country-by-country report.

Related-party Transactions

The revenue and profit of CTBC Group are generated mainly from third parties. However, we believe that the one-stop shopping enabled by group cross-selling brings synergy and a higher quality of diversified services. Considering the industry characteristics and the benefit of cross-selling, our group is engaged in some material related-party transactions, as shown in Table 1.

Table 1: Material related-party transactions within CTBC Group

Transaction type	Onshore subsidiaries	Offshore branches/subsidiaries
Interbank lending/borrowing	V	V
Cross-selling - bancassurance	V	-
Taiwan Lottery management services	V	-

Tax Risk Identification and Response Management



BEPS Pillar II

- On Dec. 20, 2021, the OECD Inclusive Framework (IF) on Base Erosion and Profit Shifting (BEPS) released Model Global Anti-Base Erosion (GloBE) rules (Model Rules, or Pillar Two). These Model Rules set forth the “common approach” for a global minimum tax of 15% for multinational enterprises with a turnover of more than EUR 750 million.
- After EU member states reached an agreement in principle to implement GloBE at the EU level on Dec. 12, 2022, the main members of the IF, including Canada and Japan, announced the implementation of GloBE from 2024.
- We are continually monitoring the adoption of GloBE in the countries where we operate and are undertaking a high-level evaluation of the influence of such on the group.



Our Role in Society

- As a Member of the Bankers Association
- As a Taxpayer
- Tax Advocacy

Our Role in Society

We believe that tax matters—it provides a sustainable source of funding to foster economic growth and development by supporting governments' social programs and public investments. We endeavor to play our role in society and the community accordingly through stakeholder engagement and the management of stakeholder concerns related to tax.

As a Member of the Bankers Association

CTBC Bank is an active member of the Internal Management Committee of the Bankers Association of the Republic of China. In this role, we offer opinions on industry-wide tax issues and aim to build bridges and communication channels with tax authorities. We believe that creating an open and trusting community of tax administrators and taxpayers like ourselves helps to achieve a more equitable and accountable tax system. In past years, we have worked with industry peers through the Bankers Association to promote the reasonable tax treatment of the amortization of goodwill arising from acquisitions as well as tax guidelines recognizing the operating and interest expenses of financial holding companies.

Our Role in Society

As a Taxpayer

Our goal as a taxpayer is to seek constructive, collaborative, and appropriate relations with tax authorities. We discuss tax issues with tax authorities and consult them for authoritative interpretation. In addition, when handling complicated tax issues of significance, we proactively work with external tax advisers or tax authorities. When we receive a document request notice from a tax authority, we prepare and submit supporting documents on time.

Tax Advocacy

We discussed with tax authorities to resolve the uncertainty of tax treatment; in addition, we provided our opinions on the new tax regulations, as well as made suggestions on amendment to the tax regulations in force to adapt to the current economic environment, e.g., the limitation of deduction for entertainment expenses and meal expenses.



Tax Information by Area

- Primary Activities and Number of Employees
- Total Tax Contribution and Income Tax in 2022
- Tax Contribution and Tax Incentives in Taiwan

Primary Activities and Number of Employees

Asia

Taiwan: Our home and headquarters

CTBC Financial Holding Co., Ltd.

- Holding company

CTBC Bank Co., Ltd.

- Commercial banking and financing business

CTBC Securities Co., Ltd.

- Securities and futures business

CTBC Venture Capital Co., Ltd.

- Venture capital business

CTBC Asset Management Co., Ltd.

- Asset management business

Taiwan Lottery Co., Ltd.

- Issuing, selling, promoting, drawing, redeeming, and managing lottery products

Taiwan Life Insurance Co., Ltd.

- Life insurance business

CTBC Finance Co., Ltd.

- Installment, leasing, and account receivable factoring business

CTBC Insurance Co., Ltd.

- Property insurance business

CTBC Investments Co., Ltd.

- Investment and trust business

CTBC Securities Venture Capital Co., Ltd.

- Venture capital business

CTBC Securities Investment Service Co., Ltd.

- Securities investment consulting business

Primary Activities and Number of Employees

Asia

Taiwan: Our home and headquarters

CTBC Security Co., Ltd.

