

**Chang Hwa Commercial Bank, Ltd.**

**Financial Statements for the  
Three Months Ended March 31, 2017 and 2016 and  
Independent Auditors' Review Report**

## INDEPENDENT AUDITORS' REVIEW REPORT

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

We have reviewed the accompanying balance sheets of Chang Hwa Commercial Bank, Ltd. (the "Bank") as of March 31, 2017 and 2016, and related statements of comprehensive income, changes in equity and cash flows for the three months ended March 31, 2017 and 2016. These financial statements are the responsibility of the Bank's management. Our responsibility is to issue a report on these financial statements based on our reviews.

We conducted our reviews in accordance with Statement of Auditing Standards No. 36 "Review of Financial Statements" issued by the Auditing Standards Committee of the Accounting Research and Development Foundation of the Republic of China. A review consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the Republic of China, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the financial statements referred to above for them to be in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms and the International Accounting Standard 34 "Interim Financial Reporting" endorsed by the Financial Supervisory Commission of the Republic of China.



Deloitte & Touche  
Taipei, Taiwan  
Republic of China

May 12, 2017

### Notice to Readers

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

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

## CHANG HWA COMMERCIAL BANK, LTD.

### BALANCE SHEETS (In Thousands of New Taiwan Dollars)

	March 31, 2017 (Reviewed)		December 31, 2016 (Audited)		March 31, 2016 (Reviewed)	
	Amount	%	Amount	%	Amount	%
<b>ASSETS</b>						
Cash and cash equivalents (Notes 4, 6 and 36)	\$ 35,729,065	2	\$ 45,199,330	2	\$ 37,391,391	2
Due from the Central Bank and call loans to banks (Notes 4, 6 and 36)	206,705,416	10	194,825,223	10	148,913,616	8
Financial assets at fair value through profit or loss (Notes 4 and 7)	24,968,955	1	34,699,024	2	41,919,700	2
Derivative financial assets for hedging (Notes 4 and 12)	176,553	-	86,265	-	211,469	-
Receivables, net (Notes 4, 8 and 9)	18,784,879	1	20,280,261	1	17,575,228	1
Current tax assets (Notes 4 and 30)	55,337	-	56,689	-	51,367	-
Loans, net (Notes 4, 5, 9, 35 and 36)	1,342,762,347	68	1,367,259,890	68	1,366,066,388	70
Available-for-sale financial assets, net (Notes 4, 10 and 37)	76,981,030	4	76,824,866	4	69,144,747	4
Held-to-maturity financial assets, net (Notes 4, 5, 11 and 37)	212,711,679	11	204,864,541	10	199,281,426	10
<b>OTHER FINANCIAL ASSETS, NET</b>						
Financial assets carried at cost (Notes 4 and 13)	4,167,009	-	4,167,009	-	4,167,009	-
Debt investments without active market (Notes 4 and 14)	79,849	-	88,555	-	2,038,064	-
Other miscellaneous financial assets (Notes 4, 15 and 37)	<u>15,398,057</u>	<u>1</u>	<u>18,842,264</u>	<u>1</u>	<u>23,220,535</u>	<u>1</u>
Other financial assets, net	<u>19,644,915</u>	<u>1</u>	<u>23,097,828</u>	<u>1</u>	<u>29,425,608</u>	<u>1</u>
Property and equipment, net (Notes 4 and 16)	20,736,980	1	20,801,823	1	22,143,966	1
Investment property, net (Notes 4 and 17)	13,752,337	1	13,753,981	1	12,534,850	1
Intangible assets, net (Notes 4 and 18)	411,172	-	423,465	-	464,727	-
Deferred tax assets (Notes 4 and 30)	2,894,396	-	2,447,734	-	2,183,300	-
Other assets, net (Notes 19, 32 and 37)	<u>2,313,775</u>	<u>-</u>	<u>530,584</u>	<u>-</u>	<u>781,593</u>	<u>-</u>
<b>TOTAL</b>	<u>\$ 1,978,628,836</u>	<u>100</u>	<u>\$ 2,005,151,504</u>	<u>100</u>	<u>\$ 1,948,089,376</u>	<u>100</u>
<b>LIABILITIES AND EQUITY</b>						
Due to the Central Bank and banks (Notes 4, 20 and 36)	\$ 115,919,496	6	\$ 139,162,582	7	\$ 154,038,567	8
Finance due to banks	-	-	-	-	579,150	-
Financial liabilities at fair value through profit or loss (Notes 4 and 7)	19,187,401	1	18,093,146	1	25,726,629	1
Securities sold under repurchase agreements (Note 4)	3,237,819	-	2,954,981	-	4,423,938	-
Payables (Notes 4, 21 and 28)	30,026,673	2	33,834,971	2	22,156,935	1
Current tax liabilities (Notes 4 and 30)	888,133	-	550,984	-	348,900	-
Deposits and remittances (Notes 4, 23 and 36)	1,610,400,285	82	1,624,429,817	81	1,556,482,735	80
Bank note payables (Notes 4 and 23)	41,667,657	2	31,375,226	2	35,172,955	2
Other financial liabilities (Notes 4 and 24)	3,560,048	-	2,718,964	-	1,668,543	-
Reserve for liabilities (Notes 4, 5 and 26)	4,418,500	-	4,524,224	-	4,277,679	-
Deferred tax liabilities (Notes 4 and 30)	7,016,589	-	6,672,201	-	6,669,678	1
Other liabilities (Notes 4, 25 and 32)	<u>2,711,176</u>	<u>-</u>	<u>3,310,883</u>	<u>-</u>	<u>3,413,190</u>	<u>-</u>
Total liabilities	<u>1,839,033,777</u>	<u>93</u>	<u>1,867,627,979</u>	<u>93</u>	<u>1,814,958,899</u>	<u>93</u>
<b>EQUITY (Notes 4, 28 and 30)</b>						
Capital stock						
Common stock	89,647,626	4	89,647,626	5	84,573,232	4
Retained earnings						
Legal reserve	23,784,945	1	23,784,945	1	20,291,944	1
Special reserve	12,020,521	1	12,020,521	1	12,020,521	1
Unappropriated earnings	14,836,977	1	11,970,239	-	15,007,945	1
Other equity						
Exchange differences on translation of foreign financial statements	(1,091,189)	-	(8,125)	-	516,417	-
Unrealized gains on available-for-sale financial assets	<u>396,179</u>	<u>-</u>	<u>108,319</u>	<u>-</u>	<u>720,418</u>	<u>-</u>
Total equity	<u>139,595,059</u>	<u>7</u>	<u>137,523,525</u>	<u>7</u>	<u>133,130,477</u>	<u>7</u>
<b>TOTAL</b>	<u>\$ 1,978,628,836</u>	<u>100</u>	<u>\$ 2,005,151,504</u>	<u>100</u>	<u>\$ 1,948,089,376</u>	<u>100</u>

The accompanying notes are an integral part of the financial statements.

# CHANG HWA COMMERCIAL BANK, LTD.

## STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	<b>For the Three Months Ended March 31</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
INTEREST INCOME (Notes 4, 29 and 36)	\$ 8,280,729	111	\$ 8,279,610	108
INTEREST EXPENSES (Notes 29 and 36)	<u>(2,817,466)</u>	<u>(38)</u>	<u>(2,917,361)</u>	<u>(38)</u>
NET INTEREST INCOME	<u>5,463,263</u>	<u>73</u>	<u>5,362,249</u>	<u>70</u>
NET INCOME OTHER THAN NET INTEREST INCOME				
Net service fee and commissions income (Notes 4 and 29)	1,364,683	18	1,099,076	14
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4, 7 and 29)	753,461	10	828,835	11
Realized gain on available-for-sale financial assets (Notes 4 and 29)	145,907	2	86,409	1
Foreign exchange losses (Notes 4 and 34)	(334,122)	(4)	(171,367)	(2)
Other miscellaneous net income (Note 12)	<u>58,241</u>	<u>1</u>	<u>440,594</u>	<u>6</u>
Net income other than net interest income	<u>1,988,170</u>	<u>27</u>	<u>2,283,547</u>	<u>30</u>
NET REVENUE AND GAINS	<u>7,451,433</u>	<u>100</u>	<u>7,645,796</u>	<u>100</u>
BAD DEBTS EXPENSES AND GUARANTEE LIABILITY PROVISIONS (Notes 4 and 9)	<u>(432,578)</u>	<u>(5)</u>	<u>52,297</u>	<u>1</u>
OPERATING EXPENSES				
Employee benefits expenses (Notes 4 and 29)	(2,367,295)	(32)	(2,473,585)	(33)
Depreciation and amortization expenses (Notes 4 and 29)	(176,605)	(2)	(178,610)	(2)
Other general and administrative expenses	<u>(1,026,065)</u>	<u>(14)</u>	<u>(1,078,232)</u>	<u>(14)</u>
Total operating expenses	<u>(3,569,965)</u>	<u>(48)</u>	<u>(3,730,427)</u>	<u>(49)</u>
INCOME BEFORE INCOME TAX	3,448,890	47	3,967,666	52
INCOME TAX EXPENSE (Notes 4 and 30)	<u>(582,152)</u>	<u>(8)</u>	<u>(573,552)</u>	<u>(8)</u>
NET INCOME	<u>2,866,738</u>	<u>39</u>	<u>3,394,114</u>	<u>44</u>

(Continued)

# CHANG HWA COMMERCIAL BANK, LTD.

## STATEMENTS OF COMPREHENSIVE INCOME (In Thousands of New Taiwan Dollars, Except Earnings Per Share) (Reviewed, Not Audited)

	<b>For the Three Months Ended March 31</b>			
	<b>2017</b>		<b>2016</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 4)	\$ (1,231,914)	(17)	\$ (246,595)	(3)
Unrealized gain (loss) on available-for-sale financial assets (Note 4)	292,237	4	480,521	6
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 30)	<u>144,473</u>	<u>2</u>	<u>27,478</u>	<u>1</u>
Other comprehensive income (loss) for the year, net of income tax	<u>(795,204)</u>	<u>(11)</u>	<u>261,404</u>	<u>4</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 2,071,534</u>	<u>28</u>	<u>\$ 3,655,518</u>	<u>48</u>
EARNINGS PER SHARE (Note 31)				
Basic	<u>\$ 0.32</u>		<u>\$ 0.38</u>	
Diluted	<u>\$ 0.32</u>		<u>\$ 0.38</u>	

The accompanying notes are an integral part of the financial statements.

(Concluded)

**CHANG HWA COMMERCIAL BANK, LTD.**

**STATEMENTS OF CHANGES IN EQUITY**  
(In Thousands of New Taiwan Dollars)  
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Bank					Other Equity		Total Equity
	Capital Stock		Retained Earnings			Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets	
	Shares (Thousand)	Amount	Legal Reserve	Special Reserve	Unappropriated Earnings			
BALANCE, JANUARY 1, 2016	8,457,323	\$ 84,573,232	\$ 20,291,944	\$ 12,020,521	\$ 11,613,831	\$ 733,874	\$ 241,557	\$ 129,474,959
Net income for the three months ended March 31, 2016	-	-	-	-	3,394,114	-	-	3,394,114
Other comprehensive income (loss) for the three months ended March 31, 2016, net of tax	-	-	-	-	-	(217,457)	478,861	261,404
Total comprehensive income (loss) for the three months ended March 31, 2016	-	-	-	-	3,394,114	(217,457)	478,861	3,655,518
BALANCE, MARCH 31, 2016	<u>8,457,323</u>	<u>\$ 84,573,232</u>	<u>\$ 20,291,944</u>	<u>\$ 12,020,521</u>	<u>\$ 15,007,945</u>	<u>\$ 516,417</u>	<u>\$ 720,418</u>	<u>\$ 133,130,477</u>
BALANCE, JANUARY 1, 2017	8,964,762	\$ 89,647,626	\$ 23,784,945	\$ 12,020,521	\$ 11,970,239	\$ (8,125)	\$ 108,319	\$ 137,523,525
Net income for the three months ended March 31, 2017	-	-	-	-	2,866,738	-	-	2,866,738
Other comprehensive income (loss) for the three months ended March 31, 2017, net of tax	-	-	-	-	-	(1,083,064)	287,860	(795,204)
Total comprehensive income (loss) for the three months ended March 31, 2017	-	-	-	-	2,866,738	(1,083,064)	287,860	2,071,534
BALANCE, MARCH 31, 2017	<u>8,964,762</u>	<u>\$ 89,647,626</u>	<u>\$ 23,784,945</u>	<u>\$ 12,020,521</u>	<u>\$ 14,836,977</u>	<u>\$ (1,091,189)</u>	<u>\$ 396,179</u>	<u>\$ 139,595,059</u>

The accompanying notes are an integral part of the financial statements.

# CHANG HWA COMMERCIAL BANK, LTD.

## STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	For the Three Months Ended March 31	
	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income before income tax	\$ 3,448,890	\$ 3,967,666
Non-cash (revenues and gains) or expenses and losses		
Bad debts expenses and guarantee liability provisions	432,578	(52,297)
Depreciation expenses	133,887	139,731
Amortization expenses	42,718	38,879
Interest income	(8,280,729)	(8,279,610)
Interest expenses	2,817,466	2,917,361
Dividends income	-	(363,822)
Net losses on financial assets and liabilities at fair value through profit or loss	1,474,094	3,226,939
Gain on disposal of investments	(145,907)	(86,409)
Unrealized foreign exchange gains	(2,227,555)	(4,055,774)
Other adjustments	21,983	(13,461)
Changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank and banks	4,037,625	(12,615,315)
Decrease in financial assets at fair value through profit or loss	9,437,391	1,224,160
Decrease in receivables	1,513,830	2,081,838
Decrease (increase) in loans	24,094,414	(44,033,066)
Decrease (increase) in available-for-sale financial assets	704,006	(761,794)
(Increase) decrease in held-to-maturity financial assets	(7,847,138)	6,495,829
Decrease in other financial assets	3,449,362	2,317,321
Increase in other assets	(1,788,030)	(430,430)
Decrease in due to the Central Bank and banks	(3,235,914)	(4,666,271)
(Decrease) increase in deposits and remittances	(14,029,532)	8,743,024
Decrease in payables	(4,166,461)	(1,437,045)
Increase in financial liabilities at fair value through profit or loss	2,066,471	3,967,185
Decrease in reserve for liabilities	(124,611)	(94,782)
Increase in other financial liabilities	841,084	593,347
(Decrease) increase in other liabilities	(578,883)	204,656
Cash generated from (used in) operations	12,091,039	(40,972,140)
Interest received	7,886,344	8,136,847
Dividend received	-	363,822
Interest paid	(2,454,484)	(2,491,182)
Income taxes paid	(202,802)	(134,858)
Net cash generated from (used in) operating activities	<u>17,320,097</u>	<u>(35,097,511)</u>

(Continued)

# CHANG HWA COMMERCIAL BANK, LTD.

## STATEMENTS OF CASH FLOWS (In Thousands of New Taiwan Dollars) (Reviewed, Not Audited)

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	\$ (85,425)	\$ (33,826)
Acquisition of intangible assets	<u>(30,871)</u>	<u>(3,077)</u>
Net cash used in investing activities	<u>(116,296)</u>	<u>(36,903)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
(Decrease) increase in due to the Central Bank and call loans from banks	(20,007,172)	31,378,920
Proceeds from issuance of bank notes	10,200,000	-
Increase (decrease) in securities sold under repurchase agreements	<u>282,838</u>	<u>(188,109)</u>
Net cash (used in) generated from financing activities	<u>(9,524,334)</u>	<u>31,190,811</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>(1,231,914)</u>	<u>(246,595)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,447,553	(4,190,198)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>167,977,705</u>	<u>118,700,025</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 174,425,258</u>	<u>\$ 114,509,827</u>
	<b>March 31</b>	
	<b>2017</b>	<b>2016</b>
<b>Reconciliation of cash and cash equivalents</b>		
Cash and cash equivalents in balance sheet	\$ 35,729,065	\$ 37,391,391
Call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 permitted by the Financial Supervisory Commission	<u>138,696,193</u>	<u>77,118,436</u>
Cash and cash equivalents at end of period	<u>\$ 174,425,258</u>	<u>\$ 114,509,827</u>

The accompanying notes are an integral part of the financial statements.

(Concluded)



# CHANG HWA COMMERCIAL BANK, LTD.

## NOTES TO FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED MARCH 31, 2017 AND 2016 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise) (Reviewed, Not Audited)

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### 1. ORGANIZATION AND BUSINESS SCOPE

Chang Hwa Commercial Bank, Ltd. (the “Bank”) was incorporated under Banking Law, Securities and Exchange Law and Taiwan Company Law on March 1, 1947 and got license from the Ministry of Economic Affairs in July 1950. Since February 1962 the Bank’s shares have been listed and traded on the Taiwan Stock Exchange.

The Bank mainly engages in the following business:

- a. All commercial banking operations allowed by the Banking Law;
- b. Trust operations;
- c. International banking operations;
- d. Overseas branch operations authorized by the respective foreign governments; and
- e. Other operations authorized by the central authority.

The Bank’s head office is located in Taichung City, Taiwan. The Bank has 9 overseas branches in New York, Los Angeles, Tokyo, London, Hong Kong, Singapore, Kunshan China, Dongguan and Fuzhou.

CHB Life Insurance Agency Co., Ltd. (“CHB Life Insurance Agency”) was established on October 3, 2001 to provide life insurance agent service. CHB Insurance Brokerage Co., Ltd. (“CHB Insurance Brokerage”) established on April 7, 2003 to provide property insurance broker service.

To integrate resources and to create comprehensive benefits, the Bank had merged CHB Life Insurance Agency and CHB Insurance Brokerage on April 1, 2016. CHB Life Insurance Agency Company and CHB Insurance Brokerage Company are 100% owned subsidiaries by Chang Hwa Commercial Bank. There would be no impact on the shareholders’ equity after the merger.

The assets and the liabilities on the accounts and any rights and obligations as of yet valid on the reference date of the merger of CHB Life Insurance Agency Company and CHB Insurance Brokerage Company were generally assumed by Chang Hwa Commercial Bank.

After the merger, the Bank has no other subsidiaries and will not issue consolidated and standalone financial statements. Thereby, the Bank shall issue individual financial statements starting from June 30, 2016. The merger between the Bank and CHB Life Insurance Agency and CHB Insurance Brokerage was done for the sake of organizational restructuring and according to the interpretation of the relevant provisions which were released by the Accounting Research and Development Foundation. As such, the preparation of comparative financial statements should be regarded as the beginning of the already-consolidated subsidiaries and the previous annual financial statements were restated. However, due to the similarity of the Bank’s organizational structure post-merger and pre-merger, the Bank should restate the prior year (quarter) financial statements as the previous year (quarter) consolidated financial information.

The financial statements are presented in the Bank’s functional currency, New Taiwan dollars.

### 2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Bank’s board of directors on May 12, 2017.

### 3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed and issued into effect by the FSC

The initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Bank's accounting policies.

- b. New IFRSs in issue but not yet endorsed and issued into effect by the FSC

The Bank has not applied the following IFRSs issued by the IASB but not yet endorsed and issued into effect by the FSC.

The FSC announced that amendments to IFRS 4 (of which only the overlay approach can be applied), IFRS 9 and IFRS 15 will take effect starting January 1, 2018. As of the date the financial statements were authorized for issue, the FSC has not announced the effective dates of other New IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

Note 1: Unless stated otherwise, the above New IFRSs are effective for annual periods beginning on or after their respective effective dates.

Note 2: The amendment to IFRS 12 is retrospectively applied for annual periods beginning on or after January 1, 2017; the amendment to IAS 28 is retrospectively applied for annual periods beginning on or after January 1, 2018.

The initial application of the above New IFRSs, whenever applied, would not have any material impact on the Bank's accounting policies, except for the following:

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

With regards to financial assets, all recognized financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" are subsequently measured at amortized cost or fair value. Under IFRS 9, the requirement for the classification of financial assets is stated below.

For the Bank's debt instruments that have contractual cash flows that are solely payments of principal and interest on the principal amount outstanding, their classification and measurement are as follows:

- a) For debt instruments, if they are held within a business model whose objective is to collect the contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method;
- b) For debt instruments, if they are held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of financial assets, the financial assets are measured at fair value through other comprehensive income (FVTOCI) and are assessed for impairment. Interest revenue is recognized in profit or loss by using the effective interest method, and other gain or loss shall be recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses. When the debt instruments are derecognized or reclassified, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss.

