Chang Hwa Commercial Bank, Ltd.

Financial Statements for the
Years Ended December 31, 2016 and 2015 and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

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

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

Recognition of Loan Interest Revenue

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

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

Impairment Assessment of Loans and Receivables

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 24, 2017

Notice to Readers

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

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

CHANG HWA COMMERCIAL BANK, LTD.

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

	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
Cash and cash equivalents (Notes 4, 6 and 36)	$ 45,199,330	2	$ 31,225,679	2
Due from the Central Bank and call loans to banks (Notes 4, 6 and 36)	194,825,223	10	146,654,212	8
Financial assets at fair value through profit or loss (Notes 4 and 7)	34,699,024	2	43,518,615	2
Derivative financial assets for hedging (Notes 4 and 12)	86,265	-	192,521	-
Receivables, net (Notes 4, 8 and 9)	20,280,261	1	19,729,443	1
Current tax assets	56,689	-	55,436	-
Loans, net (Notes 4, 5, 9, 35 and 36)	1,367,259,890	68	1,321,934,363	69
Available-for-sale financial assets, net (Notes 4, 10 and 37)	76,824,866	4	67,415,202	3
Held-to-maturity financial assets, net (Notes 4, 5, 11 and 37)	204,864,541	10	205,777,255	11
OTHER FINANCIAL ASSETS, NET				
Financial assets carried at cost (Notes 4 and 13)	4,167,009	-	4,167,009	-
Debt investments without active market (Notes 4 and 14)	88,555	-	2,051,074	-
Other miscellaneous financial assets (Notes 4, 15 and 37)	18,842,264	1	25,530,337	2
Other financial assets, net	23,097,828	1	31,748,420	2
Property and equipment, net (Notes 4 and 16)	20,801,823	1	22,253,008	1
Investment property, net (Notes 4 and 17)	13,753,981	1	12,536,509	1
Intangible assets, net (Notes 4 and 18)	423,465	-	500,710	-
Deferred tax assets (Notes 4 and 30)	2,447,734	-	2,367,489	-
Other assets (Notes 19, 32 and 37)	530,584	-	348,357	-
TOTAL	$ 2,005,151,504	100	$ 1,906,257,219	100
LIABILITIES AND EQUITY				
Due to the Central Bank and banks (Notes 4, 20 and 36)	$ 139,162,582	7	$ 124,025,228	7
Finance due to banks	-	-	3,879,840	-
Financial liabilities at fair value through profit or loss (Notes 4, 7 and 34)	18,093,146	1	22,732,139	1
Securities sold under repurchase agreements (Note 4)	2,954,981	-	4,612,047	-
Payables (Notes 4, 21 and 28)	33,834,971	2	23,164,932	1
Current tax liabilities	550,984	-	146,692	-
Deposits and remittances (Notes 4, 22 and 36)	1,624,429,817	81	1,547,739,711	81
Bank note payables (Notes 4 and 23)	31,375,226	2	35,176,580	2
Other financial liabilities (Notes 4 and 24)	2,718,964	-	1,075,196	-
Reserve for liabilities (Notes 4, 5 and 26)	4,524,224	-	4,371,316	-
Deferred tax liabilities (Notes 4 and 30)	6,672,201	-	6,644,859	1
Other liabilities (Notes 4, 25 and 32)	3,310,883	-	3,213,720	-
Total liabilities	1,867,627,979	93	1,776,782,260	93
EQUITY (Notes 4, 28 and 30)				
Capital stock				
Common stock	89,647,626	5	84,573,232	5
Retained earnings				
Legal reserve	23,784,945	1	20,291,944	1
Special reserve	12,020,521	1	12,020,521	1
Unappropriated earnings	11,970,239	-	11,613,831	-
Other equity				
Exchange differences on translation of foreign financial statements	(8,125)	-	733,874	-
Unrealized gains on available-for-sale financial assets	108,319	-	241,557	-
Total equity	137,523,525	7	129,474,959	7
TOTAL	$ 2,005,151,504	100	$ 1,906,257,219	100

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

CHANG HWA COMMERCIAL BANK, LTD.