- Protection, fire, and personal security services

CTBC Capital Ltd.

- Investment business

CTBC Sports Entertainment Co., Ltd.

- Wholesale of culture, education, musical instruments and educational entertainment supplies

HH-CTBC Capital Management Co., Ltd.

- Investment consulting business

Total: 24,000–25,000 employees

Japan

The Tokyo Star Bank, Ltd.

- Commercial banking and financing business

CTBC Bank, Tokyo Branch

- Commercial banking and financing business

Tokyo Star Business Finance, Ltd.

- Financing and assurance business

Total: 1,400–1,500 employees

Primary Activities and Number of Employees

Asia

Philippines

CTBC Bank (Philippines) Corp.

- Commercial banking and financing business

Total: 730–740 employees

Indonesia

PT. Bank CTBC Indonesia

- Commercial banking and financing business

Total: 510–520 employees

Vietnam

CTBC Bank, Ho Chi Minh City Branch and Hanoi Rep. Office

- Commercial banking and financing business

Total: 140–150 employees

India

CTBC Bank, New Delhi Branch and Sriperumbudur Branch

- Commercial banking and financing business

Total: 80–90 employees

Singapore

CTBC Bank, Singapore Branch

- Commercial banking and financing business

Total: 200–210 employees

Primary Activities and Number of Employees

Asia

China

CTBC Bank, Shanghai Branch, Xiamen Branch, Shenzhen Branch, Guangzhou Branch, and Beijing Rep. Office

- Commercial banking and financing business

CTBC Leasing Co., Ltd.

- Financial leasing

Total: 650–660 employees

Hong Kong

CTBC Bank, Hong Kong Branch and Kowloon Branch

- Commercial banking and financing business

CTBC International Co., Ltd.

- Holding company

CTBC Asia Ltd.

- Securities business

Total: 430–440 employees

Primary Activities and Number of Employees

Asia

Thailand

LH Financial Group Public Company Limited

- Investment business

Land and Houses Fund Management Company Limited

- Fund management business

Land and Houses Advisory Company Limited

- Securities investment consulting business

Land and Houses Bank Public Company Limited

- Commercial banking and financing business

Land and Houses Securities Public Company Limited

- Securities business

CTBC Bank, Bangkok Rep. Office

- Commercial banking and financing business

Total: 1,480–1,490 employees

Myanmar

CTBC Bank, Yangon Rep. Office

- Commercial banking and financing business

Total: 1 employee

Malaysia

CTBC Bank, Kuala Lumpur Rep. Office

- Commercial banking and financing business

Total: 1 employee

Primary Activities and Number of Employees

Oceania

Australia

CTBC Bank, Sydney Rep. Office

- Commercial banking and financing business

Total: 1 employee

North America

United States

CTBC Capital Corp.

- Holding company

CTBC Bank Corp. (USA)