Except for the above, all other financial assets are measured at fair value through profit or loss. However, the Bank may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognized in profit or loss. No subsequent impairment assessment is required, and the cumulative gain or loss previously recognized in other comprehensive income cannot be reclassified from equity to profit or loss.

Impairment of financial assets

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". The credit loss allowance is required for financial assets measured at amortized cost, financial assets mandatorily measured at FVTOCI, lease receivables, contract assets arising from IFRS 15 "Revenue from Contracts with Customers", certain written loan commitments and financial guarantee contracts. A loss allowance for the 12-month expected credit losses is required for a financial asset if its credit risk has not increased significantly since initial recognition. A loss allowance for full lifetime expected credit losses is required for a financial asset if its credit risk has increased significantly since initial recognition and is not low. However, a loss allowance for full lifetime expected credit losses is required for trade receivables that do not constitute a financing transaction.

For purchased or originated credit-impaired financial assets, the Bank takes into account the expected credit losses on initial recognition in calculating the credit-adjusted effective interest rate. Subsequently, any changes in expected losses are recognized as a loss allowance with a corresponding gain or loss recognized in profit or loss.

### Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way hedging derivative instruments are accounted for to reduce profit or loss volatility; and (3) replacing retrospective effectiveness assessment with the principle of economic relationship between the hedging instrument and the hedged item.

### Transition

Financial instruments that have been derecognized prior to the effective date of IFRS 9 cannot be reversed to apply IFRS 9 when it becomes effective. Under IFRS 9, the requirements for classification, measurement and impairment of financial assets are applied retrospectively with the difference between the previous carrying amount and the carrying amount at the date of initial application recognized in the current period and restatement of prior periods is not required. The requirements for general hedge accounting shall be applied prospectively and the accounting for hedging options shall be applied retrospectively.

#### 2) IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Bank is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the balance sheets except for low-value and short-term leases. The Bank may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the statements of comprehensive income, the Bank should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

The application of IFRS 16 is not expected to have a material impact on the accounting of the Bank as lessor.

When IFRS 16 becomes effective, the Bank may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of the initial application of this Standard recognized at the date of initial application.

#### 3) Amendment to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendment clarifies that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Bank expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Bank should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendment also stipulates that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Bank's assets for more than their carrying amount if there is sufficient evidence that it is probable that the Bank will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

#### **4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

##### **a. Statement of compliance**

These interim financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and IAS 34 "Interim Financial Reporting" as endorsed and issued into effect by the FSC. Disclosure information included in these interim financial statements is less than the disclosure information required in a complete set of annual financial statements.

##### **b. Basis of preparation**

The financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair values.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

##### **c. Other significant accounting policies**

Except for the following, for the summary of other significant accounting policies, refer to the Bank's financial statements for the year ended December 31, 2016.

##### **1) Retirement benefits**

Pension costs for an interim period is calculated on a year-to-date basis by using the actuarially determined pension cost rate at the end of the prior financial year, adjusted for significant market fluctuations since that time and for significant plan amendments, settlements, or other significant one-off events.

##### **2) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

**5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

For the summary of the critical accounting judgments and key sources of estimation uncertainty, refer to the Bank's financial statements for the year ended December 31, 2016.

**6. CASH AND CASH EQUIVALENTS/DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS**

a. Cash and cash equivalents

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Cash on hand	\$ 11,342,736	\$ 11,036,052	\$ 10,952,024
Checks for clearing	11,080,592	17,454,559	5,800,319
Due from banks	11,929,921	15,083,232	19,198,670
Foreign currencies on hand	<u>1,375,816</u>	<u>1,625,487</u>	<u>1,440,378</u>
	<u>\$ 35,729,065</u>	<u>\$ 45,199,330</u>	<u>\$ 37,391,391</u>

Refer to the statement of cash flows for the cash and cash equivalents reconciliation information as of March 31, 2017 and 2016. Cash and cash equivalents as of December 31, 2016 as shown in the statement of cash flows can be reconciled to the related items in the balance sheets as follows:

	<b>December 31, 2016</b>
Cash and cash equivalents	\$ 45,199,330
Call loans to banks	<u>122,778,375</u>
	<u>\$ 167,977,705</u>

b. Due from Central Bank and call loans to banks

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Call loans to banks	\$ 138,696,193	\$ 122,778,375	\$ 77,118,436
Reserve for checking account	20,475,411	25,184,329	27,507,709
Reserve for demand account	40,574,733	39,605,276	38,567,210
Reserve for foreign deposit	411,010	401,760	373,387
Others	<u>6,548,069</u>	<u>6,855,483</u>	<u>5,346,874</u>
	<u>\$ 206,705,416</u>	<u>\$ 194,825,223</u>	<u>\$ 148,913,616</u>

## 7. FINANCIAL INSTRUMENTS AT FVTPL

### Financial Assets at FVTPL

	March 31, 2017	December 31, 2016	March 31, 2016
Financial assets designated as at FVTPL			
Interest rate-linked combination instruments	\$ 5,454,340	\$ 5,448,301	\$ 6,235,350
Derivative financial assets (not applying hedge accounting)			
Futures	150,150	77,803	53,296
Forward exchange contracts	422,351	221,512	468,880
Interest rate swaps	1,207,130	1,464,398	1,184,390
Cross-currency swaps	1,144,628	922,514	656,422
Currency swaps	2,582,075	3,340,446	2,409,804
Currency call option premium	610,074	346,116	723,889
Non-derivative financial assets			
Investment in bills	11,584,903	20,970,079	26,901,653
Domestic listed stock	87,094	-	16,160
Mutual funds	20,558	190,941	207,314
Government bonds	1,705,652	1,700,629	3,046,175
Corporate bonds	-	16,285	16,367
	<u>19,514,615</u>	<u>29,250,723</u>	<u>35,684,350</u>
	<u>\$ 24,968,955</u>	<u>\$ 34,699,024</u>	<u>\$ 41,919,700</u>

The par values of bonds and notes provided for transactions with repurchase agreements were \$734,800 thousand, \$982,300 thousand and \$1,741,800 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively.

### Financial Liabilities at FVTPL

	March 31, 2017	December 31, 2016	March 31, 2016
Financial liabilities designated as at FVTPL			
Unsecured U.S. dollar-denominated bank notes	\$ 12,010,286	\$ 12,606,694	\$ 16,965,842
Derivative financial liabilities (not applying hedge accounting)			
Forward contracts	82,606	259,933	113,465
Interest rate swaps	1,041,635	1,415,178	1,191,545
Cross-currency swaps	1,325,747	1,104,589	1,295,096
Currency swaps	3,764,670	2,357,964	5,426,413
Currency put option premium	613,413	348,788	734,268
Non-derivative financial liabilities			
Margin traded government bond - short	349,044	-	-
	<u>7,177,115</u>	<u>5,486,452</u>	<u>8,760,787</u>
	<u>\$ 19,187,401</u>	<u>\$ 18,093,146</u>	<u>\$ 25,726,629</u>

a. The unsecured U.S. dollar-denominated bank notes issued by the Bank were as follows:

- 1) Note A, 20-year term, US\$140,000 thousand, issued at par value with no interest payment, callable 2 years after issue date with interest payment, maturity: 2034.12.19. The note was redeemed on December 19, 2016.

- 2) Note B, 20-year term, US\$100,000 thousand, issued at par value with no interest payment, callable 3 years after issue date with interest payment, maturity: 2034.12.18.
- 3) Note C, 20-year term, US\$260,000 thousand, issued at par value with no interest payment, callable 5 years after issue date with interest payment, maturity: 2034.12.17.
- b. The Bank designated the unsecured U.S. dollar-denominated banks notes as financial liabilities at FVTPL to reduce a measurement or recognition inconsistency. During the three months ended March 31, 2017, there was no amount of changes in fair value attributable to changes in the credit risk of the bank notes mentioned above.

The Bank entered into derivative contracts during the three months ended March 31, 2017 and 2016 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of the Bank is to minimize risks due to changes in fair value and cash flows.

The nominal principal amounts of outstanding derivative contracts as of March 31, 2017, December 31, 2016 and March 31, 2016 were as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Currency swaps	\$ 315,102,332	\$ 363,182,300	\$ 416,455,341
Currency options	101,941,738	117,144,777	196,434,068
Forward exchange contracts	27,227,860	27,481,811	29,192,411
Interest rate swaps and asset - swap options	444,542,324	412,196,722	356,877,026
Cross-currency swaps	35,796,432	52,851,494	59,959,825

## 8. RECEIVABLES, NET

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Accounts receivable	\$ 8,503,259	\$ 8,990,029	\$ 8,306,971
Revenue receivable	1,471	3,316	1,982
Interest receivable	3,421,339	3,395,881	3,304,286
Acceptance receivable	4,783,314	5,589,590	3,957,570
Credit card receivable	1,782,248	1,766,729	1,669,415
Settlement price	366,564	426,554	215,512
Settlement price receivable	386,230	582,536	163,042
Other receivables	92,037	98,657	85,692
Less allowance for receivables	<u>(551,583)</u>	<u>(573,031)</u>	<u>(129,242)</u>
	<u>\$ 18,784,879</u>	<u>\$ 20,280,261</u>	<u>\$ 17,575,228</u>

Please refer to Note 9 for the movements of allowance for receivables.



## 9. LOANS, NET

a. The details of loans are as follows:

	March 31, 2017	December 31, 2016	March 31, 2016
Negotiated	\$ 5,679,308	\$ 6,139,403	\$ 5,422,781
Overdraft	1,423,360	1,531,820	1,575,050
Short-term loans	354,011,462	358,167,831	368,035,546
Receivable amount for margin loans	282,064	259,931	281,639
Medium-term loans	444,264,967	467,363,994	463,747,388
Long-term loans	548,862,029	546,771,155	539,575,776
Delinquent loans	<u>4,075,552</u>	<u>3,148,731</u>	<u>3,095,952</u>
	1,358,598,742	1,383,382,865	1,381,734,132
Less allowance for loan losses	<u>(15,836,395)</u>	<u>(16,122,975)</u>	<u>(15,667,744)</u>
	<u>\$ 1,342,762,347</u>	<u>\$ 1,367,259,890</u>	<u>\$ 1,366,066,388</u>

b. Movements of allowance for receivables and loans are as follows:

	<u>For the Three Months Ended March 31, 2017</u>			
	Receivables	Loans	Other Financial Assets	Total
Balance, January 1, 2017	\$ 573,031	\$ 16,122,975	\$ 25,937	\$ 16,721,943
Recovery of loans written off	3,889	166,032	3,639	173,560
Provision for loan losses	7,010	403,129	3,552	413,691
Loans written off	(8,650)	(698,320)	(4,567)	(711,537)
Others	<u>(23,697)</u>	<u>(157,421)</u>	<u>-</u>	<u>(181,118)</u>
Balance, March 31, 2017	<u>\$ 551,583</u>	<u>\$ 15,836,395</u>	<u>\$ 28,561</u>	<u>\$ 16,416,539</u>

	<u>For the Three Months Ended March 31, 2016</u>			
	Receivables	Loans	Other Financial Assets	Total
Balance, January 1, 2016	\$ 100,649	\$ 16,134,892	\$ 45,040	\$ 16,280,581
Recovery of loans written off	497	295,901	2,941	299,339
Provision (reversal) for loan losses	40,026	(98,959)	5,491	(53,442)
Loans written off	(10,090)	(609,681)	(6,914)	(626,685)
Others	<u>(1,840)</u>	<u>(54,409)</u>	<u>-</u>	<u>(56,249)</u>
Balance, March 31, 2016	<u>\$ 129,242</u>	<u>\$ 15,667,744</u>	<u>\$ 46,558</u>	<u>\$ 15,843,544</u>

The delinquent loans of which the accrual of interest income was stopped internally as of March 31, 2017, December 31, 2016 and March 31, 2016 were \$4,075,552 thousand, \$3,148,731 thousand and \$3,095,952 thousand, respectively. The interest income on delinquent loans not accrued in the three months ended March 31, 2017 and 2016 were \$27,204 thousand and \$20,820 thousand, respectively.

The Bank did not write off any loans without legal claim process in the three months ended March 31, 2017 and 2016.

- c. Details of provision for loan losses for the three months ended March 31, 2017 and 2016 were as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Provision (reversal) for receivable and loan (including delinquent loan) losses	\$ 413,691	\$ (53,442)
Provision for guarantees	<u>18,887</u>	<u>1,145</u>
	<u>\$ 432,578</u>	<u>\$ (52,297)</u>

- d. Details of receivables and allowance for loan accounts as of March 31, 2017, December 31, 2016 and March 31, 2016 were as follows:

Receivables

<b>Item</b>		<b>Total Receivable</b>		
		<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Objective evidence of impairment	Individual assessment of impairment	\$ 446,663	\$ 438,101	\$ 71,646
	Combined assessment of impairment	56,200	50,980	44,902
None objective evidence of impairment	Combined assessment of impairment	18,833,599	20,364,211	17,587,922
<b>Total</b>		<b>\$ 19,336,462</b>	<b>\$ 20,853,292</b>	<b>\$ 17,704,470</b>

<b>Item</b>		<b>Total Allowance</b>		
		<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Objective evidence of impairment	Individual assessment of impairment	\$ 391,576	\$ 398,440	\$ 59,636
	Combined assessment of impairment	20,540	18,182	18,019
None objective evidence of impairment	Combined assessment of impairment	139,467	156,409	51,587
<b>Total</b>		<b>\$ 551,583</b>	<b>\$ 573,031</b>	<b>\$ 129,242</b>

Note: The amount of receivable did not include the amount of allowance for receivables and adjustment for discount (premium).

Loans

<b>Item</b>		<b>Total Loans</b>		
		<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Objective evidence of impairment	Individual assessment of impairment	\$ 9,254,256	\$ 9,219,054	\$ 6,162,149
	Combined assessment of impairment	4,055,691	3,690,862	3,293,644
None objective evidence of impairment	Combined assessment of impairment	1,345,288,795	1,370,472,949	1,372,278,339
<b>Total</b>		<b>\$ 1,358,598,742</b>	<b>\$ 1,383,382,865</b>	<b>\$ 1,381,734,132</b>

Item		Total Allowance		
		March 31, 2017	December 31, 2016	March 31, 2016
Objective evidence of impairment	Individual assessment of impairment	\$ 3,186,651	\$ 3,322,891	\$ 2,713,251
	Combined assessment of impairment	1,061,572	1,032,540	940,436
None objective evidence of impairment	Combined assessment of impairment	11,588,172	11,767,544	12,014,057
Total		\$ 15,836,395	\$ 16,122,975	\$ 15,667,744

Note: The amount of loans did not include the amount of allowance for loans and adjustment for discount (premium).

#### 10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
Domestic quoted stocks	\$ 3,160,968	\$ 2,993,065	\$ 3,048,980
Government bonds	28,666,932	27,813,944	26,155,140
Corporate bonds	11,043,951	12,418,531	9,980,662
Bank notes	31,657,339	31,719,418	29,224,004
Investment in bills	1,567,958	229,325	735,961
Bonds issued by international organizations	<u>883,882</u>	<u>1,650,583</u>	<u>-</u>
	<u>\$ 76,981,030</u>	<u>\$ 76,824,866</u>	<u>\$ 69,144,747</u>

The par values of bonds provided for transactions with repurchase agreements were \$2,264,900 thousand, \$1,813,100 thousand and \$2,507,700 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively.

Government bonds placed as deposits in courts were \$435,600 thousand, \$421,200 thousand and \$287,500 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively. Government bonds placed as operating deposits were all \$330,000 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016. Government bonds placed as reserve fund for trust compensation were all \$170,000 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016. Government bonds pledged for call loans from banks were all \$5,000,000 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016.

Refer to Note 37 for information relating to available-for-sale financial assets pledged as security.

#### 11. HELD-TO-MATURITY FINANCIAL ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
Investment in bills	\$ 199,330,242	\$ 190,725,273	\$ 181,870,000
Bank notes	2,349,988	2,645,392	2,242,578
Corporate bonds	10,514,046	10,524,271	13,008,271
Government bonds	<u>517,403</u>	<u>969,605</u>	<u>2,160,577</u>
	<u>\$ 212,711,679</u>	<u>\$ 204,864,541</u>	<u>\$ 199,281,426</u>

The overseas branches' bonds as collateral for operations as of March 31, 2017, December 31, 2016 and March 31, 2016 were \$490,483 thousand, \$519,687 thousand and \$482,450 thousand, respectively.

Certificate of deposits placed as reserves for clearing at the Central Bank were all \$36,000,000 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016. Certificate of deposits which was issued by the Central Bank pledged for call loans from banks were all \$300,000 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016.

Refer to Note 37 for information relating to held-to-mature financial assets pledged as security.

## 12. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	March 31, 2017	December 31, 2016	March 31, 2016
Derivative financial assets under <u>hedge accounting</u>			
Fair value hedges - interest rate swaps	<u>\$ 176,553</u>	<u>\$ 86,265</u>	<u>\$ 211,469</u>

The Bank used interest rate swaps to minimize its exposure to changes in the fair value of its fixed-rate borrowings by entering into fixed-to-floating interest rate swap contracts. The interest swaps and the corresponding borrowings have the same terms, and management believes the interest rate swaps are highly effective hedging instruments. The nominal principal amount of the outstanding interest rate swaps of the Bank at the end of March 31, 2017, December 31, 2016 and March 31, 2016 were \$8,200,000 thousand, \$5,200,000 thousand and \$5,200,000 thousand, respectively.

The fixed-to-floating interest swaps were designated and effective fair value hedge instruments. During the three months ended March 31, 2017 and 2016, the swaps were effective in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the fixed-rate borrowings was adjusted by \$167,657 thousand, \$75,226 thousand and \$201,955 thousand as of March 31, 2017, December 31, 2016 and March 31, 2016, respectively; these amounts were included in profit or loss at the same time that the fair value of the interest rate swap was included in profit or loss.

The information of hedging transaction was as follows:

- a. Hedging type: Fair value hedging.
- b. Hedging objective: To minimize risks of the Bank from the variation of fair value due to fluctuation of interest rate, by converting fixed-rate note to floating-rate note.
- c. Hedging method: By signing interest rate swap contract.
- d. Hedging effect: The actual offset result is within 80%-125%, which has met the hedging accounting criterion suggested in IFRSs. The realized gain or loss of hedging tools were \$103,571 thousand and \$28,202 thousand for the three months ended March 31, 2017 and 2016, respectively, and the realized gain or loss of fair-value hedging were \$(92,431) thousand and \$(18,375) thousand, accounted as other non-interest net income and losses, for the three months ended March 31, 2017 and 2016, respectively.

### 13. FINANCIAL ASSETS CARRIED AT COST

	March 31, 2017	December 31, 2016	March 31, 2016
Domestic unquoted common stocks	\$ <u>4,167,009</u>	\$ <u>4,167,009</u>	\$ <u>4,167,009</u>

Management believed that the above unlisted equity investments held by the Bank, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore they were measured at cost less impairment at the end of reporting period.

### 14. BOND INVESTMENT WITH NO ACTIVE MARKET

	March 31, 2017	December 31, 2016	March 31, 2016
Beneficiary securities and asset based securities	\$ 79,849	\$ 88,555	\$ 104,618
Corporate bonds and bank notes	<u>-</u>	<u>-</u>	<u>1,933,446</u>
	<u>\$ 79,849</u>	<u>\$ 88,555</u>	<u>\$ 2,038,064</u>

### 15. OTHER MISCELLANEOUS FINANCIAL ASSETS

	March 31, 2017	December 31, 2016	March 31, 2016
Inward remittance	\$ 17,175	\$ 11,953	\$ 14,693
Delinquent loans reclassified from other accounts (excluding loans)	70,875	43,094	67,244
Call loans to securities company	151,900	161,100	-
Time deposits with original maturity more than 3 months	15,186,668	18,652,054	23,185,156
Less allowance for loan losses	<u>(28,561)</u>	<u>(25,937)</u>	<u>(46,558)</u>
	<u>\$ 15,398,057</u>	<u>\$ 18,842,264</u>	<u>\$ 23,220,535</u>

The market rates of time deposits with original maturity more than 3 months were 1.64%-5.40% and 1.00%-4.70% for the three months ended March 31, 2017 and 2016, respectively. Refer to Note 37 for information relating to other miscellaneous financial assets pledged as security.

Refer to Note 9 for the movement of the allowance for delinquent loans reclassified from other accounts (excluding loans).

### 16. PROPERTY AND EQUIPMENT

	Freehold Land	Buildings	Machinery Equipment	Transportation Equipment	Miscellaneous Equipment	Leasehold Improvement	Leased Assets	Construction in Progress and Prepayment for Building and Equipment	Total
<i>Cost</i>									
Balance at January 1, 2017	\$ 14,657,121	\$ 9,108,129	\$ 4,652,958	\$ 708,565	\$ 1,430,509	\$ 945,920	\$ 4,253	\$ 53,494	\$ 31,560,949
Additions	-	2,561	24,540	3,999	10,048	16,109	422	27,746	85,425
Disposals	-	-	(27,130)	(3,557)	(11,040)	(21,938)	-	-	(63,665)
Reclassification	-	-	-	2,168	-	-	(2,168)	-	-
Effect of foreign currency exchange differences	-	(11,133)	(3,201)	(663)	(2,328)	(5,531)	-	(1,573)	(24,429)
Balance at March 31, 2017	<u>\$ 14,657,121</u>	<u>\$ 9,099,557</u>	<u>\$ 4,647,167</u>	<u>\$ 710,512</u>	<u>\$ 1,427,189</u>	<u>\$ 934,560</u>	<u>\$ 2,507</u>	<u>\$ 79,667</u>	<u>\$ 31,558,280</u>

(Continued)

	Freehold Land	Buildings	Machinery Equipment	Transportation Equipment	Miscellaneous Equipment	Leasehold Improvement	Leased Assets	Construction in Progress and Prepayment for Building and Equipment	Total
<u>Accumulated depreciation and impairment</u>									
Balance at January 1, 2017	\$ -	\$ 4,113,645	\$ 3,986,898	\$ 570,966	\$ 1,273,907	\$ 811,544	\$ 2,166	\$ -	\$ 10,759,126
Depreciation expense	-	44,672	53,979	11,248	11,712	10,543	90	-	132,244
Disposals	-	-	(27,021)	(3,499)	(10,579)	(21,574)	-	-	(62,673)
Reclassification	-	-	-	1,205	-	-	(1,205)	-	-
Effect of foreign currency exchange differences	-	(327)	(1,679)	(361)	(1,760)	(3,270)	-	-	(7,397)
Balance at March 31, 2017	<u>\$ -</u>	<u>\$ 4,157,990</u>	<u>\$ 4,012,177</u>	<u>\$ 579,559</u>	<u>\$ 1,273,280</u>	<u>\$ 797,243</u>	<u>\$ 1,051</u>	<u>\$ -</u>	<u>\$ 10,821,300</u>
Carrying amounts at March 31, 2017	<u>\$ 14,657,121</u>	<u>\$ 4,941,567</u>	<u>\$ 634,990</u>	<u>\$ 130,953</u>	<u>\$ 153,909</u>	<u>\$ 137,317</u>	<u>\$ 1,456</u>	<u>\$ 79,667</u>	<u>\$ 20,736,980</u>
<u>Cost</u>									
Balance at January 1, 2016	\$ 15,880,100	\$ 9,050,292	\$ 5,206,912	\$ 619,887	\$ 1,498,860	\$ 943,230	\$ 112,232	\$ 16,487	\$ 33,328,000
Additions	-	11,607	4,521	3,313	6,730	5,652	-	2,003	33,826
Disposals	-	-	(14,735)	(3,212)	(4,981)	(47)	-	-	(22,975)
Effect of foreign currency exchange differences	-	(4,265)	(1,277)	(191)	(950)	407	-	(343)	(6,619)
Balance at March 31, 2016	<u>\$ 15,880,100</u>	<u>\$ 9,057,634</u>	<u>\$ 5,195,421</u>	<u>\$ 619,797</u>	<u>\$ 1,499,659</u>	<u>\$ 949,242</u>	<u>\$ 112,232</u>	<u>\$ 18,147</u>	<u>\$ 33,332,232</u>
<u>Accumulated depreciation and impairment</u>									
Balance at January 1, 2016	\$ -	\$ 3,935,920	\$ 4,456,913	\$ 508,359	\$ 1,337,117	\$ 781,551	\$ 55,132	\$ -	\$ 11,074,992
Depreciation expense	-	44,295	58,148	8,548	11,444	12,520	3,116	-	138,071
Disposals	-	-	(14,735)	(3,212)	(4,981)	(47)	-	-	(22,975)
Effect of foreign currency exchange differences	-	(61)	(622)	(103)	(747)	(289)	-	-	(1,822)
Balance at March 31, 2016	<u>\$ -</u>	<u>\$ 3,980,154</u>	<u>\$ 4,499,704</u>	<u>\$ 513,592</u>	<u>\$ 1,342,833</u>	<u>\$ 793,735</u>	<u>\$ 58,248</u>	<u>\$ -</u>	<u>\$ 11,188,266</u>
Carrying amounts at March 31, 2016	<u>\$ 15,880,100</u>	<u>\$ 5,077,480</u>	<u>\$ 695,717</u>	<u>\$ 106,205</u>	<u>\$ 156,826</u>	<u>\$ 155,507</u>	<u>\$ 53,984</u>	<u>\$ 18,147</u>	<u>\$ 22,143,966</u>

(Concluded)

The above items of property and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

Building	
Main buildings	20-60 years
Air-conditioning	5-10 years
Machinery equipment	4-16 years
Transportation equipment	2-10 years
Miscellaneous equipment	3-10 years
Leasehold improvement	5 years
Leased assets	9 years

## 17. INVESTMENT PROPERTIES

	March 31, 2017	December 31, 2016	March 31, 2016
Completed investment property	<u>\$ 13,752,337</u>	<u>\$ 13,753,981</u>	<u>\$ 12,534,850</u>

Except for depreciation recognized, the Bank had no significant additions, disposals, and impairment of investment properties during the three months ended March 31, 2017 and 2016. The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	20-60 years
Air-conditioning	5-10 years

The fair value of Bank's investment property as of March 31, 2017 and December 31, 2016 were both \$28,823,698 thousand. The fair value valuation was not performed by independent qualified professional valuers; management of the Bank used the valuation model that market participants would use in determining the fair value/the valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The fair value of the Bank's investment property as of March 31, 2016 was \$27,600,219 thousand. The determination of fair value was performed and measured by independent qualified professional valuers of CCIS Real Estate Joint Appraisers Firm in July 2015. The significant unobservable inputs used in the valuation include discount rate 5.16% and capitalization rate 1.85%.

The rental incomes and direct operating expenses generated by the investment properties for the three months ended March 31, 2017 and 2016 were as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Rental incomes	<u>\$ 45,429</u>	<u>\$ 42,766</u>
Direct operating expenses	<u>\$ 29,875</u>	<u>\$ 22,599</u>

## 18. INTANGIBLE ASSETS

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Computer software	<u>\$ 411,172</u>	<u>\$ 423,465</u>	<u>\$ 464,727</u>

Except for amortization recognized, the Bank had no significant additions, disposals, and impairment of intangible assets during the three months ended March 31, 2017 and 2016.

The intangible asset mentioned above is amortized on a straight-line basis over the estimated useful life (3-5 years).

## 19. OTHER ASSETS

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Refundable deposits	\$ 1,152,505	\$ 284,790	\$ 236,608
Assumed collateral and residuals	23,462	23,462	23,462
Less: Accumulated impairment	(23,462)	(23,462)	(23,462)
Prepayments	1,161,029	245,534	544,440
Others	<u>241</u>	<u>260</u>	<u>545</u>
	<u>\$ 2,313,775</u>	<u>\$ 530,584</u>	<u>\$ 781,593</u>

## 20. DUE TO BANKS AND CENTRAL BANK

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Due to Central Bank	\$ 23,127	\$ 25,087	\$ 24,804
Due to banks	24,494,361	27,576,736	25,588,709
Bank overdraft	1,038,829	294,424	373,817
Call loans from banks	88,283,396	109,034,973	125,376,528
Deposits transferred from the Postal Bureau	<u>2,079,783</u>	<u>2,231,362</u>	<u>2,674,709</u>
	<u>\$ 115,919,496</u>	<u>\$ 139,162,582</u>	<u>\$ 154,038,567</u>

## 21. PAYABLES

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Checks issued to payees for clearing	\$ 14,650,074	\$ 18,236,396	\$ 9,415,255
Accounts payable	2,958,633	1,411,016	2,324,507
Accrued expenses	1,647,232	2,567,345	1,604,887
Interest payable	2,058,574	1,700,411	2,296,748
Acceptances	5,141,720	6,186,691	3,980,862
Others	<u>3,570,440</u>	<u>3,733,112</u>	<u>2,534,676</u>
	<u>\$ 30,026,673</u>	<u>\$ 33,834,971</u>	<u>\$ 22,156,935</u>

## 22. DEPOSITS

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Checking deposit	\$ 31,373,852	\$ 42,574,915	\$ 30,870,440
Demand deposit	397,190,140	394,963,376	375,045,887
Time deposit	350,141,590	351,997,282	337,344,745
Negotiable certificates of deposit	7,138,077	6,209,967	7,660,050
Savings deposit	823,680,877	827,332,235	804,268,125
Remittances	<u>875,749</u>	<u>1,352,042</u>	<u>1,293,488</u>
	<u>\$ 1,610,400,285</u>	<u>\$ 1,624,429,817</u>	<u>\$ 1,556,482,735</u>

## 23. BANK NOTES PAYABLE

The Bank has issued bank notes to enhance its capital adequacy ratio and raise medium to long-term operating funds. The information of the bank notes are as follows:

The Bank issued \$5,000 million subordinated bank notes-98-1 with 7-year terms on September 15, 2009.

The Bank issued \$5,000 million perpetual subordinated bank notes-99-1 on June 29, 2010.

The Bank issued \$3,300 million subordinated bank notes-100-1 on March 11, 2011, divided into Financial Debentures A \$2,200 million with 7-year terms and Financial Debenture B \$1,100 million with 10-year terms.

The Bank issued \$6,700 million subordinated bank notes-100-2 with 10-year terms on April 18, 2011.

The Bank issued RMB1,000 million subordinated bank notes-102-1 with 3-year terms on May 29, 2013.

The Bank issued \$2,200 million subordinated bank notes A 103-1 with 7-year terms on April 16, 2014.

The Bank issued \$5,300 million subordinated bank notes B 103-1 with 10-year terms on April 16, 2014.

The Bank issued \$2,500 million subordinated bank notes C 103-1 with 10-year terms on April 16, 2014.



The Bank issued \$3,000 million subordinated bank notes A 105-1 with 7-year terms on September 27, 2016.

The Bank issued \$3,300 million subordinated bank notes B 105-1 with 10-year terms on September 27, 2016.

The Bank issued \$1,530 million subordinated bank notes A 106-1 with 7-year terms on March 29, 2017.

The Bank issued \$8,670 million subordinated bank notes B 106-1 with 10-year terms on March 29, 2017.

The outstanding balance and details of subordinated bank notes are as follows:

<b>Bank Note, Interest Rate and Maturity Date</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
<u>Hedged financial liabilities at fair value</u>			
103-1 Note A, 7-year terms, interest payable annually, interest rate 1.70%, maturity date: April 16, 2021	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000
103-1 Note B, 10-year terms, interest payable annually, interest rate 1.85%, maturity date: April 16, 2024	3,000,000	3,000,000	3,000,000
105-1 Note A, 7-year terms, interest payable annually, interest rate 1.09%, maturity date: September 27, 2023	1,000,000	-	-
105-1 Note B, 10-year terms, interest payable annually, interest rate 1.20%, maturity date: September 27, 2026	2,000,000	-	-
Valuation adjustment	<u>167,657</u>	<u>75,226</u>	<u>201,955</u>
	<u>8,367,657</u>	<u>5,275,226</u>	<u>5,401,955</u>
<u>Non-hedged bank notes payable</u>			
98-1, 7-year terms, interest payable annually, interest rate 2.30%, maturity date: September 15, 2016	-	-	5,000,000
99-1, No maturity date, interest payable annually, interest rate from first to tenth year is 3.15%, after tenth year is 4.15%	5,000,000	5,000,000	5,000,000
100-1 Note A, 7-year terms, interest payable annually, interest rate 1.65%, maturity date: March 11, 2018	2,200,000	2,200,000	2,200,000
100-1 Note B, 10-year terms, interest payable annually, interest rate 1.72%, maturity date: March 11, 2021	1,100,000	1,100,000	1,100,000
100-2, 10-year terms, interest payable annually, floating rate, maturity date: April 18, 2021	6,700,000	6,700,000	6,700,000
102-1, 3-year terms, interest payable annually, interest rate 2.90%, maturity date: May 29, 2016	-	-	4,971,000
103-1 Note B, 10-year terms, interest payable annually, interest rate 1.85%, maturity date: April 16, 2024	2,300,000	2,300,000	2,300,000

(Continued)

<b>Bank Note, Interest Rate and Maturity Date</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
103-1 Note C, 10-year terms, interest payable annually, floating rate, maturity date: April 16, 2024	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
105-1 Note A, 7-year terms, interest payable annually, interest rate 1.09%, maturity date: September 27, 2023	2,000,000	3,000,000	-
105-1 Note B, 10-year terms, interest payable annually, interest rate 1.20%, maturity date: September 27, 2026	1,300,000	3,300,000	-
106-1 Note A, 7-year terms, interest payable annually, interest rate 1.50%, maturity date: March 29, 2024	1,530,000	-	-
106-1 Note B, 10-year terms, interest payable annually, interest rate 1.85%, maturity date: March 29, 2027	<u>8,670,000</u>	<u>-</u>	<u>-</u>
	<u>33,300,000</u>	<u>26,100,000</u>	<u>29,771,000</u>
	<u>\$ 41,667,657</u>	<u>\$ 31,375,226</u>	<u>\$ 35,172,955</u> (Concluded)

The Bank engaged in derivative transactions as hedging tools for the 103-1 Note A, 103-1 Note B, 105-1 Note A and 105-1 Note B fixed interest rate bank notes to avoid fair value risks due to changes in interest rates. The interest rate swaps nominal principal was accounted as hedging derivative financial assets. Refer to Note 12.

#### 24. OTHER FINANCIAL LIABILITIES

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Principal structured products	\$ 3,239,738	\$ 2,410,781	\$ 1,424,450
Appropriations for loan fund	319,681	307,807	236,216
Lease payable	<u>629</u>	<u>376</u>	<u>7,877</u>
	<u>\$ 3,560,048</u>	<u>\$ 2,718,964</u>	<u>\$ 1,668,543</u>

The principal structured products were the time deposits which linked to currency options. The related income of structured products was determined by the target interest rates.

#### 25. OTHER LIABILITIES

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Unearned revenue	\$ 842,850	\$ 899,770	\$ 866,592
Guarantee deposits	1,842,943	2,387,785	2,515,597
Deferred income	<u>25,383</u>	<u>23,328</u>	<u>31,001</u>
	<u>\$ 2,711,176</u>	<u>\$ 3,310,883</u>	<u>\$ 3,413,190</u>

## 26. PROVISIONS

	March 31, 2017	December 31, 2016	March 31, 2016
Reserve for employee benefits	\$ 3,862,140	\$ 3,985,854	\$ 3,824,446
Reserve for guarantee liabilities	556,052	538,370	452,994
Others	<u>308</u>	<u>-</u>	<u>239</u>
	<u>\$ 4,418,500</u>	<u>\$ 4,524,224</u>	<u>\$ 4,277,679</u>

- a. For the details of the reserve for employee benefits, refer to Note 27.
- b. Under guidelines of Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, reserve for guarantees was allocated based on the status of the loan collaterals and the length of time overdue. Except for provision, the reserve for guarantees of the Bank had no significant changes for the three months ended March 31, 2017 and 2016.

## 27. RETIREMENT BENEFIT PLANS

Employee benefits expense in respect of the Bank's defined benefit retirement plans were calculated using the actuarially determined pension cost discount rate as of December 31, 2016 and 2015 and the amount were \$113,423 thousand and \$83,554 thousand, respectively.

## 28. EQUITY

- a. Capital stock

### Common stock

	March 31, 2017	December 31, 2016	March 31, 2016
Number of stocks authorized (in thousands)	<u>9,000,000</u>	<u>9,000,000</u>	<u>9,000,000</u>
Stocks authorized	<u>\$ 90,000,000</u>	<u>\$ 90,000,000</u>	<u>\$ 90,000,000</u>
Number of stocks issued and fully paid (in thousands)	<u>8,964,762</u>	<u>8,964,762</u>	<u>8,457,323</u>
Stocks issued	<u>\$ 89,647,626</u>	<u>\$ 89,647,626</u>	<u>\$ 84,573,232</u>

Fully paid common stocks, which have a par value of \$10, carry one vote per stock and carry a right to dividends.

As of January 1, 2016, the Bank's authorized and registered capital was \$90,000,000 thousand divided into 9,000,000 thousand stocks at a \$10 par value; the total paid-in capital was \$84,573,232 thousand. In August 2016, the Bank had resolved capitalization of earnings and increased the Bank's paid-in capital by \$5,074,394 thousand. The amount of the Bank's authorized and registered capital at December 31, 2016 was \$90,000,000 thousand divided into 9,000,000 thousand stocks and, also at those dates, the amounts of total paid-in capital was \$89,647,626 thousand, divided into 8,964,762 thousand outstanding stocks, at a \$10 par value.

b. Distribution of earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders exclude employees. The shareholders held their annual regular meeting on June 8, 2016 and, in that meeting, had resolved amendments to the Company's Articles of Incorporation, particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation.

Under the dividend policy as set forth in the Bank's amended Articles of Incorporation, where the Bank made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 30% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Bank's board of directors as the basis for proposing distribution plan, and 30% to 100% of the basis for proposing distribution plan should be resolved in the shareholders' meeting for distribution of dividends and bonus to shareholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors before and after amendment, refer to Note 29f, "Employee benefits expense".

To ensure the Bank has cash for present and future expansion plans and to raise the profitability, the Bank prefers to distribute more stock dividends, but cash dividends shall not be less than 10% of total dividends distributed. If the cash dividends are less than \$0.1 per share, the Bank will not distribute any cash dividends, unless otherwise adopted in the shareholders' meeting.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Bank's paid-in capital. Legal reserve may be used to offset deficit. If the Bank has no deficit and the legal reserve has exceeded 25% of the Bank's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Bank.

Under Rule No. 10510001510 issued by the FSC on May 25, 2016, the Bank should appropriate 0.5% - 1.0% net income as a special reserve when distributing surplus earnings for 2016, 2017 and 2018. Since 2017, the Bank should reverse an amount which is the same as the distributed surplus earnings mentioned above for the expense of employees' bridging-over arrangements and settlements caused by the development of financial technology.

The Bank cannot distribute cash dividends or purchase treasury stocks if the Bank has any of the situations cited in Item 1, Section 1, Article 44 of the Banking Law.

The maximum amount of cash dividends cannot exceed 15% of the Bank's total capital if the Bank's capital surplus is less than the capital based on Section 1.

The restriction of the cash dividends stated above does not apply if the Bank's capital surplus exceeds the capital or the Bank's financial position satisfied the criteria by the authority and also the Bank appropriates the legal reserve based on the Banking Law.

Except for non-ROC resident shareholders, all shareholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Bank.