- Commercial banking and financing business

CTBC Los Angeles Rep. Office

- Commercial banking and financing business

CTBC Bank, New York Branch

- Commercial banking and financing business

Total: 410–420 employees

Canada

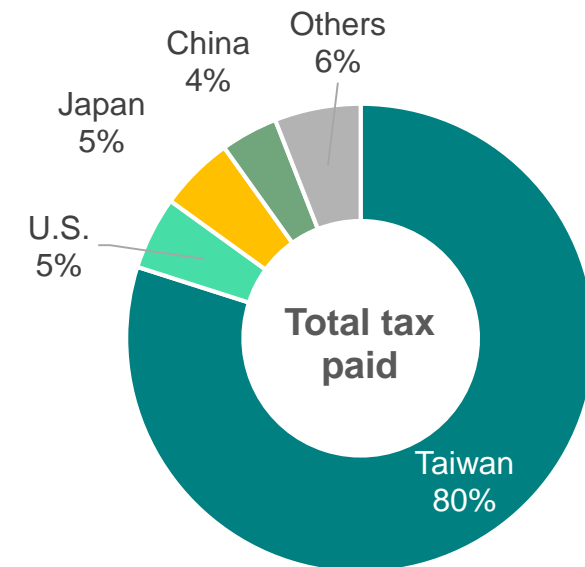
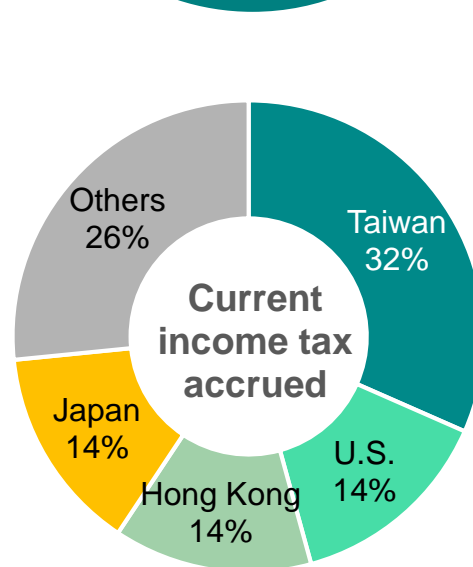
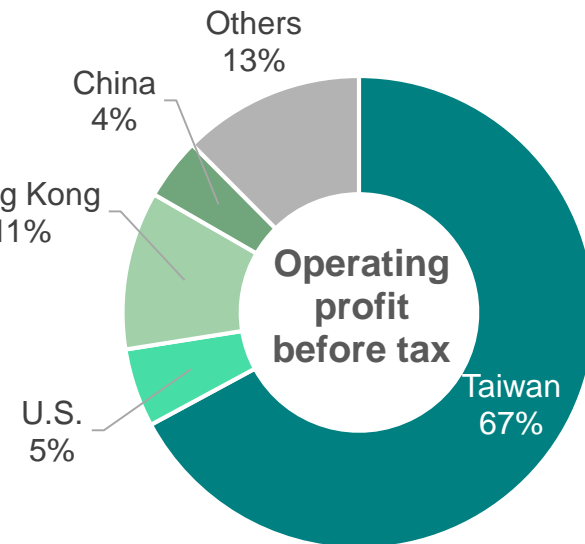
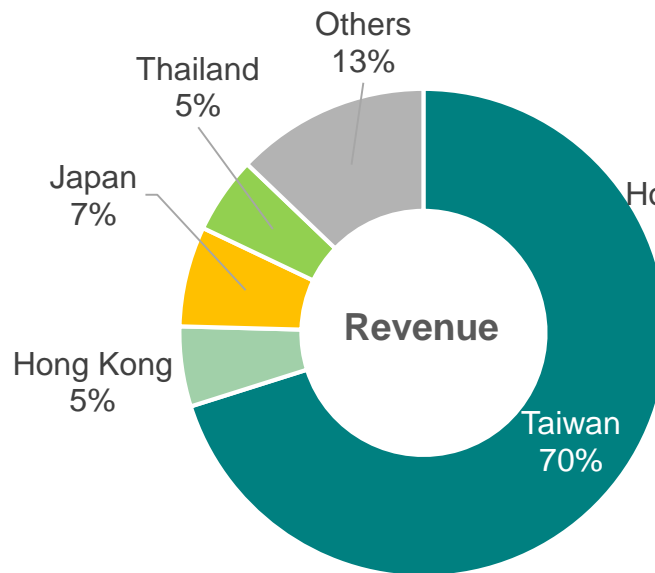
CTBC Bank Corp. (Canada)

- Commercial banking and financing business

Total: 40–50 employees

Total Tax Contribution and Income Tax in 2022

In 2022, CTBC Group generated revenue from our banking, securities, and insurance operations of approximately NT\$139.3 billion worldwide, with operating profit before tax of approximately NT\$47 billion. The total tax contribution of CTBC Group in 2022 was approximately NT\$19.3 billion, which was collected and remitted in the country where the profit was generated. The group's total tax contribution by country is concentrated in Taiwan (80% of total taxes paid), in line with the geographical distribution of the group's revenue, of which Taiwan accounts for 70%. Table 2 details our revenue, operating profit before tax, and total tax contribution.