The appropriations of earnings for 2016 and 2015 were proposed by the board of directors on April 25, 2017 and approved in the shareholders' meetings on June 8, 2016, respectively. The appropriations of earnings and dividends per share were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Share (NT\$)</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Legal reserve	\$ 3,625,791	\$ 3,493,001	\$ -	\$ -
Special reserve	60,430	-	-	-
Dividends of common stock - cash	3,765,200	2,960,063	0.42	0.35
Dividends of common stock - stock	4,482,381	5,074,394	0.50	0.60

The appropriation of earnings, the bonus to employees, and the remuneration to directors and supervisors for 2016 are subject to the resolution of the shareholders' meeting to be held on June 16, 2017.

c. Special reserve

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Special reserves appropriated following first-time adoption of IFRSs	\$ 11,778,829	\$ 11,778,829	\$ 11,778,829
Others	<u>241,692</u>	<u>241,692</u>	<u>241,692</u>
	<u>\$ 12,020,521</u>	<u>\$ 12,020,521</u>	<u>\$ 12,020,521</u>

## 29. NET INCOME

a. Net interest income

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Interest income		
Loans	\$ 6,766,003	\$ 6,874,526
Due from and call loans to banks	771,190	574,930
Investment in marketable securities	713,988	797,232
Others	<u>29,548</u>	<u>32,922</u>
	<u>8,280,729</u>	<u>8,279,610</u>
Interest expense		
Deposits	(2,306,869)	(2,496,049)
Due to the Central Bank and call loans from banks	(358,736)	(227,960)
Others	<u>(151,861)</u>	<u>(193,352)</u>
	<u>(2,817,466)</u>	<u>(2,917,361)</u>
Net interest income	<u>\$ 5,463,263</u>	<u>\$ 5,362,249</u>

b. Net service fee and commissions income

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Service fee and commissions income		
Fees from import and export	\$ 89,575	\$ 85,731
Remittance fees	121,086	117,459
Loan and guarantees fees	141,254	203,386
Fees from trustee	161,231	138,647
Fees from trustee business	62,563	62,202
Fees from insurance agency	776,721	514,284
Others	<u>233,456</u>	<u>222,522</u>
	<u>1,585,886</u>	<u>1,344,231</u>
Service fee and commissions		
Interbank fees	(36,295)	(33,764)
Fees from trustee	(9,437)	(4,341)
Management fees	(18,705)	(22,280)
Fees from insurance agency	(44,160)	(44,250)
Others	<u>(112,606)</u>	<u>(140,520)</u>
	<u>(221,203)</u>	<u>(245,155)</u>
Net service fee and commissions income	<u>\$ 1,364,683</u>	<u>\$ 1,099,076</u>

c. Gain (loss) on financial assets and liabilities at fair value through profit or loss

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Disposal gains (losses) on financial assets and liabilities at FVTPL		
Stocks and beneficiary certificates	\$ 21,022	\$ 1,123
Bonds	(694)	38,245
Bills	-	3
Derivative financial instruments	378,375	468,784
Net interest (expense) income	<u>(51,374)</u>	<u>68,936</u>
	<u>347,329</u>	<u>577,091</u>
Valuation gains (losses) on financial assets and liabilities at FVTPL		
Stocks and beneficiary certificates	(17,567)	1,705
Bonds	4,552	(8,233)
Bills	294	3,708
Derivative financial instruments	<u>418,853</u>	<u>254,564</u>
	<u>406,132</u>	<u>251,744</u>
	<u>\$ 753,461</u>	<u>\$ 828,835</u>

d. Realized gain (loss) on available-for-sale financial assets

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Disposal gains		
Stock	\$ 38,782	\$ 32,208
Bonds	<u>111,907</u>	<u>69,533</u>
	<u>150,689</u>	<u>101,741</u>
Disposal losses		
Stock	(4,519)	(15,152)
Bonds	<u>(263)</u>	<u>(180)</u>
	<u>(4,782)</u>	<u>(15,332)</u>
	<u>\$ 145,907</u>	<u>\$ 86,409</u>

e. Depreciation and amortization expenses

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Property and equipment	\$ 132,244	\$ 138,071
Investment property	1,643	1,660
Intangible assets and other deferred assets	<u>42,718</u>	<u>38,879</u>
	<u>\$ 176,605</u>	<u>\$ 178,610</u>

f. Employee benefits expenses

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Short-term benefits	\$ 2,119,698	\$ 2,234,132
Post-employment benefits		
Defined contribution plans	13,704	38,072
Defined benefit plans	109,446	83,554
High-yield savings account for employees	122,421	116,124
Other post-employment benefits	<u>2,026</u>	<u>1,703</u>
	<u>\$ 2,367,295</u>	<u>\$ 2,473,585</u>

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Bank approved by the shareholders in their meeting on June 2016, the Bank accrued employees' compensation and remuneration of directors at the rates 1%-6% and no higher than 0.8%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. For the three months ended March 31, 2017 and 2016, the employees' compensation and remuneration of directors were as follows:

Accrual rate

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Employees' compensation	4%	5%
Remuneration of directors	0.3%	0.4%

Amount

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>Cash</b>	<b>Cash</b>
Employees' compensation	\$ 144,000	\$ 188,000
Remuneration of directors	11,200	12,000

If there is a change in the amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

The appropriations of employees' compensation and remuneration of directors for 2016 and 2015 having been resolved by the board of directors on February 24, 2017 and March 17, 2016, respectively, were as below:

	<b>For the Year Ended December 31</b>	
	<b>2016</b>	<b>2015</b>
	<b>Cash</b>	<b>Cash</b>
Employees' compensation	\$ 745,076	\$ 723,255
Remuneration of directors	59,606	57,860

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the year ended December 31, 2016.

Because of a change in the accounting estimate, the Bank held a board of directors' meeting on March 17, 2016 that resulted in the actual amounts of the employees' compensation and remuneration of directors paid for 2015 different from the amounts recognized in the financial statements for the year ended December 31, 2015. The differences were adjusted to profit and loss for the year ended December 31, 2016.



	<b>For the Year Ended December 31, 2015</b>	
	<b>Employees' Compensation</b>	<b>Remuneration of Directors</b>
Amounts approved in the board of directors' meeting	<u>\$ 723,255</u>	<u>\$ 57,860</u>
Amounts recognized in the annual financial statements	<u>\$ 723,768</u>	<u>\$ 101,600</u>
Differences	<u>\$ (513)</u>	<u>\$ (43,740)</u>

Information on the employees' compensation and remuneration of directors resolved by the Bank's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

### 30. INCOME TAX

a. Income tax recognized in profit or loss

Major components of tax expense were as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Current tax		
In respect of the current period	\$ 407,635	\$ 280,139
Deferred tax		
In respect of the current period	42,201	236,487
Non-deductible tax of overseas branches	<u>132,316</u>	<u>56,926</u>
Income tax expense recognized in profit or loss	<u>\$ 582,152</u>	<u>\$ 573,552</u>

b. Income tax recognized in other comprehensive income

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
<u>Deferred tax</u>		
In respect of the current period:		
Translation of foreign financial statements	\$ (148,849)	\$ (29,138)
Fair value changes of available-for-sale financial asset	<u>4,376</u>	<u>1,660</u>
Total income tax recognized in other comprehensive income	<u>\$ (144,473)</u>	<u>\$ (27,478)</u>

c. Integrated income tax

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Unappropriated earnings			
Generated on and after January 1, 1998	<u>\$ 14,836,977</u>	<u>\$ 11,970,239</u>	<u>\$ 15,007,945</u>
Shareholder-imputed credits account	<u>\$ 1,132,836</u>	<u>\$ 1,132,836</u>	<u>\$ 1,077,407</u>

	<b>For the Years Ended December 31</b>	
	<b>2017 (Expected)</b>	<b>2016</b>
Creditable ratio for distribution of earnings	9.46%	9.19%

d. Income tax assessments

The Bank's income tax returns through 2014 had been examined and cleared by the tax authority.

### 31. EARNINGS PER SHARE

The computation of earnings per share was retrospectively adjusted for the effects of adjustments resulting from bonus stock issues on August 16, 2016. The basic and diluted after-tax earnings per share of the three months ended March 31, 2016 were adjusted retrospectively as followings:

**Unit: NT\$ Per Share**

	<b>For the Three Months Ended March 31, 2016</b>	
	<b>Before Adjusted Retrospectively</b>	<b>After Adjusted Retrospectively</b>
Basic earnings per share	<u>\$ 0.40</u>	<u>\$ 0.38</u>
Diluted earnings per share	<u>\$ 0.40</u>	<u>\$ 0.38</u>

The earnings and weighted average number of common stocks outstanding in the computation of earnings per share from continuing operations were as follows:

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Net profit for the period	<u>\$ 2,866,738</u>	<u>\$ 3,394,114</u>

Weighted average number of common stocks outstanding (in thousand stocks):

	<b>For the Three Months Ended March 31</b>	
	<b>2017</b>	<b>2016</b>
Weighted average number of common stocks in computation of basic earnings per share	8,964,762	8,964,762
Effect of potentially dilutive common stocks:		
Employees' compensation issued	<u>34,890</u>	<u>47,402</u>
Weighted average number of common stocks used in the computation of diluted earnings per share	<u>8,999,652</u>	<u>9,012,164</u>

If the Bank offered to settle compensation or bonuses paid to employees in cash or stocks, the Bank assumed the entire amount of the compensation or bonus would be settled in stocks and the resulting potential stocks were included in the weighted average number of stocks outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential stocks is included in the computation of diluted earnings per share until the number of stocks to be distributed to employees is resolved in the following year.

### 32. OPERATING LEASE ARRANGEMENTS

a. The Bank as lessee

Operating leases relate to leases of land with lease terms between 5 and 10 years. All operating lease contracts over 5 years contain clauses for 5-yearly market rental reviews. The Bank does not have a bargain purchase option to acquire the leased land at the expiration of the lease periods.

As of March 31, 2017, December 31, 2016 and March 31, 2016, refundable deposits paid under operation leases amounted to \$38,181 thousand, \$39,579 thousand and \$39,619 thousand, respectively.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Not later than 1 year	\$ 425,620	\$ 557,224	\$ 423,830
Later than 1 year and not later than 5 years	1,231,677	1,150,303	1,112,527
Later than 5 years	<u>317,669</u>	<u>302,443</u>	<u>349,738</u>
	<u>\$ 1,974,966</u>	<u>\$ 2,009,970</u>	<u>\$ 1,886,095</u>

b. The Bank as lessor

Operating leases relate to the investment property owned by the Bank with lease terms between 5 to 10 years, with an option to extend an additional 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

As of March 31, 2017, December 31, 2016 and March 31, 2016, refundable deposits received under operation leases amounted to \$50,013 thousand, \$51,430 thousand and \$49,690 thousand, respectively.

The future minimum lease payments of non-cancellable operating lease were as follows:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Not later than 1 year	\$ 169,519	\$ 230,985	\$ 160,374
Later than 1 year and not later than 5 years	560,136	551,598	558,007
Later than 5 years	<u>77,442</u>	<u>77,655</u>	<u>77,442</u>
	<u>\$ 807,097</u>	<u>\$ 860,238</u>	<u>\$ 795,823</u>

### 33. CAPITAL RISK MANAGEMENT

The description of the goals and procedures of the capital risk management of the Bank is the same as the description in the Bank's financial statements for the year ended December 31, 2016.

### 34. FINANCIAL INSTRUMENTS

#### a. Fair value of financial instruments that are not measured at fair value

##### 1) Fair value of financial instruments not carried at fair value

	<u>March 31, 2017</u>		<u>December 31, 2016</u>		<u>March 31, 2016</u>	
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Carrying Amount</u>	<u>Fair Value</u>
<u>Financial assets</u>						
Held-to-maturity investments	\$ 212,711,679	\$ 212,802,667	\$ 204,864,541	\$ 204,960,525	\$ 199,281,426	\$ 199,430,485
Bonds investment with no active market	79,849	83,492	88,555	91,914	2,038,064	2,048,993
<u>Financial liabilities</u>						
Bond payables	41,667,657	42,615,355	31,375,226	31,824,888	35,172,955	36,058,372

##### 2) Fair value hierarchy

##### Fair value hierarchy as at March 31, 2017

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<u>Financial assets</u>				
Held-to-maturity investments	\$ 212,802,667	\$ 3,672,353	\$ 11,320,314	\$ 197,810,000
Bonds investment with no active market	83,492	-	83,492	-
<u>Financial liabilities</u>				
Bond payables	42,615,355	-	8,367,657	34,247,698

##### Fair value hierarchy as at December 31, 2016

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<u>Financial assets</u>				
Held-to-maturity investments	\$ 204,960,525	\$ 3,626,147	\$ 11,834,378	\$ 189,500,000
Bonds investment with no active market	91,914	-	91,914	-
<u>Financial liabilities</u>				
Bond payables	31,824,888	-	7,275,226	24,549,662

Fair value hierarchy as at March 31, 2016

	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<u>Financial assets</u>				
Held-to-maturity investments	\$ 199,430,485	\$ 3,208,248	\$ 14,352,237	\$ 181,870,000
Bonds investment with no active market	2,048,993	-	2,048,993	-
<u>Financial liabilities</u>				
Bond payables	36,058,372	-	7,401,955	28,656,417

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

<b>Fair Value Measurement of Financial Instruments</b>	<b>March 31, 2017</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<u>Non-derivative financial products</u>				
<u>Assets</u>				
Financial assets at FVTPL	\$ 18,852,547	\$ 5,834,594	\$ 13,017,953	\$ -
Trading assets	13,398,207	897,827	12,500,380	-
Stocks and mutual funds	107,652	107,652	-	-
Bond investments	1,705,652	790,175	915,477	-
Others	11,584,903	-	11,584,903	-
Financial assets designated upon initial recognition as at fair value through profit or loss	5,454,340	4,936,767	517,573	-
Available-for-sale financial assets	76,981,030	46,328,390	30,652,640	-
Stock investments	3,160,968	3,160,968	-	-
Bond investments	72,252,104	41,599,464	30,652,640	-
Others	1,567,958	1,567,958	-	-
<u>Liabilities</u>				
Financial liabilities at FVTPL	12,359,330	349,044	12,010,286	-
<u>Derivative financial products</u>				
<u>Assets</u>				
Financial assets at FVTPL	6,116,408	150,150	5,966,258	-
Other financial assets				
Hedging derivative financial instruments	176,553	-	176,553	-
<u>Liabilities</u>				
Financial liabilities at FVTPL	6,828,071	-	6,828,071	-

Fair Value Measurement of Financial Instruments	December 31, 2016			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial products</u>				
Assets				
Financial assets at FVTPL	\$ 28,326,235	\$ 6,180,514	\$ 22,145,721	\$ -
Trading assets	22,877,934	991,896	21,886,038	-
Mutual funds	190,941	190,941	-	-
Bond investments	1,716,914	800,955	915,959	-
Others	20,970,079	-	20,970,079	-
Financial assets designated upon initial recognition as at fair value through profit or loss	5,448,301	5,188,618	259,683	-
Available-for-sale financial assets	76,824,866	49,912,770	26,912,096	-
Stock investments	2,993,065	2,993,065	-	-
Bond investments	72,181,218	45,269,122	26,912,096	-
Others	1,650,583	1,650,583	-	-
Liabilities				
Financial liabilities at FVTPL	12,606,694	-	12,606,694	-
<u>Derivative financial products</u>				
Assets				
Financial assets at FVTPL	6,372,789	77,802	6,294,987	-
Other financial assets				
Hedging derivative financial instruments	86,265	-	86,265	-
Liabilities				
Financial liabilities at FVTPL	5,486,452	-	5,486,452	-

Fair Value Measurement of Financial Instruments	March 31, 2016			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial products</u>				
Assets				
Financial assets at FVTPL	\$ 36,423,019	\$ 8,308,627	\$ 28,114,392	\$ -
Trading assets	30,187,669	3,280,227	26,907,442	-
Stocks and mutual funds	223,474	223,474	-	-
Bond investments	3,062,542	3,056,753	5,789	-
Others	26,901,653	-	26,901,653	-
Financial assets designated upon initial recognition as at fair value through profit or loss	6,235,350	5,028,400	1,206,950	-
Available-for-sale financial assets	69,144,747	48,579,967	20,564,780	-
Stock investments	3,048,980	3,048,980	-	-
Bond investments	65,359,806	44,795,026	20,564,780	-
Others	735,961	735,961	-	-
Liabilities				
Financial liabilities at FVTPL	16,965,842	-	16,965,842	-
<u>Derivative financial products</u>				
Assets				
Financial assets at FVTPL	5,496,681	53,296	5,443,385	-
Other financial assets				
Hedging derivative financial instruments	211,469	-	211,469	-
Liabilities				
Financial liabilities at FVTPL	8,760,787	-	8,760,787	-

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities were determined as follows:

- a) The fair values of financial assets and financial liabilities with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market prices;
- b) The fair values of derivative instruments were calculated using quoted prices. Where such prices were not available, a discounted cash flow analysis was performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives. Foreign currency forward contracts are measured using quoted forward exchange rates and yield curves derived from quoted interest rates matching maturities of the contracts. Interest rate swaps are measured at the present value of future cash flows estimated and discounted based on the applicable yield curves derived from quoted interest rates;
- c) The fair values of other financial assets and financial liabilities (excluding those described above) were determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

c. Financial risk management objectives and policies

1) Market risk

a) The source and definition of market risk

Market risk is the uncertainty of changes in fair value of on- and off-balance-sheet financial instruments due to changes in market risk factors. Market risk factors include interest rates, exchange rates, equity security prices and commodity prices.

The major market risks of the Bank are equity securities price risks, interest rate risks, and exchange rate risks. The main position of equity securities risk includes domestic public, OTC, and emerging market stocks, domestic stock index options and stock index futures. The main position of interest rate risk includes bonds and interest derivative instruments, such as interest rate swap. The main position of exchange rate risk includes the Bank's investments denominated in foreign currencies, such as foreign currency spots, currency futures and foreign currency options.

b) Market risk management policy

The Bank classifies the financial instruments held by the Bank as trading book and banking book, and determines the market risk as interest rate risk, exchange rate risk, and equity security price risk. The Bank establishes "Market Risk Management Regulation", "Derivative Financial Trading Process" and various financial instrument related regulations to manage the market risk of overall foreign exchange position, normal position, interest rate position of trading book and equity security position. The overall interest rate risk management of banking book belongs to Assets and Liabilities Management Committee.

The market risk management regulations are as follows:

- i. Establish the market risk management process to ensure the risk would be identified, measured, monitored and reported.
- ii. Measure and monitor the market risk and keep it under the risk limit and minimize unexpected loss from market risk.
- iii. Follow the regulations of Basel Accord.
- iv. Establish the market risk management system and economic capital allocation process.
- v. Monitor the credit line management of financial instrument, sensitivity analysis, stress testing and the calculation of VaR. Report the result of market risk monitoring to Risk Management Committee periodically and Board of Director quarterly.

c) Market risk management procedures

According to "Whole Risk Management Policy", Risk Management Department is the second line of defense against the market risk. Risk Management Department performs the market risk management, establishes related management process, and reports to the appropriate level of the management. Besides, Risk Management Department establishes independent risk management process and ensures it remains effective.



i. Identifying and measuring

The effective market risk management process begins with identifying the inherent risk of operating activities and financial instruments. The Bank reviews the risk identifying method timely when the market environment changes and makes necessary adjustment to ensure the effective operation of the market risk management process. The Bank's risk management department identifies market risk factors and measures the market risk. The market risk factors refer to the factors which affect the interest rate, exchange rate or the fair value of equity instruments. The market risk factors include the position, profits and loss, loss from stress testing, PVO1, Delta, VaR, etc.

ii. Monitoring and reporting

The Bank controls market risk by managing risk limits. The risk management department sets various trading limits, such as position limits, stop-loss limits, and maximum potential loss. The trading limits are implemented only after they are reported to and approved by the Board of Directors.

The risk management department calculates exposures and estimated gains and losses on positions daily to make sure that the positions held and losses do not exceed the limits approved by the Board of Directors and prepares reports to the high-level management and the Board of Directors periodically for their sufficient understanding of the implementation of the market risk management and, if necessary, issuance of additional guidance.

The risk management department reports important market risk issues, such as discovery of possible loss on positions in each trading book or identification of weakness in the market risk management system, to the Risk Management Committee in order to improve the effectiveness of the market risk management.

iii. Stress testing

The stress testing is one of the important tools for risk management. It is used for verifying effects on the investment portfolio due to some extremely disadvantageous but possible stressful events and for analyzing exposure level and risk tolerance in such situations and furthermore evaluating the portfolio loss or the impact on the capital. Chang Hwa Bank performs stress testing for forecasting risk and for assessment and reinforcement of statistical models or historical data limitations.

d) Trading book market risk management

The trading book refers to the position of financial instruments held for trading or hedging. The position of financial instruments held for trading refers to the position which earns profits from actual or expected short-term price fluctuations.

i. Strategy

The Bank determines the risk limitation of the investment portfolio of trading book by evaluating trading strategy, trading category, and annual performance.

ii. Management policy and procedures

The Bank follows "Market Risk Management Rules", "Derivative Financial Trading Process" and various financial instrument related regulations as the important management rules of trading book.

iii. Valuation policy

The trading positions are valued real time or daily. The hedging derivatives are valued at least twice a month. The resources of fair value of financial instruments are categorized as: (1) those derived from quoted prices in active markets; (2) the latest price with no active market; (3) valuation with no active market.

iv. Risk measuring methods

i) The sensitivity of the interest rate changes of investment portfolio is measured by DVO1. The sensitivity of the foreign exchange derivatives is measured by the sensitivity factors (Delta, Gamma, and Vega).

ii) With regard to the Bank's Value at Risk assumptions and calculation methods, please refer to item i.

iii) The Bank performs the stress test quarterly and report the result to Risk Management Committee periodically.

e) Trading book interest rate risk management

i. Definition of interest rate risk

Interest rate risk is fair value changes in interest rate risk position held by the Bank due to interest rate changes. The risks are mainly in debt securities and interest rate derivatives.

ii. Management procedures on trading book interest rate risk

The Bank defines the trading limit of trading book and the stop-loss limit of different financial instruments by assessing the credit and the financial position of the issuers.

iii. Measuring methods

The interest rate factor sensitivity of debt securities and interest rate derivatives is measured by DVO1. With regard to the Bank's Value at Risk assumptions and calculation methods, please refer to item i.

f) Banking book interest rate risk management

i. Definition of banking book interest rate risk

The banking book interest rate risk means the unfavorable change of interest rate of non-trading-book interest rate position which changes the present value of revenues and costs or assets and liabilities and causes decrease of earnings or impairment of economic value.

ii. Management strategy on banking book interest rate risk

According to the Bank's interest rate risk management policy, the Bank has set various measurement indicators and limits on banking book interest rate risk. To pursue profits and steady growth of shareholder value without exposure to extreme loss risks, the Bank applies appropriate management strategy including on- and off-balance-sheet adjustments and maintains appropriate amounts of assets and liabilities.

iii. Banking book interest rate risk report/range of measuring system

The Bank mainly applies standard method for interest rate risk sensitivity gap analysis to measure banking book interest rate risks. The responsible department periodically measures banking book interest rate risks and reports to related departments and to the Asset and Liability Management Committee in order to adopt appropriate strategies for adjusting banking book interest rate risk combinations. Assessment information of banking book interest rate risk would be presented to the Board of Directors periodically to let the high-level management control such risks.

g) Exchange rate risk management

i. Definition of exchange rate risk

Exchange rate risk is the gain or loss resulting from exchange or translation of two different foreign currencies at different times. The Bank's exchange rate risk mainly comes from spot and forward exchange positions.

ii. Exchange rate risk management policy, procedures and measuring methods

The risk management department sets the position limit and stop-loss limit of trading book investment combinations in order to control exchange rate risk. If the losses reach the stop-loss limit, the trading department should decrease risk exposure positions so as to control losses.

The risk management department applies sensitivity analysis or Value at Risk to measure exchange rate risk and calculates stress loss of risk position held. In sensitivity analysis, Delta is applied to measure the exchange rate risk of the first order change and Gamma is applied to measure the exchange rate risk of the second order change. In addition, Vega is used to measure the first order risk of implied volatility rate. With regard to the Bank's Value at Risk assumptions and calculation methods, please refer to Item i.

h) Equity security price risk management

i. Definition of equity security price risk

Equity security price risk is the valuation effect on the position held by the Bank when the equity security price changes. The Bank's equity security price risk mainly comes from public and OTC stocks, index futures and options.

ii. Equity security price risk management purpose

The risk management department applies sensitivity analysis or Value at Risk to measure equity security price risk and calculates stress loss of risk position held. In sensitivity analysis, Delta, Gamma and Vega are, applied to measure the independent equity security price risk of the first order change, or market value is applied to indicate the exposure risks on positions of stocks. With regard to the Bank's Value at Risk assumptions and calculation methods, please refer to Item i.

iii. Equity security price risk management procedures

The Bank sets restrictions on credit extensions with the same person, the same concerned party or the same affiliate to control the risk concentration. Risk Management Department monitors unrealized gain or loss of the holding position daily. If unrealized loss is over the stop-loss threshold, Risk Management Department would notice the department who hold the position to subject to the related regulations. The department who holds the position should report to Risk Management Committee if unrealized loss is over the stop-loss threshold but the department still holds the position.

iv. Measuring methods

The equity security price risk of Trading Book is monitored and controlled by VaR, please refer to item i.

The Bank would perform stress testing for the equity security price risk of non-trading position and report the result to Risk Management Committee.

i) Market risk measuring method

i. Value at Risk, “VaR”

The Bank uses VaR model and stress testing to evaluate the risk of trading portfolio the market risk and the maximum expected loss of positions held through assumptions of changing market situation. VaR is the statistical estimation of potential losses of existing positions arising from unfavorable market changes. VaR refers to the maximum potential loss that Chang Hwa Bank might be exposed to within the confidence interval (99%), which means there is a certain probability (1%) that the actual loss would exceed VaR. Significant loss caused by excessive market volatility could not be avoided by using VaR.

The Bank uses historical simulation method to calculate VaR. The historical simulation method is based on historical data to estimate the future cash flow and assess the market risk of financial instrument. There are more and more financial institutions using the historical simulation method. However, there are some limitations for using the method. One of the limitations is that the assumption used in the method may not reflect the real situation. Besides, the simulation result may not be representative if the historical data used are too small. The Bank would use proxy to respond to the limitations mentioned above.

According to the Bank’s “Risk Management Committee Establishment Points”, the risk appetite of trading book market risk, operating limits and VaR limits should be approved by the Risk Management Committee. VaR is an important internal risk control in the Bank. The VaR limits of investment portfolio are approved annually by the Risk Management Committee and reported to the Board of Directors. In addition, the daily actual VaR is monitored by the Bank’s risk management department.

- ii. As of March 31, 2017 and 2016, the Bank's VaR factors based on historical simulation method were as follows:

<b>For the Three Months Ended March 31, 2017</b>				
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>Ending Balance</b>
Exchange VaR	\$ 149,845	\$ 217,300	\$ 96,023	\$ 137,222
Interest rate VaR	35,464	42,894	29,589	29,589
Equity securities VaR	<u>1,540</u>	<u>3,175</u>	<u>314</u>	<u>3,175</u>
Value at risk	<u>\$ 186,849</u>	<u>\$ 263,369</u>	<u>\$ 125,926</u>	<u>\$ 169,986</u>

  

<b>For the Three Months Ended March 31, 2016</b>				
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>Ending Balance</b>
Exchange VaR	\$ 181,786	\$ 221,885	\$ 151,973	\$ 221,885
Interest rate VaR	19,245	26,057	14,448	22,217
Equity securities VaR	<u>1,294</u>	<u>2,149</u>	<u>553</u>	<u>842</u>
Value at risk	<u>\$ 202,325</u>	<u>\$ 250,091</u>	<u>\$ 166,974</u>	<u>\$ 244,944</u>

2) Primary foreign currencies

The significant foreign-currency financial assets and liabilities as of March 31, 2017, December 31, 2016 and March 31, 2016 were as follows:

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	<b>March 31, 2017</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<b><u>Financial assets</u></b>			
<b>Monetary items</b>			
USD	\$ 7,361,049	30.3800	\$ 223,628,669
GBP	93,226	37.9600	3,538,859
AUD	970,369	23.2350	22,546,524
HKD	1,074,513	3.9090	4,200,271
CAD	106,871	22.7800	2,434,521
ZAR	2,954,286	2.2600	6,676,686
JPY	51,932,670	0.2712	14,084,140
EUR	522,887	32.4500	16,967,683
RMB	17,297,520	4.4110	76,299,361
<b>Non-monetary items</b>			
USD	192,712	30.3800	5,854,591

(Continued)

	<b>March 31, 2017</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 9,334,646	30.3800	\$ 283,586,545
GBP	91,703	37.9600	3,481,046
AUD	928,552	23.2350	21,574,906
HKD	969,835	3.9090	3,791,085
CAD	105,858	22.7800	2,411,445
ZAR	2,904,731	2.2600	6,564,692
JPY	52,976,582	0.2712	14,367,249
EUR	521,830	32.4500	16,933,384
RMB	16,000,238	4.4110	70,577,050
Non-monetary items			
USD	414,990	30.3800	12,607,396 (Concluded)

**(In Thousands of Foreign Currencies/New Taiwan Dollars)**

	<b>December 31, 2016</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 7,363,307	32.2200	\$ 237,245,752
GBP	107,309	39.6100	4,250,509
AUD	1,062,016	23.3450	24,792,764
HKD	1,269,706	4.1540	5,274,359
CAD	75,519	23.9200	1,806,414
ZAR	2,111,595	2.3700	5,004,480
JPY	54,909,216	0.2771	15,215,344
EUR	476,775	33.9800	16,200,815
RMB	16,578,816	4.6240	76,660,445
Non-monetary items			
USD	177,822	32.2200	5,729,425
<u>Financial liabilities</u>			
Monetary items			
USD	8,672,121	32.2200	279,415,739
GBP	99,479	39.6100	3,940,363
AUD	939,097	23.3450	21,923,219
HKD	1,239,671	4.1540	5,149,593
CAD	82,682	23.9200	1,977,753
ZAR	2,490,908	2.3700	5,903,452
JPY	52,799,150	0.2771	14,630,644
EUR	505,965	33.9800	17,192,691
RMB	15,923,218	4.6240	73,628,960
Non-monetary items			
USD	401,490	32.2200	12,936,008

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	March 31, 2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 4,011,509	32.1750	\$ 129,070,302
GBP	103,978	46.1900	4,802,744
AUD	937,114	24.6250	23,076,432
HKD	1,519,790	4.1490	6,305,609
CAD	137,937	24.7700	3,416,699
ZAR	2,952,499	2.1600	6,377,398
JPY	57,645,982	0.2864	16,509,809
EUR	350,224	36.4300	12,758,660
NZD	72,391	22.2000	1,607,080
RMB	19,678,753	4.9710	97,823,081
Non-monetary items			
USD	186,413	32.1750	5,997,838
<u>Financial liabilities</u>			
Monetary items			
USD	8,489,049	32.1750	273,135,152
GBP	100,675	46.1900	4,650,178
AUD	902,797	24.6250	22,231,376
HKD	1,530,015	4.1490	6,348,032
CAD	112,229	24.7700	2,779,912
CHF	38,493	33.3050	1,282,009
ZAR	3,005,341	2.1600	6,491,537
JPY	46,008,591	0.2864	13,176,860
EUR	400,394	36.4300	14,586,353
NZD	75,028	22.2000	1,665,622
RMB	16,590,379	4.9710	82,470,774
Non-monetary items			
USD	545,215	32.1750	17,542,293

For the three months ended March 31, 2017 and 2016, net foreign exchange losses were \$(334,122) thousand and \$(171,367) thousand, respectively. It is impractical to disclose net foreign exchange gains by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Bank entities.

3) Credit risk

a) Credit risk source and definition

Credit risk means the possible loss due to failure of debtors or counterparties to fulfill their contractual obligations or their ability to fulfill contractual obligations is impaired. Credit risk arises from the operation, on- and off-balance-sheet items, including credit loans, derivatives transactions and securities investment, etc. Because the business becomes more complex, the credit risk is often generated with other risks that affect one another. For example, exchange rate risk also exists in foreign currency debt investment. Secured loans will be affected by the price volatility of the collaterals and market liquidity risk of the collaterals.

b) Credit risk management policy

- i. To meet the needs of risk management, the Bank continues to enhance corporate and personal finance credit application management system and various risk management techniques and efficiency.
- ii. The Bank continues to develop methods of credit risk quantification models to elevate credit risk management techniques, which enable the Bank's capital requirement and expected loss to become more risk sensitive.
- iii. The Bank continues to develop and implement credit risk stress testing in compliance with the requirements of the competent authority supervising risk management and improve the effectiveness of the Bank's risk management.
- iv. The Bank is building a complete after-loan monitoring mechanism to efficiently identify and manage potential problematic loans, establish appropriate monitoring procedures, track the frequency and the specific responsive measures in order to achieve active management in the process of credit risk identification, measurement, monitoring and reporting
- v. The Bank is building a knowledge base to facilitate learning and assessment. To meet the business demand, it holds risk management seminars and trainings to shape the Bank's risk management culture

The Bank's credit risk management procedures and measuring methods for major business are described as follows:

- i. Credit business (including loan commitments and guarantees)

Levels are as follows:

- i) Classification of credit assets

The Bank's credit assets are grouped into five categories. Except for normal credit assets, the remaining unsound credit assets are evaluated based on the status of the loan collaterals and the length of time overdue, and grouped into "special-mentioned", "substandard", and "losses".

In order to manage problematic credit loans, the Bank has set up "Operating Points of Assets Assessment", "Assessment Operating Details of Handling Debts to Normal Borrowers", "Principle of Overdue Loans, Delinquent Loans and Doubtful Debts Handling Authority", "Regulations Governing Overdue Loans, Delinquent Loans and Doubtful Collection" and other regulations managing credit loans and collection of loans.

- ii) Credit quality level

For risk management purposes, the Bank has set up internal rating models for credit risks in accordance with the nature and scale of a business.

With the use of statistical method and judgment by experts, the Bank has developed a credit rating model for clients. After taking into account client-related information, the Bank developed a corporate credit rating model and classified as 21 levels. The Bank reviews the model periodically to examine if the outcome matches reality and adjusts each parameter to optimize the result.



The Bank evaluates the credit rating of borrowers at least once a year. In addition, to ensure the estimates used are reasonable and to make sure the outcome calculated matches reality, the Bank annually conducts validity test and back-testing of the models using data on customers' actual defaults.

The Bank classifies the credit qualities of corporate loans as strong, medium, weak and non-rating.

The Bank developed a scoring model for housing loans, credit loans and credit card applications by statistical method and by the judgement of experts to measure the credit risk of consumer finance. The loan reviewer would get advice from the scoring result. The scoring result is classified in 10 percentile range. The Bank reviews semi-annually the stability of the scoring model to maintain the effectiveness semi-annually.

ii. Call loans to banks

The Bank evaluates the credit status of counterparties before deals are closed. The Bank grants different limits to counterparties based on their respective credit ratings as suggested by domestic and foreign credit rating agencies. The Bank assesses the credit limits of counterparties by level and financial status; the Bank efficiently manages counterparties' credit risks through regular and special reviews, monitoring and reporting.

iii. Debt instrument and derivatives financial instruments

The Bank identifies and manages the credit risks from debt instruments through the use of external credit ratings of the debt instruments along with the evaluation of credit qualities of bonds, regional conditions and counterparty risks.

The other banks with which the Bank conducts derivative transactions are mostly considered investment grade. The Bank monitors the credit limits (including lending limits) by counterparties. The credits extended to counterparties who are general customers are monitored in accordance with the related contract terms and conditions and the credit limits for derivatives established in normal credit granting processes.

The Bank classifies the credit qualities of debt instruments as strong, medium, weak and non-rating.

c) Credit risk hedging or mitigation policies

i. Collaterals

The Bank has a series of measures for credit granting to reduce credit risks. One of the procedures is asking for collaterals from the borrowers. To secure the loans, the Bank manages and assesses the collaterals following the procedures that suggest the scope of collateralization and valuation of collaterals and the process of disposition. In credit contracts, the Bank stipulates the security mechanism for loans and the conditions and terms for collaterals offsetting to state clearly that the Bank reserves the right to reduce granted limit, to reduce repayment period, to demand immediate settlement or to offset the debts of the borrowers with their deposits in the Bank in order to reduce the Bank's credit risks.

ii. Credit line credit risks and control over concentration of credit risks

To avoid the concentration of credit risks, the Bank has included credit limits for a single counterparty and for a single group in its credit-related guidelines. The Bank has also included credit limits for an individual (entity) and for related enterprises (group) in the guidelines for investment and regulations for risk control on equity investments. To manage the concentration risk on the assets, the Bank has set credit limits by industry, conglomerate, transactions collateralized by stocks, and other categories and integrated within one system to supervise concentration of credit risk in these categories.

The table below analyzes the collaterals held as security and other credit enhancements, and their financial effect in respect of the financial assets recognized in the Bank's balance sheet:

March 31, 2017

	Maximum Exposure to Credit Risk Mitigated by			Total
	Collateral	Master Netting Arrangement	Other Credit Enhancements (Describe)	
Loans	\$ 877,380,387	\$ -	\$ -	\$ 877,380,387
Financial assets at fair value through profit or loss	5,605,022	-	-	5,605,022
Available-for-sale financial assets	2,888,074	-	-	2,888,074
Held-to-maturity financial assets	1,799,916	-	-	1,799,916

December 31, 2016

	Maximum Exposure to Credit Risk Mitigated by			Total
	Collateral	Master Netting Arrangement	Other Credit Enhancements (Describe)	
Loans	\$ 868,885,432	\$ -	\$ -	\$ 868,885,432
Financial assets at fair value through profit or loss	17,648,990	-	-	17,648,990
Available-for-sale financial assets	4,342,564	-	-	4,342,564
Held-to-maturity financial assets	1,799,845	-	-	1,799,845

March 31, 2016

	Maximum Exposure to Credit Risk Mitigated by			Total
	Collateral	Master Netting Arrangement	Other Credit Enhancements (Describe)	
Loans	\$ 823,363,298	\$ -	\$ -	\$ 823,363,298
Financial assets at fair value through profit or loss	18,976,631	-	-	18,976,631
Available-for-sale financial assets	3,224,977	-	-	3,224,977
Held-to-maturity financial assets	2,274,849	-	-	2,274,849
Debt investments with no active market	835,186	-	-	835,186

d) Maximum exposure to credit risk

The maximum credit risk exposures of various financial instruments held by the Bank are the same as per book amounts. Refer to the notes to the financial statements.

As of March 31, 2017, December 31, 2016 and March 31, 2016, the maximum exposure to credit risk (before deducting the guarantees or other credit enhancement instruments and the irrepealably maximum amount of exposure) were as follows:

<b>Financial Instrument Type</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Unused loan commitments (excluding credit card)	\$ 85,889,842	\$ 93,836,687	\$ 115,796,810
Credit card credit commitment	359,319	371,718	285,867
Unused issued letters of credit	24,169,900	23,053,060	21,625,192
Guarantees in guarantee business	45,312,938	44,626,870	34,975,728

e) Situation of credit risk concentration

Prominent concentration of credit risks occurs when transaction parties for financial instruments prominently concentrate on one party, or on a few that are in similar business lines or exhibit similar economic characteristics. The characteristics of concentration of credit risks include the nature of business activities engaged by debtors. The Bank has not engaged in transactions that involved a prominent concentration to one client or one transaction party, but has engaged in transaction parties of similar industry type or from similar region.

The Bank's information on prominent concentration of credit risk was as follows:

<b>Industry Type</b>	<b>March 31, 2017</b>	
	<b>Carrying Value</b>	<b>Percentage of Item (%)</b>
Financial and insurance	\$ 59,242,335	4
Manufacturing	339,306,720	25
Wholesale and retail	120,274,733	9
Real estate and leasing	101,363,836	7
Service	38,192,247	3
Individuals	446,145,678	33
Others	<u>254,073,193</u>	19
	<u>\$ 1,358,598,742</u>	

Industry Type	December 31, 2016	
	Carrying Value	Percentage of Item (%)
Financial and insurance	\$ 64,187,414	5
Manufacturing	337,151,780	24
Wholesale and retail	121,089,857	9
Real estate and leasing	98,686,674	7
Service	43,032,933	3
Individuals	444,708,300	32
Others	274,525,907	20
	<u>\$ 1,383,382,865</u>	

Industry Type	March 31, 2016	
	Carrying Value	Percentage of Item (%)
Financial and insurance	\$ 71,753,117	5
Manufacturing	332,415,023	24
Wholesale and retail	116,562,665	9
Real estate and leasing	97,772,101	7
Service	38,313,190	3
Individuals	433,400,844	31
Others	291,517,192	21
	<u>\$ 1,381,734,132</u>	

Geographic Location	March 31, 2017	
	Carrying Value	Percentage of Item (%)
Asia	\$ 1,296,731,681	96
America	44,325,339	3
Europe	15,986,825	1
Others	1,554,897	-
	<u>\$ 1,358,598,742</u>	

Geographic Location	December 31, 2016	
	Carrying Value	Percentage of Item (%)
Asia	\$ 1,316,938,252	95
America	47,678,320	4
Europe	16,835,940	1
Others	1,930,353	-
	<u>\$ 1,383,382,865</u>	

		<b>March 31, 2016</b>	
<b>Geographic Location</b>		<b>Carrying Value</b>	<b>Percentage of Item (%)</b>
Asia		\$ 1,322,401,466	96
America		40,487,399	3
Europe		16,876,167	1
Others		<u>1,969,100</u>	-
		<u>\$ 1,381,734,132</u>	

		<b>March 31, 2017</b>	
<b>Securities Type</b>		<b>Carrying Value</b>	<b>Percentage of Item (%)</b>
Unsecured		\$ 481,218,355	35
Secured			
Properties		731,357,749	54
Others		<u>146,022,638</u>	11
		<u>\$ 1,358,598,742</u>	

		<b>December 31, 2016</b>	
<b>Securities Type</b>		<b>Carrying Value</b>	<b>Percentage of Item (%)</b>
Unsecured		\$ 514,497,433	37
Secured			
Properties		722,217,556	52
Others		<u>146,667,876</u>	11
		<u>\$ 1,383,382,865</u>	

		<b>March 31, 2016</b>	
<b>Securities Type</b>		<b>Carrying Value</b>	<b>Percentage of Item (%)</b>
Unsecured		\$ 558,370,834	40
Secured			
Properties		680,522,321	49
Others		<u>142,840,977</u>	11
		<u>\$ 1,381,734,132</u>	

f) Financial assets credit quality and non-performing impairment analysis

Part of financial assets held by the Bank, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, securities investments purchased under resell agreement, deposit refunds, operating deposits, and settlement deposits are exposed to low credit risks because the counterparties have rather high credit ratings.