Total Tax Contribution and Income Tax in 2022

Table 2: Revenue, operating profit before tax and total tax contribution by country

Unit: NT\$ million

Country	Revenue	Operating profit before tax	Current income tax accrued	Income tax paid	GST/VAT/other business tax paid	Total taxes paid
Taiwan	97,654	31,580	1,539	11,500	3,928	15,427
U.S.	5,753	2,528	689	958	14	971
Hong Kong	7,381	5,093	663	167	-	167
Vietnam	920	630	150	117	8	125
Japan	9,243	1,605	686	697	298	996
China	4,458	1,993	548	510	249	762
India	285	60	14	23	27	49
Singapore	2,506	1,406	20	21	2	23
Philippines	1,821	275	84	64	106	169
Indonesia	1,742	125	153	128	28	156
Canada	406	198	58	42	10	52
Thailand	7,083	1,556	268	170	235	405
Total	139,252	47,049	4,872	14,397	4,906	19,302

Note: Income tax paid and GST/VAT/other business tax paid is the amount actually remitted. The current tax expenses reflect only operations in the current year and do not include deferred taxes or provisions for uncertain tax liabilities.

Tax Contribution and Tax Incentives in Taiwan

In 2022, the significant increase in income tax paid in Taiwan was attributed to the income tax payable for FY2021, which was about 11 billion, relatively higher in recent years.

Regarding investment tax credits, to promote industrial innovation and encourage corporations to upgrade to smart technology, the Statute for Industrial Innovation allows qualified investments and R&D expenses to be credited against income tax and additional tax on undistributed surplus earnings. In addition, to promote the development of the biotech and pharmaceutical industry, the Act for the Development of Biotech and Pharmaceutical Industry allows the shareholder enjoys a reduction in income tax by up to 20% of the investment amount for the subscription of the shares in such biotech and pharmaceutical companies.

CTBC group is committed to developing new intellectual property and innovating smart technologies, as well as supporting the development of the biotech and pharmaceutical industry. The 2022 investment tax credits of NT\$38.8 million listed below are for those investments eligible per Statute for Industrial Innovation Article 10-1 and Act for the Development of Biotech and Pharmaceutical Industry Article 7.

Table 3: Tax paid to the government in Taiwan

Unit: NT\$ thousand

Income type	2022	2021	2020	2019	2018
Corporate income tax(Cash Basis)	11,499,667	7,890,944	1,781,603	1,782,947	6,473,434
Business tax	3,705,003	3,260,202	3,029,197	2,915,930	2,646,361
Stamp duty	222,599	197,837	194,025	181,149	182,358
Investment tax credits	38,833	101,852	543,498	-	15,094