Besides the above, the credit quality analyses of other financial assets were as follows:

i. Credit quality analysis of loans and receivables

(In Thousands of New Taiwan Dollars)

Item	March 31, 2017										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
<u>In-balance-sheet items</u>											
Receivables	\$ 8,673,298	\$ 3,726,260	\$ 205,451	\$ 6,219,903	\$ 18,824,912	\$ 8,687	\$ 502,863	\$ 19,336,462	\$ 412,116	\$ 139,467	\$ 18,784,879
Credit cards	-	-	-	1,763,631	1,763,631	-	27,885	1,791,516	11,986	5,110	1,774,420
Other	8,673,298	3,726,260	205,451	4,456,272	17,061,281	8,687	474,978	17,544,946	400,130	134,357	17,010,459
Loans	339,972,648	732,851,716	165,566,734	104,730,452	1,343,121,550	2,167,245	13,309,947	1,358,598,742	4,248,223	11,588,172	1,342,762,347

(In Thousands of New Taiwan Dollars)

Item	December 31, 2016										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
<u>In-balance-sheet items</u>											
Receivables	\$ 8,673,298	\$ 3,726,260	\$ 205,451	\$ 7,750,515	\$ 20,355,524	\$ 8,687	\$ 489,081	\$ 20,853,292	\$ 416,622	\$ 156,409	\$ 20,280,261
Credit cards	-	-	-	1,752,029	1,752,029	-	22,625	1,774,654	11,543	5,157	1,757,954
Other	8,673,298	3,726,260	205,451	5,998,486	18,603,495	8,687	466,456	19,078,638	405,079	151,252	18,522,307
Loans	382,993,935	705,721,892	162,225,963	117,060,877	1,368,002,667	2,470,282	12,909,916	1,383,382,865	4,355,431	11,767,544	1,367,259,890

(In Thousands of New Taiwan Dollars)

Item	March 31, 2016										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
<u>In-balance-sheet items</u>											
Receivables	\$ 7,469,158	\$ 2,894,646	\$ 239,581	\$ 6,929,138	\$ 17,532,523	\$ 6,037	\$ 165,910	\$ 17,704,470	\$ 77,655	\$ 51,587	\$ 17,575,228
Credit cards	-	-	-	1,653,623	1,653,623	-	23,220	1,676,843	11,850	4,788	1,660,205
Other	7,469,158	2,894,646	239,581	5,275,515	15,878,900	6,037	142,690	16,027,627	65,805	46,799	15,915,023
Loans	363,276,673	689,405,808	157,513,410	160,068,706	1,370,264,597	2,013,742	9,455,793	1,381,734,132	3,653,687	12,014,057	1,366,066,388

ii. Credit quality analysis of loans neither past due nor impaired based on credit ratings of clients

(In Thousands of New Taiwan Dollars)

Item	March 31, 2017				
	Neither Past Due Nor Impaired				
	High	Medium	Weak	Non-ratings	Total
Consumer finance	\$ 75,010,989	\$ 176,273,352	\$ 134,005,555	\$ 56,996,131	\$ 442,286,027
Corporation finance	264,961,659	556,578,364	31,561,179	47,734,321	900,835,523
Total	\$ 339,972,648	\$ 732,851,716	\$ 165,566,734	\$ 104,730,452	\$ 1,343,121,550

(In Thousands of New Taiwan Dollars)

Item	December 31, 2016				
	Neither Past Due Nor Impaired				
	High	Medium	Weak	Non-ratings	Total
Consumer finance	\$ 74,995,708	\$ 176,509,719	\$ 129,253,570	\$ 60,247,928	\$ 441,006,925
Corporation finance	307,998,227	529,212,173	32,972,393	56,812,949	926,995,742
Total	\$ 382,993,935	\$ 705,721,892	\$ 162,225,963	\$ 117,060,877	\$ 1,368,002,667

(In Thousands of New Taiwan Dollars)

Item	March 31, 2016				
	Neither Past Due Nor Impaired				
	High	Medium	Weak	Non-ratings	Total
Consumer finance	\$ 77,207,621	\$ 166,961,626	\$ 130,778,728	\$ 55,335,699	\$ 430,283,674
Corporation finance	286,069,052	522,444,182	26,734,682	104,733,007	939,980,923
Total	\$ 363,276,673	\$ 689,405,808	\$ 157,513,410	\$ 160,068,706	\$ 1,370,264,597

iii. Credit quality analysis of non-credit financial assets

(In Thousands of New Taiwan Dollars)

Item	March 31, 2017										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
Available-for-sale financial assets	\$ 76,819,753	\$ -	\$ -	\$ 131,277	\$ 76,951,030	\$ -	\$ 150,000	\$ 77,101,030	\$ 120,000	\$ -	\$ 76,981,030
Bonds	72,120,827	-	-	131,277	72,252,104	-	-	72,252,104	-	-	72,252,104
Stocks	3,130,968	-	-	-	3,130,968	-	150,000	3,280,968	120,000	-	3,160,968
Bills	1,567,958	-	-	-	1,567,958	-	-	1,567,958	-	-	1,567,958
Held-to-maturity financial assets	212,711,679	-	-	-	212,711,679	-	-	212,711,679	-	-	212,711,679
Bonds	13,381,437	-	-	-	13,381,437	-	-	13,381,437	-	-	13,381,437
Bills	199,330,242	-	-	-	199,330,242	-	-	199,330,242	-	-	199,330,242
Other financial assets	79,849	-	-	-	79,849	-	140,351	220,200	140,351	-	79,849
Securities	79,849	-	-	-	79,849	-	(Note)	220,200	140,351	-	79,849

Note: Cost on the reclassification date.

(In Thousands of New Taiwan Dollars)

Item	December 31, 2016										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
Available-for-sale financial assets	\$ 76,659,070	\$ -	\$ -	\$ 135,796	\$ 76,794,866	\$ -	\$ 150,000	\$ 76,944,866	\$ 120,000	\$ -	\$ 76,824,866
Bonds	72,045,422	-	-	135,796	72,181,218	-	-	72,181,218	-	-	72,181,218
Stocks	2,963,065	-	-	-	2,963,065	-	150,000	3,113,065	120,000	-	2,993,065
Bills	1,650,583	-	-	-	1,650,583	-	-	1,650,583	-	-	1,650,583
Held-to-maturity financial assets	204,864,541	-	-	-	204,864,541	-	-	204,864,541	-	-	204,864,541
Bonds	14,139,268	-	-	-	14,139,268	-	-	14,139,268	-	-	14,139,268
Bills	190,725,273	-	-	-	190,725,273	-	-	190,725,273	-	-	190,725,273
Other financial assets	88,555	-	-	-	88,555	-	148,846	237,401	148,846	-	88,555
Securities	88,555	-	-	-	88,555	-	(Note)	237,401	148,846	-	88,555

Note: Cost on the reclassification date.



(In Thousands of New Taiwan Dollars)

Item	March 31, 2016										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
Available-for-sale financial assets	\$ 68,977,673	\$ -	\$ -	\$ 137,074	\$ 69,114,747	\$ -	\$ 150,000	\$ 69,264,747	\$ 120,000	\$ -	\$ 69,144,747
Bonds	65,222,732	-	-	137,074	65,359,806	-	-	65,359,806	-	-	65,359,806
Stocks	3,018,980	-	-	-	3,018,980	-	150,000	3,168,980	120,000	-	3,048,980
Bills	735,961	-	-	-	735,961	-	-	735,961	-	-	735,961
Held-to-maturity financial assets	199,281,426	-	-	-	199,281,426	-	-	199,281,426	-	-	199,281,426
Bonds	17,411,426	-	-	-	17,411,426	-	-	17,411,426	-	-	17,411,426
Bills	181,870,000	-	-	-	181,870,000	-	-	181,870,000	-	-	181,870,000
Other financial assets	1,391,834	-	-	646,230	2,038,064	-	148,641	2,186,705	148,641	-	2,038,064
Securities and bonds	1,391,834	-	-	646,230	2,038,064	-	148,641 (Note)	2,186,705	148,641	-	2,038,064

Note: Cost on the reclassification date.

g) Aging analysis of financial assets that are past due but not impaired

The aging analyses of financial assets that were past due but not impaired of the Bank were as follows:

(In Thousands of New Taiwan Dollars)

Item	March 31, 2017		
	Past Due Up to One Month	Past Due Over One Month	Total
Loans			
Consumer finance	\$ 1,503,352	\$ 558,202	\$ 2,061,554
Corporation finance	51,339	54,352	105,691

(In Thousands of New Taiwan Dollars)

Item	December 31, 2016		
	Past Due Up to One Month	Past Due Over One Month	Total
Loans			
Consumer finance	\$ 1,552,701	\$ 678,358	\$ 2,231,059
Corporation finance	156,639	82,584	239,223

(In Thousands of New Taiwan Dollars)

Item	March 31, 2016		
	Past Due Up to One Month	Past Due Over One Month	Total
Loans			
Consumer finance	\$ 1,480,111	\$ 393,586	\$ 1,873,697
Corporation finance	126,879	13,166	140,045

4) Liquidity risk management

a) The definition of liquidity risk

Liquidity risk is the potential loss that the Bank may suffer due to inability to liquidate assets or raise enough funds in reasonable time to perform obligations when due and to meet the demands of assets growth.

b) Liquidity risk management procedures

According to the Bank's liquidity risk management policy, the Bank clearly sets various indicators and limits for liquidity risk. The responsible department should implement operation procedures for funding liquidity, monitor and prepare maturity analysis periodically to assess liquidity risk. In addition, the responsible department should also report to related departments and Asset and Liability Committee to enable them to make appropriate adjustments to meet the needs of liquidity. Related information about liquidity risk assessment should be reported to the board of directors to let high-level management understand Chang Hwa Bank's funding liquidity.

As of March 31, 2017 and 2016, the ratio of liquidity reserve is 16.83% and 16.78%, respectively. Since the capital and working funds are deemed sufficient to meet the cash flow needs for performance of all contracted obligations, liquidity risk is not considered to be significant.

c) Maturity analysis of non-derivative financial assets and liabilities

The Bank adopted appropriate grouping methods, which are based on the nature of non-derivative financial assets and liabilities, to do maturity analysis in order to assess liquidity. The maturity analysis is presented as follows:

(In Thousands of New Taiwan Dollars)

Item	March 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	\$ 22,512,131	\$ -	\$ -	\$ -	\$ -	\$ 22,512,131
Due from the Central Bank and call loans to other banks	29,599,097	3,568,246	5,139,621	6,674,776	25,911,099	70,892,839
Financial assets at fair value through profit or loss	10,815,336	-	-	-	-	10,815,336
Receivables	21,766,717	650,753	340,065	160,578	138,209	23,056,322
Loans	99,091,264	90,963,746	105,559,651	184,813,322	635,354,971	1,115,782,954
Available-for-sale financial assets	-	-	-	-	30,298,519	30,298,519
Held-to-maturity financial assets	140,500,000	8,304,933	1,830,099	10,434,453	11,663,389	172,732,874
Financial assets carried at cost	-	-	-	-	4,167,009	4,167,009
Other maturity funds inflow items	-	-	-	-	13,903,785	13,903,785
	<u>324,284,545</u>	<u>103,487,678</u>	<u>112,869,436</u>	<u>202,083,129</u>	<u>721,436,981</u>	<u>1,464,161,769</u>
Major maturity funds outflows						
Due to the Central Bank and banks	280,640	165,062	793,947	1,067,582	-	2,307,231
Due to the Central Bank and call loans to other banks	5,000	10,000	-	-	-	15,000
Financial liabilities at fair value through profit or loss	349,044	-	-	-	-	349,044
Securities sold under repurchase agreements	1,769,159	1,411,631	57,029	-	-	3,237,819
Payables	25,599,432	982,449	1,119,064	741,389	1,357,584	29,799,918
Deposits and remittances	101,022,313	108,314,600	156,452,354	203,183,147	666,140,572	1,235,112,986
Bank notes payable	-	-	-	2,200,000	39,300,000	41,500,000
Other maturity funds outflows items	14,676	33,771	61,820	209,827	5,366,187	5,686,281
	<u>129,040,264</u>	<u>110,917,513</u>	<u>158,484,214</u>	<u>207,401,945</u>	<u>712,164,343</u>	<u>1,318,008,279</u>
Gap	\$ 195,244,281	\$ (7,429,835)	\$ (45,614,778)	\$ (5,318,816)	\$ 9,272,638	\$ 146,153,490

Note: The amounts listed above were the position in N.T. dollars of the Bank.

(In Thousands of New Taiwan Dollars)

Item	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	\$ 28,562,791	\$ -	\$ -	\$ -	\$ -	\$ 28,562,791
Due from the Central Bank and call loans to other banks	28,590,804	4,105,577	4,208,647	6,431,842	24,518,721	67,855,591
Financial assets at fair value through profit or loss	19,947,216	-	-	-	-	19,947,216
Receivables	26,827,203	442,399	413,230	153,625	101,354	27,937,811
Loans	112,894,443	93,978,294	118,365,113	208,310,194	598,088,284	1,131,636,328
Available-for-sale financial assets	399,839	-	-	-	30,203,961	30,603,800
Held-to-maturity financial assets	139,700,000	5,830,000	3,604,845	5,964,923	9,823,470	164,923,238
Financial assets carried at cost	-	-	-	-	4,167,009	4,167,009
Other maturity funds inflow items	-	-	-	-	13,869,857	13,869,857
	<u>356,922,296</u>	<u>104,356,270</u>	<u>126,591,835</u>	<u>220,860,584</u>	<u>680,772,656</u>	<u>1,489,503,641</u>
Major maturity funds outflows						
Due to the Central Bank and banks	390,565	496,895	218,254	1,282,762	-	2,388,476
Due to the Central Bank and call loans to other banks	20,865,000	10,000	-	-	-	20,875,000
Securities sold under repurchase agreements	1,303,656	1,300,946	350,379	-	-	2,954,981
Payables	45,670,601	1,085,140	473,936	1,312,601	1,269,324	49,811,602
Deposits and remittances	106,798,518	128,591,766	132,141,902	201,945,122	674,037,801	1,243,515,109
Bank notes payable	-	-	-	-	31,300,000	31,300,000
Other maturity funds outflows items	35,453	77,707	17,528	230,262	5,431,745	5,792,695
	<u>175,063,793</u>	<u>131,562,454</u>	<u>133,201,999</u>	<u>204,770,747</u>	<u>712,038,870</u>	<u>1,356,637,863</u>
Gap	\$ 181,858,503	\$ (27,206,184)	\$ (6,610,164)	\$ 16,089,837	\$ (31,266,214)	\$ 132,865,778

Note: The amounts listed above were the position in N.T. dollars of the Bank.

(In Thousands of New Taiwan Dollars)

Item	March 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	\$ 16,921,233	\$ -	\$ -	\$ -	\$ -	\$ 16,921,233
Due from the Central Bank and call loans to other banks	36,919,393	3,633,415	4,491,380	8,566,570	19,024,407	72,635,165
Financial assets at fair value through profit or loss	29,980,356	-	-	-	-	29,980,356
Receivables	20,099,666	483,249	293,818	179,187	13,084	21,069,004
Loans	99,742,842	122,432,061	83,157,869	143,089,531	678,910,785	1,127,333,088
Available-for-sale financial assets	-	-	250,863	355,132	27,759,225	28,365,220
Held-to-maturity financial assets	135,249,993	5,300,000	2,540,209	3,620,158	13,059,399	159,769,759
Debts instrument without active market	-	-	-	800,000	-	800,000
Financial assets carried at cost	-	-	-	-	4,167,009	4,167,009
Other maturity funds inflow items	-	-	-	-	13,336,856	13,336,856
	<u>338,913,483</u>	<u>131,848,725</u>	<u>90,734,139</u>	<u>156,610,578</u>	<u>756,270,765</u>	<u>1,474,377,690</u>
Major maturity funds outflows						
Due to the Central Bank and banks	338,545	162,722	1,110,924	1,284,579	-	2,896,770
Due to the Central Bank and call loans to other banks	13,955,000	10,000	-	-	-	13,965,000
Securities sold under repurchase agreements	2,614,008	1,789,760	20,170	-	-	4,423,938
Payables	31,415,594	1,053,730	1,250,703	619,784	632,020	34,971,831
Deposits and remittances	137,949,084	113,429,235	140,600,473	268,172,301	547,176,605	1,207,327,698
Bank notes payable	-	-	5,000,000	-	25,000,000	30,000,000
Other maturity funds outflows items	27,391	59,273	54,725	206,264	5,230,195	5,577,848
	<u>186,299,622</u>	<u>116,504,720</u>	<u>148,036,995</u>	<u>270,282,928</u>	<u>578,038,820</u>	<u>1,299,163,085</u>
Gap	\$ 152,613,861	\$ 15,344,005	\$ (57,302,856)	\$ (113,672,350)	\$ 178,231,945	\$ 175,214,605

Note: The amounts listed above were the position in N.T. dollars of the Bank.

(In Thousands of United States Dollars)

Item	March 31, 2017					Total
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	
Major maturity funds inflows						
Cash and cash equivalents	\$ 250,060	\$ 37,500	\$ -	\$ -	\$ -	\$ 287,560
Due from the Central Bank and call loans to other banks	1,286,210	1,083,915	866,045	616,284	3,807	3,856,261
Financial assets at fair value through profit or loss	264,556	-	-	-	-	264,556
Receivables	417,690	124,264	78,611	2,741	13,214	636,520
Loans	682,145	700,874	514,751	338,326	3,986,907	6,223,003
Available-for-sale financial assets	10,003	-	-	14,182	456,928	481,113
Held-to-maturity financial assets	4,998	-	5,001	18,023	8,003	36,025
Debts instrument without active market	-	-	-	-	2,628	2,628
Other maturity funds inflow items	5,000	-	44,500	-	34,312	83,812
	<u>2,920,662</u>	<u>1,946,553</u>	<u>1,508,908</u>	<u>989,556</u>	<u>4,505,799</u>	<u>11,871,478</u>
Major maturity funds outflows						
Due to the Central Bank and banks	678,194	180,899	1,186	2,313	220	862,812
Due to the Central Bank and call loans to other banks	1,935,729	255,000	40,000	-	-	2,230,729
Financial liabilities at fair value through profit or loss	-	-	-	109,894	285,441	395,335
Payables	771,103	23,698	1,881	1,553	4,198	802,433
Deposits and remittances	2,035,077	1,735,807	1,007,687	1,280,300	3,303,744	9,362,615
Other maturity funds outflows items	36,105	407	181	559	61,637	98,889
	<u>5,456,208</u>	<u>2,195,811</u>	<u>1,050,935</u>	<u>1,394,619</u>	<u>3,655,240</u>	<u>13,752,813</u>
Gap	\$ (2,535,546)	\$ (249,258)	\$ 457,973	\$ (405,063)	\$ 850,559	\$ (1,881,335)

Note: The amounts listed above were the position in U.S. dollars of the Bank.

(In Thousands of United States Dollars)

Item	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	\$ 402,769	\$ 37,800	\$ -	\$ -	\$ -	\$ 440,569
Due from the Central Bank and call loans to other banks	1,155,329	793,328	380,862	1,160,917	4,617	3,495,053
Financial assets at fair value through profit or loss	254,130	-	-	-	-	254,130
Receivables	577,954	155,087	80,083	3,868	11,541	828,533
Loans	547,484	821,746	674,675	238,193	3,885,297	6,167,395
Available-for-sale financial assets	-	-	10,005	-	399,931	409,936
Held-to-maturity financial assets	-	10,017	7,992	23,037	2	41,048
Debts instrument without active market	-	-	-	-	2,748	2,748
Other maturity funds inflow items	5,000	-	10,500	15,000	5,615	36,115
	<u>2,942,666</u>	<u>1,817,978</u>	<u>1,164,117</u>	<u>1,441,015</u>	<u>4,309,751</u>	<u>11,675,527</u>
Major maturity funds outflows						
Due to the Central Bank and banks	601,435	343,431	611	1,215	20,044	966,736
Due to the Central Bank and call loans to other banks	1,476,245	708,000	10,000	-	(20,000)	2,174,245
Financial liabilities at fair value through profit or loss	-	-	-	108,754	282,515	391,269
Payables	565,008	25,623	2,474	1,263	3,902	598,270
Deposits and remittances	2,137,691	1,667,612	927,629	1,120,633	2,976,677	8,830,242
Other maturity funds outflows items	44,095	287	148	548	59,609	104,687
	<u>4,824,474</u>	<u>2,744,953</u>	<u>940,862</u>	<u>1,232,413</u>	<u>3,322,747</u>	<u>13,065,449</u>
Gap	\$ (1,881,808)	\$ (926,975)	\$ 223,255	\$ 208,602	\$ 987,004	\$ (1,389,922)

Note: The amounts listed above were the position in U.S. dollars of the Bank.

(In Thousands of United States Dollars)

Item	March 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	\$ 173,545	\$ 66,003	\$ -	\$ -	\$ -	\$ 239,548
Due from the Central Bank and call loans to other banks	799,716	446,258	235,816	120,869	414,374	2,017,033
Financial assets at fair value through profit or loss	193,795	-	-	-	-	193,795
Receivables	575,846	95,003	112,376	1,734	934	785,893
Loans	634,025	774,467	586,390	452,993	3,879,482	6,327,357
Available-for-sale financial assets	4,993	4,981	-	-	175,341	185,315
Held-to-maturity financial assets	-	-	-	14,090	31,055	45,145
Debts instrument without active market	-	-	-	-	3,252	3,252
Other maturity funds inflow items	-	-	36,500	15,000	20,239	71,739
	<u>2,381,920</u>	<u>1,386,712</u>	<u>971,082</u>	<u>604,686</u>	<u>4,524,677</u>	<u>9,869,077</u>
Major maturity funds outflows						
Due to the Central Bank and banks	887,919	6,594	720	1,280	16,044	912,557
Due to the Central Bank and call loans to other banks	2,122,150	401,000	30,000	-	410,000	2,963,150
Financial liabilities at fair value through profit or loss	-	-	-	147,724	379,575	527,299
Payables	683,301	14,704	2,118	1,001	6,011	707,135
Deposits and remittances	2,106,913	1,232,775	855,255	1,215,332	2,475,500	7,885,775
Other maturity funds outflows items	39,849	357	169	1,055	22,809	64,239
	<u>5,840,132</u>	<u>1,655,430</u>	<u>888,262</u>	<u>1,366,392</u>	<u>3,309,939</u>	<u>13,060,155</u>
Gap	\$ (3,458,212)	\$ (268,718)	\$ 82,820	\$ (761,706)	\$ 1,214,738	\$ (3,191,078)

Note: The amounts listed above were the position in U.S. dollars of the Bank.

d) Maturity analysis of derivative financial assets and liabilities

The derivative instruments held by the Bank, except for interest rate swaps with leveraging effects, have very little probabilities of failing to be sold with reasonable prices in the market, and thus have very low liquidity risks.

(New Taiwan Dollars and Foreign Currencies Combined In Thousands of New Taiwan Dollars)

Item	March 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	\$ 108,794,433	\$ 174,969,556	\$ 42,369,043	\$ 29,717,751	\$ 928,735	\$ 356,779,518
Inflows	108,200,016	174,522,332	42,702,846	29,682,935	928,320	356,036,449
Interest rate derivative instruments						
Outflows	5,489,010	7,505,219	7,917,818	11,265,032	4,898,579	37,075,658
Inflows	5,567,303	7,393,721	7,641,590	11,670,467	4,926,675	37,199,756
Total outflows	\$ 114,283,443	\$ 182,474,775	\$ 50,286,861	\$ 40,982,783	\$ 5,827,314	\$ 393,855,176
Total inflows	\$ 113,767,319	\$ 181,916,053	\$ 50,344,436	\$ 41,353,402	\$ 5,854,995	\$ 393,236,205

(New Taiwan Dollars and Foreign Currencies Combined In Thousands of New Taiwan Dollars)

Item	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	\$ 130,155,626	\$ 207,646,380	\$ 37,567,952	\$ 35,437,810	\$ -	\$ 410,807,768
Inflows	130,759,071	207,995,125	37,745,214	35,451,238	-	411,950,648
Interest rate derivative instruments						
Outflows	7,245,265	9,092,079	13,476,017	15,267,339	8,628,394	53,709,094
Inflows	7,149,057	9,104,620	13,225,061	15,381,674	8,762,649	53,623,061
Total outflows	\$ 137,400,891	\$ 216,738,459	\$ 51,043,969	\$ 50,705,149	\$ 8,628,394	\$ 464,516,862
Total inflows	\$ 137,908,128	\$ 217,099,745	\$ 50,970,275	\$ 50,832,912	\$ 8,762,649	\$ 465,573,709

(New Taiwan Dollars and Foreign Currencies Combined In Thousands of New Taiwan Dollars)

Item	March 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	\$ 123,885,441	\$ 193,156,694	\$ 76,382,470	\$ 53,621,482	\$ 16,088	\$ 447,062,175
Inflows	123,537,226	192,357,883	75,594,643	53,334,487	16,030	444,840,269
Interest rate derivative instruments						
Outflows	8,719,690	8,745,343	4,750,139	22,044,533	16,554,274	60,813,979
Inflows	8,646,714	8,476,359	4,711,135	21,888,484	16,665,446	60,388,138
Total outflows	\$ 132,605,131	\$ 201,902,037	\$ 81,132,609	\$ 75,666,015	\$ 16,570,362	\$ 507,876,154
Total inflows	\$ 132,183,940	\$ 200,834,242	\$ 80,305,778	\$ 75,222,971	\$ 16,681,476	\$ 505,228,407

e) Maturity analysis of off-balance-sheet items

Bank's off-balance-sheet items - irrevocable loans, guarantees, and letters of credit - presented based on the residual time from the balance sheet date to the maturity date were as follows:

(In Thousands of New Taiwan Dollars)

Item	March 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	\$ 65,561,892	\$ 1,975,642	\$ 2,057,840	\$ 3,791,454	\$ 12,503,014	\$ 85,889,842
Credit card credit commitment	-	22	329	6,193	352,775	359,319
Letters of credit issued yet unused	24,068,257	85,682	15,961	-	-	24,169,900
Guarantees	43,587,708	55,737	124,185	904,889	640,419	45,312,938
	\$ 133,217,857	\$ 2,117,083	\$ 2,198,315	\$ 4,702,536	\$ 13,496,208	\$ 155,731,999

(In Thousands of New Taiwan Dollars)

Item	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	\$ 69,486,885	\$ 3,475,014	\$ 4,165,725	\$ 4,742,034	\$ 11,967,029	\$ 93,836,687
Credit card credit commitment	-	1,679	370	2,770	366,899	371,718
Letters of credit issued yet unused	22,937,841	97,675	17,544	-	-	23,053,060
Guarantees	43,349,844	270,698	58,954	680,756	266,618	44,626,870
	\$ 135,774,570	\$ 3,845,066	\$ 4,242,593	\$ 5,425,560	\$ 12,600,546	\$ 161,888,335

(In Thousands of New Taiwan Dollars)

Item	March 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	\$ 94,053,680	\$ 2,911,017	\$ 2,427,673	\$ 5,465,435	\$ 10,939,005	\$ 115,796,810
Credit card credit commitment	-	1,382	4,914	7,429	272,142	285,867
Letters of credit issued yet unused	21,569,734	36,695	18,763	-	-	21,625,192
Guarantees	33,470,224	28,880	19,884	1,085,630	371,110	34,975,728
	\$ 149,093,638	\$ 2,977,974	\$ 2,471,234	\$ 6,558,494	\$ 11,582,257	\$ 172,683,597

Note: The data were of the Bank; the days were counted from the base date to maturity date.



### 35. OTHER DISCLOSURES OF FINANCIAL INSTITUTION

#### a. Asset quality

Item		March 31, 2017					March 31, 2016				
		Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)	Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)
Corporate finance	Secured	\$ 1,947,445	\$ 439,155,259	0.44%	\$ 4,754,992	244.17%	\$ 1,513,761	\$ 398,040,190	0.38%	\$ 3,656,034	241.52%
	Unsecured	561,476	473,297,796	0.12%	5,142,699	915.92%	526,740	550,293,048	0.10%	5,536,263	1,051.04%
Consumer finance	Mortgage loans (Note d)	1,011,052	278,183,966	0.36%	4,228,034	418.18%	667,367	279,968,485	0.24%	4,199,527	629.27%
	Cash cards (Note h)	-	-	-	-	-	-	-	-	-	-
	Credit loans (Note e)	9,189	1,844,102	0.50%	20,917	227.63%	1,612	1,742,935	0.09%	14,745	914.70%
	Others (Note f)	Secured	591,247	164,655,228	0.36%	1,674,403	283.20%	364,221	149,996,717	0.24%	2,249,951
Unsecured		554	1,462,391	0.04%	15,350	2,770.76%	2,151	1,692,757	0.13%	11,224	521.80%
Total		4,120,963	1,358,598,742	0.30%	15,836,395	384.29%	3,075,852	1,381,734,132	0.22%	15,667,744	509.38%

Item		March 31, 2017					March 31, 2016				
		Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)	Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)
Credit card		\$ 6,492	\$ 1,713,904	0.38%	\$ 21,495	331.10%	\$ 4,347	\$ 1,591,214	0.27%	\$ 19,186	441.36%
No recourse receivable factoring (Note g)		-	6,412,648	-	64,126	-	-	6,843,332	-	15,702	-

Note a: Nonperforming loans are classified in accordance with the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans and Bad Debts issued by MOF. Non-performing loans of credit cards are defined in the Letter issued by the Banking Bureau on July 6, 2005. (Ref. No. Jin-Guan-Yin (4) 0944000378).

Note b: Nonperforming loans ratio = Nonperforming loan ÷ Loans  
Nonperforming loans of credit card ratio = Nonperforming loans of credit cards ÷ Accounts receivable

Note c: Coverage ratio of allowances for loan losses = Allowances for loan losses ÷ Nonperforming loans  
Coverage ratio of allowance for loan losses of credit card = Allowance for loan losses of credit card ÷ Nonperforming loans of credit cards

Note d: Mortgage loans are for borrowers to build or repair buildings, allowing the borrowers, spouse or minor children to fully use their buildings as collateral and to mortgage their rights to financial institutions.

Note e: Credit loans are defined in the Letter issued by the Banking Bureau on December 19, 2005 (Ref. No. Jin-Guan-Yin (4) 09440010950), excluding credit loans of credit cards and cash cards.

Note f: The other consumer financial businesses are defined as secured or unsecured consumer financial businesses, excluding mortgage loans, cash cards, credit loans and credit cards.

Note g: In accordance with the Letter issued by the Banking Bureau on July 19, 2005 (Ref. No. Jin-Guan-Yin (5) 094000494) non-recourse receivable factorings are not defined as non-performing loans until compensation from factors or insurance companies are ascertained to be non-recoverable.

Note h: The Bank does not engage in cash card business.

Business Type \ Item	March 31, 2017		March 31, 2016	
	Non-performing Loans Exempted from Reporting	Non-performing Receivables Exempted from Reporting	Non-performing Loans Exempted from Reporting	Non-performing Receivables Exempted from Reporting
Negotiated loans transacted in accordance with the agreement and exempted from reporting as non-performing loans (Note a)	\$ 45	\$ 1,978	\$ 75	\$ 2,682
Negotiated accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing receivables (Note b)	255	14,653	367	11,061
Total	300	16,631	442	13,743

Note a: Negotiated loans and accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing loans are disclosed in accordance with the Letter issued by Banking Bureau on April 25, 2006 (Ref. No. Jin-Guan-Yin (1) 09510001270).

Note b: Loans and receivables transacted in accordance with debt clearance and renewal regulation and exempted from reporting as non-performing loans or receivables are disclosed in accordance with the Letter issued by Banking Bureau on September 15, 2008 (Ref. No. Jin-Guan-Yin (1) 09700318940).

b. Concentration of credit risk

March 31, 2017			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%) (Note d)
1	A Group (steel refining industry)	\$ 30,687,371	21.98
2	B Corporation (railway transportation industry)	28,555,821	20.46
3	C Group (airline industry)	21,008,018	15.05
4	D Group (synthesis construction industry)	15,682,013	11.23
5	E Group (concrete manufacturing industry)	13,144,028	9.42
6	F Group (steel manufacturing industry)	7,291,740	5.22
7	G Group (computer, peripheral equipment and software wholesale industry)	7,240,839	5.19
8	H Group (financial intermediation industry)	7,050,140	5.05
9	I Group (real estate development industry)	7,009,000	5.02
10	J Group (integrated circuit manufacturing industry)	5,603,043	4.01

March 31, 2016			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%)(Note d)
1	B Corporation (railway transportation industry)	\$ 33,610,623	25.25
2	A Group (investment consulting industry)	26,748,632	20.09
3	C Group (airline industry)	22,766,975	17.10
4	E Group (financial intermediation industry)	13,044,003	9.80
5	D Group (synthesis construction industry)	11,809,092	8.87
6	H Group (financial intermediation industry)	7,712,200	5.79
7	F Group (steel manufacturing industry)	7,659,862	5.75
8	I Group (real estate development industry)	6,672,000	5.01
9	G Group (liquid crystal panel and components manufacturing industry)	5,953,003	4.47
10	K Group (steel refining industry)	5,740,470	4.31

Note a: Sorted by the balance of loans on March 31, 2017 and 2016, excluding government or state-run business. The number of transaction party which belongs to a group business was included in the balance of group business.

Note b: Transaction party is in accordance with article 6 of the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings.

Note c: Loans include import and export bill negotiations, bills discounted, overdraft, short-term loan, short-term secured loan, receivable financing, medium-term loan, medium-term secured loan, long-term loan, long-term secured loan, delinquent loans, inward remittances, factoring without recourse, acceptance, and guarantee.

Note d: The percentage of loans to equity for the period: Domestic banks should use bank equity to calculate; the Taiwan branch of foreign banks should use branch's equity to calculate.

c. Interest rate sensitivity

(In Thousands of New Taiwan Dollars; %)

Item	March 31, 2017				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 1,247,055,615	\$ 48,719,898	\$ 18,155,475	\$ 97,924,525	\$ 1,411,855,513
Interest-sensitive liabilities	299,391,932	802,509,977	106,493,299	39,035,304	1,247,430,512
Interest sensitivity gap	947,663,683	(753,790,079)	(88,337,824)	58,889,221	164,425,001
Net equity					116,758,441
Ratio of interest-sensitive assets to liabilities					113.18%
Ratio of interest sensitivity gap to net equity					140.82%

(In Thousands of New Taiwan Dollars; %)

Item	March 31, 2016				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 1,276,834,207	\$ 44,282,242	\$ 19,488,552	\$ 87,485,104	\$ 1,428,090,105
Interest-sensitive liabilities	327,475,476	760,796,610	106,149,255	25,082,599	1,219,503,940
Interest sensitivity gap	949,358,731	(716,514,368)	(86,660,703)	62,402,505	208,586,165
Net equity					114,168,732
Ratio of interest-sensitive assets to liabilities					117.10%
Ratio of interest sensitivity gap to net equity					182.70%

Note a: The amounts listed above include accounts in N.T. dollars only (i.e., excluding foreign currency) for both head office and domestic branches.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$   
(N.T. dollars only)

(In Thousands of U.S. Dollars; %)

Item	March 31, 2017				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 11,951,132	\$ 1,708,288	\$ 640,959	\$ 277,178	\$ 14,577,557
Interest-sensitive liabilities	14,298,101	795,978	911,084	20,661	16,025,824
Interest sensitivity gap	(2,346,969)	912,310	(270,125)	256,517	(1,448,267)
Net equity					415,002
Ratio of interest-sensitive assets to liabilities					90.96%
Ratio of interest sensitivity gap to net equity					(348.98%)

(In Thousands of U.S. Dollars; %)

Item	March 31, 2016				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 8,393,360	\$ 1,164,303	\$ 156,885	\$ 91,536	\$ 9,806,084
Interest-sensitive liabilities	11,266,672	546,791	741,688	139	12,555,290
Interest sensitivity gap	(2,873,312)	617,512	(584,803)	91,397	(2,749,206)
Net equity					277,843
Ratio of interest-sensitive assets to liabilities					78.10%
Ratio of interest sensitivity gap to net equity					(989.48%)

Note a: The amounts listed above include accounts in U.S. dollars only for domestic branches, OBU, and overseas branches, excluding contingent assets and contingent liabilities.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$   
(U.S. dollars only)

d. Profitability

Item		March 31, 2017	March 31, 2016
Return on total assets	Pretax	0.17%	0.21%
	After tax	0.14%	0.18%
Return on net equity	Pretax	2.49%	3.02%
	After tax	2.07%	2.58%
Profit margin		38.47%	44.39%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Gross income}}$

Note d: Profitability presented above is cumulative from January 1 to March 31 of 2017 and 2016, respectively.

e. Maturity analysis of assets and liabilities

(In Thousands of New Taiwan Dollars)

	Total	March 31, 2017					
		Period Remaining until Due Date and Amount Due					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 year
Major maturity cash inflows	\$ 1,643,840,546	\$ 143,836,428	\$ 206,068,442	\$ 193,970,844	\$ 133,566,887	\$ 223,201,434	\$ 743,196,511
Major maturity cash outflows	2,153,326,986	102,794,450	131,275,678	320,661,964	289,109,952	443,006,036	866,478,906
Gap	(509,486,440)	41,041,978	74,792,764	(126,691,120)	(155,543,065)	(219,804,602)	(123,282,395)

(In Thousands of New Taiwan Dollars)

	Total	March 31, 2016					
		Period Remaining until Due Date and Amount Due					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 year
Major maturity cash inflows	\$ 1,689,715,404	\$ 184,666,078	\$ 184,576,463	\$ 244,552,525	\$ 109,089,502	\$ 182,327,301	\$ 784,503,535
Major maturity cash outflows	2,265,968,019	118,110,671	164,268,354	322,448,637	297,832,561	505,680,739	857,627,057
Gap	(576,252,615)	66,555,407	20,308,109	(77,896,112)	(188,743,059)	(323,353,438)	(73,123,522)

Note: The amounts listed above include accounts in N.T. dollars only (i.e., excluding foreign currency) for both head office and domestic branches.