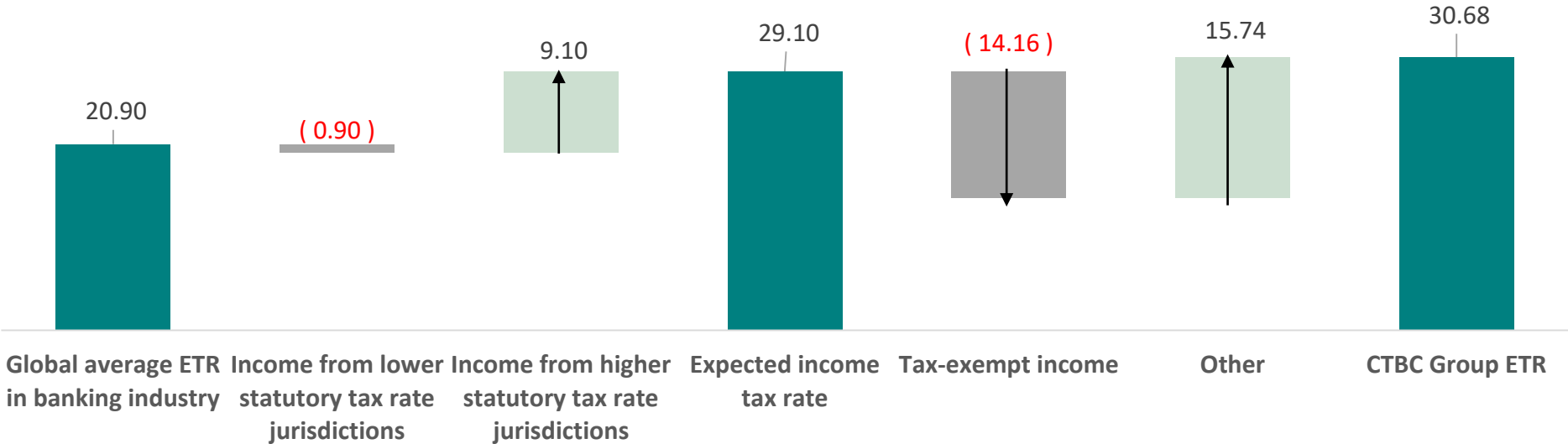
Effective and Cash Tax Rate

- Reconciliation of Effective Tax Rate
- Changes in Effective Tax Rate
- Cash Tax Rate

Reconciliation of Effective Tax Rate

In 2022, the effective tax rate (“ETR”) of CTBC Group was 30.68%, higher than the global banking industry average of 20.9%, as reported by S&P Global. Moreover, our ETR had increased by 17.71% from 2021. There are two main reasons for this result. First, the proportion of tax-exempt income decreased by more than 10%. Second, the operating profit attributed to overseas entities increased dramatically and income tax increased proportionally. However, the operating profit attributed to our home country, Taiwan, decreased due to a surge in COVID-19 cases in Taiwan and the continually rising interest rates worldwide. As a result, the foreign tax credit could not be credited in Taiwan, thus increasing the substantive tax burden. The reconciliation details are provided in Table 4.

Chart 1: Reconciliation of the global average ETR in the banking industry and the ETR of CTBC Group



Changes in Effective Tax Rate

Table 4: Reconciliation of income tax expenses and net income before tax

Unit: NT\$ thousand

	2022		2021	
Net income before income tax	47,048,937		62,044,158	
Straight income tax	13,690,772	29.10%	24,580,208	39.62%
Effects of foreign and domestic tax spread	177,861	0.38%	(104,494)	(0.17%)
Tax-exempt income	(6,663,051)	(14.16%)	(16,612,732)	(26.77%)
Tax incentives	(185,268)	(0.39%)	(146,955)	(0.24%)
Adjustments of prior year's income tax	347,590	0.74%	(78,118)	(0.13%)
Undistributed earnings additional tax	837,860	1.78%	887,966	1.43%
Alternative minimum tax	0	0.00%	25,129	0.04%
Other	6,230,063	13.24%	(505,059)	(0.81%)
Total	14,435,827	30.68%	8,045,945	12.97%
Effective tax rate	30.68%		12.97%	

Cash Tax Rate

The reconciliation of income tax expense and tax payment is shown in Table 5. "Temporary differences" represent the difference between the carrying amount of assets and liabilities for financial reporting purposes and respective tax bases, such as unrealized gains or losses on financial instruments and foreign exchange, guarantee provisions, allowances for credit losses, and net operating losses. "Other" represents the difference between accrual and cash basis.

In 2022, the overall income tax payment was higher than expected due to the increase in the income tax paid attributed to Taiwan. The explanation for this increase can be found in the section "Tax Contribution and Tax Incentives in Taiwan". Meanwhile, the overall income tax expense was higher as foreign tax credit could not be credited in Taiwan. Since the tax payment attributed to Taiwan is the majority of the group's tax contribution, the overall substantive tax burden increased significantly.

Table 5: Reconciliation of income tax expenses and income tax payments

Unit: NT\$ thousand

	2022	2021	2020	2019	2018
Income tax expense	14,435,827	8,045,945	8,721,902	8,926,802	6,354,288
Temporary differences	(9,563,740)	4,194,050	1,750,383	(3,981,984)	(1,207,275)
Other	9,524,611	(2,880,975)	(5,015,561)	(1,434,007)	3,787,384
Income tax payment	14,396,698	9,359,020	5,456,724	3,510,811	8,934,397
Cash tax rate	30.60%	15.08%	10.58%	6.78%	21.08%



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