(In Thousands of U.S. Dollars)

	Total	March 31, 2017				
		Period Remaining until Due Date and Amount Due				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 year
Major maturity cash inflows	\$ 22,236,595	\$ 8,472,538	\$ 4,760,113	\$ 2,558,092	\$ 1,717,797	\$ 4,728,055
Major maturity cash outflows	27,104,234	9,959,424	4,248,077	3,041,052	4,077,700	5,777,981
Gap	(4,867,639)	(1,486,886)	512,036	(482,960)	(2,359,903)	(1,049,926)

(In Thousands of U.S. Dollars)

	Total	March 31, 2016				
		Period Remaining until Due Date and Amount Due				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 year
Major maturity cash inflows	\$ 19,064,889	\$ 5,916,812	\$ 3,710,687	\$ 2,666,960	\$ 1,939,528	\$ 4,830,902
Major maturity cash outflows	24,049,747	8,241,261	3,876,834	2,637,078	4,181,111	5,113,463
Gap	(4,984,858)	(2,324,449)	(166,147)	29,882	(2,241,583)	(282,561)

Note: The amounts listed above include accounts in U.S. dollars for head office, domestic branches, and OBU.

f. Trust accounts

Under Article 3 of the Trust Law, the Bank can offer trust services. The items and amounts of trust accounts as of March 31, 2017 and 2016 were as follows:

	March 31	
	2017	2016
Special purpose trust accounts - domestic	\$ 23,483,389	\$ 24,462,433
Special purpose trust accounts - foreign	75,782,924	78,109,974
Insurance trust	1,046	1,042
Retirement and breeds trust	318,565	312,215

(Continued)

	<b>March 31</b>	
	<b>2017</b>	<b>2016</b>
Umbilical-cord-blood trust	\$ 8,989,951	\$ 8,076,229
Money claim and guarantee trust	73,800	79,200
Marketable securities trust	3,453,339	786,042
Real estate trust	14,797,416	12,203,564
Securities under custody	120,501,571	130,406,322
Other money trust	<u>2,210,661</u>	<u>1,429,828</u>
	<u>\$ 249,612,662</u>	<u>\$ 255,866,849</u> (Concluded)

### 36. RELATED-PARTY TRANSACTIONS

#### a. Related parties and their relationships with the Bank

<u>Name</u>	<u>Relationship</u>
Direct, supervisor and managers and the relatives	The Bank's director, supervisor and managers and the relatives
Taishin Financial Holding	The Bank's corporate director
Taishin International Bank	Owned by the same parent company
The Export-Import Bank	Its director is Chang Hwa Bank's corporate director
Land Bank	Same as above
Taiwan Business Bank	Same as above
Taiwan Financial Holdings	Same as above
Crown Department Company	Its director is the Bank's manager's spouse
Artthinking Design Corporation	Its supervisor is the Bank's manager's spouse
MasterLink Securities Corporation	Its director is the Bank
Others	FSC-approved IAS 24, "Related Party Disclosures" other related parties

#### b. Significant transactions with related parties

##### 1) Loans

	<b>Balance</b>	<b>Percentage of Loans (%)</b>
Balance as of March 31, 2017	\$ 1,129,699	0.08
Balance as of December 31, 2016	1,221,091	0.09
Balance as of March 31, 2016	1,196,332	0.09

For the three months ended March 31, 2017 and 2016, interest ranged from 0.00% to 4.30% and 0.00% to 3.73%, respectively, and interest revenue was \$4,087 thousand and \$4,773 thousand, respectively.

March 31, 2017							Difference in Terms Between Related Parties and Non-related Parties
Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral			
<u>Consumer loans</u>							
29 accounts	\$ 11,810	\$ 12,983	\$ 11,810	\$ -	Credit		None
<u>Self-use residential mortgage loans</u>							
195 accounts	1,069,065	1,102,177	1,069,065	-	Real estate		None
<u>Others</u>							
Crown Department Company	34,550	35,150	34,550	-	Real estate		None
Arthinking Design Corporation	5,500	5,500	5,500	-	Credit and fund guarantee		None
Other - individual 9 accounts (Note)	8,774	10,962	8,774	-	Foreign currency or deposit		None
December 31, 2016							Difference in Terms Between Related Parties and Non-related Parties
Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral			
<u>Consumer loans</u>							
30 accounts	\$ 13,075	\$ 13,875	\$ 13,075	\$ -	Credit		None
<u>Self-use residential mortgage loans</u>							
198 accounts	1,162,260	1,202,477	1,162,260	-	Real estate		None
<u>Others</u>							
Crown Department Company	35,150	74,300	35,150	-	Real estate		None
Other - individual 11 accounts (Note)	10,606	10,683	10,606	-	Foreign currency or deposit		None
March 31, 2016							Difference in Terms Between Related Parties and Non-related Parties
Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral			
<u>Consumer loans</u>							
29 accounts	\$ 12,317	\$ 13,102	\$ 12,317	\$ -	Credit		None
<u>Self-use residential mortgage loans</u>							
203 accounts	1,141,796	1,181,774	1,141,796	-	Real estate		None
<u>Others</u>							
Crown Department Company	36,950	37,550	36,950	-	Real estate		None
Other - individual 11 accounts (Note)	5,268	6,321	5,268	-	Deposit		None

Note: The balance of every single entity is not over 1% of the total ending balance.

Loans to managers for mortgage within \$8,000 thousand and credit loans within \$800 thousand per person bore interests at 1.26%, 1.26% and 1.33% in March 31, 2017, December 31, 2016 and March 31, 2016, respectively. The interest rates and other terms provided to the other related parties are the same as those offered to the public.

2) Guaranteed loans

<b>March 31, 2017</b>					
	<b>Ending Balance</b>	<b>Highest Amount</b>	<b>Reserve for Guarantee Liabilities</b>	<b>Interest Rate (Per Annum %)</b>	<b>Collateral</b>
Taiwan Financial Holdings	\$ 5,360,000	\$ 5,360,000	\$ -	0.25	None

  

<b>December 31, 2016</b>					
	<b>Ending Balance</b>	<b>Highest Amount</b>	<b>Reserve for Guarantee Liabilities</b>	<b>Interest Rate (Per Annum %)</b>	<b>Collateral</b>
Taiwan Financial Holdings	\$ 5,360,000	\$ 5,360,000	\$ -	0.25	None

3) Deposits

	<b>Balance</b>	<b>Percentage of Loans (%)</b>
Balance as of March 31, 2017	\$ 3,877,779	0.24
Balance as of December 31, 2016	4,002,457	0.25
Balance as of March 31, 2016	3,675,258	0.24

For the three months ended March 31, 2017 and 2016, the interest rate intervals were all between 0.00% and 13.00%; the interest expenses were \$12,950 thousand and \$14,904 thousand, respectively.

The interest rate for managers' deposits amounting to \$480 thousand per person was 13% per annum. The part of deposit exceeding \$480 thousand will earn interest calculated at the demand savings rate. The interest rates and others terms provided to the other related parties are the same as those offered to general public.

4) Call loans to banks and call loans from banks

Call loans to banks

(In Thousands of Original Currencies)

<b>March 31, 2017</b>					
<b>Name</b>	<b>Department</b>	<b>Currency</b>	<b>Ending Balance</b>	<b>Interest Rate (Per Annum %)</b>	<b>Interest Revenue</b>
Land Bank	OBU	USD	\$ 100,000	1.18-1.58	\$ 224
	Kunshan Branch	USD	2,000	1.20	-
	Hong Kong Branch	USD	50,000	0.80-1.62	270
Taiwan Business Bank	OBU	USD	20,000	0.70-1.35	15
	Hong Kong Branch	USD	30,000	0.71-1.50	52



**December 31, 2016**

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
Land Bank	OBU	USD	\$ 55,000	0.44-1.28	\$ 528
	Hong Kong Branch	USD	80,000	0.34-1.62	528
Taiwan Business Bank	Hong Kong Branch	USD	16,000	0.33-1.30	137

**March 31, 2016**

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
Land Bank	OBU	USD	\$ 15,000	0.44-0.83	\$ 129
	Hong Kong Branch	USD	30,000	0.34-0.86	89
Taiwan Business Bank	OBU	USD	10,000	0.37-0.88	60

Call loans from banks

(In Thousands of Original Currencies)

**March 31, 2017**

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
Land Bank	London Branch	USD	\$ 40,000	0.95-1.64	\$ 170
Taiwan Business Bank	Singapore Branch	USD	10,000	0.99-1.02	26

**December 31, 2016**

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
Land Bank	Singapore Branch	USD	\$ 10,000	0.50-1.21	\$ 165
	New York Branch	USD	10,000	0.32-1.75	52
	London Branch	USD	75,000	0.41-1.40	351
	Hong Kong Branch	USD	4,000	0.35-1.62	3
Taiwan Business Bank	OBU	CAD	2,800	0.18-0.75	2
	Los Angeles Branch	USD	20,000	0.46-1.60	148

**March 31, 2016**

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
Land Bank	OBU	AUD	\$ 7,000	1.90-2.40	\$ 53
		USD	10,000	0.34-0.50	10
Taiwan Business Bank	London Branch	USD	45,000	0.41-0.80	92
	OBU	HKD	70,000	0.25	5

5) Due from banks and due to banks

Due from banks

(In Thousands of New Taiwan Dollars)

Name	Department	Currency	March 31, 2017	December 31, 2016	March 31, 2016
			Ending Balance	Ending Balance	Ending Balance
Land Bank	DBU	NTD	\$ 152	\$ 3	\$ 4
Taiwan Business Bank	DBU	NTD	956	722	279

Due to banks

(In Thousands of Original Currencies)

Name	Department	Currency	March 31, 2017	December 31, 2016	March 31, 2016
			Ending Balance	Ending Balance	Ending Balance
The Export-Import Bank	DBU	NTD	\$ 524	\$ 613	\$ 2,336
Taishin International Bank	New York Branch	USD	49	47	45
Land Bank	DBU	NTD	277	277	277

c. Compensation of directors, supervisors and management personnel

	For the Three Months Ended March 31	
	2017	2016
Short-term benefits	\$ 10,966	\$ 12,258
Post-employment benefits	<u>9,584</u>	<u>519</u>
	<u>\$ 20,550</u>	<u>\$ 12,777</u>

The remuneration of directors and key executives were determined by the remuneration committee having regard to the performance of individuals and market trends.

d. Other

On March 17, 2017, the Bank entered into a contract with MasterLink Securities Corporation in the amount of \$250 thousand. Based on the contract, the Bank would hire MasterLink Securities Corporation as a consultant for the sales of the Bank's subordinated financial bonds.

### 37. PLEDGED ASSETS

The summary of the Bank's pledged assets as of March 31, 2017, December 31, 2016 and March 31, 2016 were as follows:

<b>Pledged Assets</b>	<b>Description</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Available-for-sale financial assets	Government bonds	\$ 5,935,600	\$ 5,921,200	\$ 6,070,500
Held-to-maturity financial assets	Bonds and certificate of deposits	36,790,483	36,819,687	36,782,450
Time deposits with original maturity more than 3 months	Time deposit	5,513,750	5,780,000	8,450,700
Refundable deposits	Cash	1,152,505	284,790	236,608

### 38. CONTINGENT LIABILITIES AND COMMITMENTS

a. In addition to those mentioned in Note 7, the Bank had the following contingent liabilities and commitments as of March 31, 2017, December 31, 2016 and March 31, 2016:

	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>March 31, 2016</b>
Trust liabilities	\$ 249,612,662	\$ 249,230,627	\$ 255,866,849
Unused loan commitments	85,889,842	93,836,687	115,796,810
Credit card credit commitment	359,319	371,718	285,867
Unused issued letters of credit	24,169,900	23,053,060	21,625,192
Guarantees issued in guarantee business	45,312,938	44,626,870	34,975,728
Repayment note and time deposit held for custody	12,551,349	12,828,805	10,312,642
Liabilities on joint loans	513,778	512,886	292,203

b. TDK Corporation filed a legal proceeding against the Bank for damages compensation in the amount of \$45,794 thousand. On April 19, 2017, the Taiwan Superior Court passed a verdict partially in favor of and partially against the Bank, and the Bank should compensate the damages in the amount of \$11,448 thousand.

### 39. DISCLOSURES UNDER STATUTORY REQUIREMENTS

#### a. Material transactions

No.	Item	Explanation
1	Accumulated purchases and sales balance of specific investees' marketable security over NT\$300 million or 10% of outstanding capital for the three months ended March 31, 2017	None
2	Acquisition of fixed assets over NT\$300 million or 10% of outstanding capital for the three months ended March 31, 2017	None
3	Disposal of fixed assets over NT\$300 million or 10% of outstanding capital for the three months ended March 31, 2017	None
4	Discount on fees income from related parties over NT\$5 million	None
5	Receivables from related parties over NT\$300 million or 10% of outstanding capital as of March 31, 2017	None
6	Sale of NPL	None
7	Securitized instruments and related assets which are in accordance with the Statute for Financial Assets Securitization and the Statute for Real Estate Securitization	None
8	Other significant transactions which may affect decisions of the users of the financial statements	None

#### b. Information on the Bank's Investees

No.	Item	Explanation
1	Investees' names, locations, etc.	None
2	Capital lending to another party	None
3	Endorsement for another party	None
4	Marketable securities held as of March 31, 2017	None
5	Accumulated purchases and sales balance of specific marketable security over NT\$300 million or 10% of outstanding capital for the three months ended March 31, 2017	None
6	Acquisition of property, plant and equipment over NT\$300 million or 10% of outstanding capital for the three months ended March 31, 2017	None
7	Disposal of property, plant and equipment over NT\$300 million or 10% of outstanding capital for the three months ended March 31, 2017	None
8	Receivables from related parties over NT\$300 million or 10% of outstanding capital as of March 31, 2017	None
9	Derivative instrument	None
10	Discount on fees income from related parties over NT\$5 million	None
11	Sale of NPL by subsidiary	None
12	Other significant transactions which may affect decisions of the users of the financial statements	None

#### c. Investment in mainland China: Table 1

#### 40. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of services provided.

##### a. Segment revenues and results

For the Three Months Ended March 31, 2017							
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch	Others	Total
Net interest income	\$ 3,264,786	\$ 1,116,793	\$ 251,217	\$ -	\$ 830,424	\$ 43	\$ 5,463,263
Net service fee and commissions income	320,096	45,113	(10,529)	923,942	86,061	-	1,364,683
Net income on financial instrument	-	-	562,744	-	13,640	-	576,384
Others	1,952	-	(13)	51	614	44,499	47,103
Net revenue and gains	<u>3,586,834</u>	<u>1,161,906</u>	<u>803,419</u>	<u>923,993</u>	<u>930,739</u>	<u>44,542</u>	<u>7,451,433</u>
Bad debts expenses and guarantee liability provisions	(127,570)	-	-	-	(305,008)	-	(432,578)
Operating expenses	-	-	-	-	-	-	(3,569,965)
Income before income tax	<u>\$ 3,459,264</u>	<u>\$ 1,161,906</u>	<u>\$ 803,419</u>	<u>\$ 923,993</u>	<u>\$ 625,731</u>	<u>\$ 44,542</u>	<u>\$ 3,448,890</u>

  

For the Three Months Ended March 31, 2016							
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch	Others	Total
Net interest income	\$ 3,334,808	\$ 846,862	\$ 311,923	\$ -	\$ 868,683	\$ (27)	\$ 5,362,249
Net service fee and commissions income	377,371	49,876	(12,488)	608,979	75,338	-	1,099,076
Net income on financial instrument	-	-	1,101,437	-	16,088	-	1,117,525
Others	1,072	-	(57)	-	20,021	45,910	66,946
Net revenue and gains	<u>3,713,251</u>	<u>896,738</u>	<u>1,400,815</u>	<u>608,979</u>	<u>980,130</u>	<u>45,883</u>	<u>7,645,796</u>
Bad debts expenses and guarantee liability reversal (provisions)	68,280	-	-	-	(15,983)	-	52,297
Operating expenses	-	-	-	-	-	-	(3,730,427)
Income before income tax	<u>\$ 3,781,531</u>	<u>\$ 896,738</u>	<u>\$ 1,400,815</u>	<u>\$ 608,979</u>	<u>\$ 964,147</u>	<u>\$ 45,883</u>	<u>\$ 3,967,666</u>

The revenues and results on the segment information reported does not inter-segment revenues.

This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

##### b. Segment total assets and liabilities

March 31, 2017							
	Loans	Deposits and Remittances	Financial Instruments and Investments	Oversea Branch	Others	Adjustment	Total
Assets	<u>\$ 1,235,813,672</u>	<u>\$ -</u>	<u>\$ 640,132,273</u>	<u>\$ 186,993,787</u>	<u>\$ 73,790,526</u>	<u>\$ (158,101,422)</u>	<u>\$ 1,978,628,836</u>
Liabilities	<u>\$ 1,782,864</u>	<u>\$ 1,567,707,524</u>	<u>\$ 244,998,084</u>	<u>\$ 170,629,504</u>	<u>\$ 12,017,223</u>	<u>\$ (158,101,422)</u>	<u>\$ 1,839,033,777</u>

  

December 31, 2016							
	Loans	Deposits and Remittances	Financial Instruments and Investments	Oversea Branch	Others	Adjustment	Total
Assets	<u>\$ 1,254,886,726</u>	<u>\$ -</u>	<u>\$ 646,986,528</u>	<u>\$ 198,250,477</u>	<u>\$ 78,111,080</u>	<u>\$ (173,083,307)</u>	<u>\$ 2,005,151,504</u>
Liabilities	<u>\$ 1,857,380</u>	<u>\$ 1,575,105,439</u>	<u>\$ 234,915,136</u>	<u>\$ 181,449,462</u>	<u>\$ 47,383,869</u>	<u>\$ (173,083,307)</u>	<u>\$ 1,867,627,979</u>

  

March 31, 2016							
	Loans	Deposits and Remittances	Financial Instruments and Investments	Oversea Branch	Others	Adjustment	Total
Assets	<u>\$ 1,255,457,201</u>	<u>\$ -</u>	<u>\$ 533,784,607</u>	<u>\$ 184,271,533</u>	<u>\$ 64,562,329</u>	<u>\$ (89,986,294)</u>	<u>\$ 1,948,089,376</u>
Liabilities	<u>\$ 1,137,147</u>	<u>\$ 1,510,397,635</u>	<u>\$ 189,101,131</u>	<u>\$ 168,229,228</u>	<u>\$ 36,080,052</u>	<u>\$ (89,986,294)</u>	<u>\$ 1,814,958,899</u>

## CHANG HWA COMMERCIAL BANK, LTD.

INFORMATION OF INVESTMENT IN MAINLAND CHINA  
FOR THE THREE MONTHS ENDED MARCH 31, 2017

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1.

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2017	Net Income (Loss) of the Investee (Note 2)	% of Direct or Indirect Investment	Investment Gain (Losses)	Carrying Amount as of March 31, 2017	Accumulated Repatriation of Investment Income as of March 31, 2017	Note
					Outflow	Inflow							
Chang Hwa Commercial Bank, Ltd. Kunshan Branch	Banking	\$ 4,618,293 (US\$ 155,174)	Note 1.c.	\$ 4,618,293 (US\$ 155,174)	\$ -	\$ -	\$ 4,618,293 (US\$ 155,174)	-	-	\$ -	\$ -	\$ -	
Chang Hwa Commercial Bank, Ltd. Dongguan Branch	Banking	4,924,781 (US\$ 162,641)	Note 1.c.	4,924,781 (US\$ 162,641)	-	-	4,924,781 (US\$ 162,641)	-	-	-	-	-	
Chang Hwa Commercial Bank, Ltd. Fuzhou Branch	Banking	2,550,956 (US\$ 81,743)	Note 1.c.	2,550,956 (US\$ 81,743)	-	-	2,550,956 (US\$ 81,743)	-	-	-	-	-	

2.

Accumulated Outward Remittance for Investment in Mainland China March 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 3)
\$ 12,094,030 (US\$ 399,558)	\$ 12,372,787 (US\$ 410,928)	\$ 20,939,259

Note 1: The three methods of investment are as follows:

- Direct investment in mainland China.
- Investment in mainland China through reinvestment in existing enterprise in a third area.
- Others.

Note 2: Equity in the profits (losses):

- If the entity is still in preparation stage and there is no equity in profits (losses), the condition should be noted.
- The basis of recognizing equity in profits (losses) is categorized in the following three types and each entity should be noted according to its condition.
  - Financial statement audited (reviewed) by international accounting firms that cooperate with the accounting firms in the ROC.
  - Consolidated financial statements audited (reviewed) by the Taiwan-based parent company's CPA.
  - Others.

(Continued)

Note 3: In accordance with the “Bank, Financial Holding Corporation and Related Party Invest China Business Rules” announced by the FSC, the accumulated outflow of operating funds and investment from the following parties may not exceed 15% of net assets while they applied:

- a. Banks in Taiwan (or subsidiaries in a third area) which establish branches, establish/acquire subsidiaries or acquire shares or capital contributions from local shareholders in mainland China.
- b. The subsidiaries whose issued stocks with voting rights or more than 50% of capital held by banks in Taiwan that have investments in mainland China.

(Concluded)