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

	2016		2015	
	Amount	**%**	**Amount**	**%**
INTEREST INCOME (Notes 4, 29 and 36)	$ 32,589,526	105	$ 32,991,503	111
INTEREST EXPENSES (Notes 29 and 36)	(10,862,757)	(35)	(12,075,574)	(40)
NET INTEREST INCOME	21,726,769	70	20,915,929	71
NET INCOME OTHER THAN NET INTEREST INCOME				
Net service fee and commissions income (Notes 4 and 29)	5,411,772	17	4,905,306	16
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4, 7 and 29)	2,071,330	7	406,788	1
Realized gain on available-for-sale financial assets (Notes 4 and 29)	432,225	1	280,188	1
Foreign exchange gains (Notes 4 and 34)	279,662	1	1,647,056	6
Other miscellaneous net income (Note 12)	1,086,723	4	1,501,767	5
Net income other than net interest income	9,281,712	30	8,741,105	29
NET REVENUE AND GAINS	31,008,481	100	29,657,034	100
BAD DEBTS EXPENSES AND GUARANTEE LIABILITY PROVISIONS (Notes 4 and 9)	(1,138,044)	(4)	(329,372)	(1)
OPERATING EXPENSES				
Employee benefits expenses (Notes 4 and 29)	(10,549,116)	(34)	(10,193,168)	(35)
Depreciation and amortization expenses (Notes 4 and 29)	(717,900)	(2)	(702,268)	(2)
Other general and administrative expenses	(4,520,380)	(15)	(4,686,025)	(16)
Total operating expenses	(15,787,396)	(51)	(15,581,461)	(53)
INCOME BEFORE INCOME TAX	14,083,041	45	13,746,201	46
INCOME TAX EXPENSE (Notes 4 and 30)	(1,997,069)	(6)	(2,102,864)	(7)
NET INCOME	12,085,972	39	11,643,337	39

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CHANG HWA COMMERCIAL BANK, LTD.

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

	2016		2015	
	Amount	**%**	**Amount**	**%**
OTHER COMPREHENSIVE INCOME				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 27)	$ (243,501)	-	$ (445,513)	(1)
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 30)	41,395	-	75,737	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 4)	(883,139)	(3)	(10,707)	-
Unrealized gain (loss) on available-for-sale financial assets (Note 4)	(127,868)	-	551,907	2
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 30)	135,770	-	(95)	-
Other comprehensive income for the year, net of income tax	(1,077,343)	(3)	171,329	1
TOTAL COMPREHENSIVE INCOME	$ 11,008,629	36	$ 11,814,666	40
EARNINGS PER SHARE (Note 31)				
Basic	$ 1.35		$ 1.30	
Diluted	$ 1.34		$ 1.29	

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

CHANG HWA COMMERCIAL BANK, LTD.

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

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

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

CHANG HWA COMMERCIAL BANK, LTD.

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

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

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CHANG HWA COMMERCIAL BANK, LTD.

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

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

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

CHANG HWA COMMERCIAL BANK, LTD.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

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 in account and any rights and obligations in valid on reference date of the merger of CHB Life Insurance Agency Company and CHB Insurance Brokerage Company had been generally assumed by Chang Hwa Commercial Bank.

After the merger, the Bank has no other subsidiaries, will not issue consolidated and individual financial statements and issue financial statements respectively since June 30, 2016. The merger between the Bank and CHB Life Insurance Agency and CHB Insurance Brokerage belongs to the essence of organizational restructure, according to the interpretation of the relevant provisions which released by Accounting Research and Development Foundation, in the preparation of comparative financial statements should be regarded as the beginning of the subsidiaries that already consolidated and restated the previous annual financial statements. However, due to the similarity of the Bank's organizational structure after the merger and the pre-merger of consolidated group, the Bank should restated prior year financial statements as the previous year 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 February 24, 2017.

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

a. 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 by the FSC for application starting from 2017

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Bank should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC and SIC (collectively, the "IFRSs") issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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

Note 2: The amendment to IFRS 2 applies to share-based payment transactions with grant date on or after July 1, 2014; the amendment to IFRS 3 applies to business combinations with acquisition date on or after July 1, 2014; the amendment to IFRS 13 is effective immediately; the remaining amendments are effective for annual periods beginning on or after July 1, 2014.

Note 3: The amendment to IFRS 5 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2016; the remaining amendments are effective for annual periods beginning on or after January 1, 2016.

As of the date the financial statements were authorized for issue, the Bank continues assessing other possible impacts that application of the aforementioned amendments and the related amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers will have on the Bank's financial position and financial performance, and will disclose these other impacts when the assessment is completed.

b. New IFRSs in issue but not yet endorsed by the FSC

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

The FSC announced that 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.

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

IFRS 9 of 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.

Except for the above impact, as of the date the financial statements were authorized for issue, the Bank is continuously assessing the possible impact that the application of other standards and interpretations will have on the Bank's financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The 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 IFRSs as endorsed and issued into effect by the FSC.

Basis of Preparation

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

Current/Noncurrent Assets and Liabilities

Because of its business characteristics, assets and liabilities of the Bank are classified according to their liquidity rather than classified as current or noncurrent assets or liabilities.

Foreign Currencies

In preparing the Bank's financial statements, transactions in currencies other than the Bank's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising from the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which cases, the exchange differences are also recognized directly in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purpose of presenting financial statements, the functional currencies of the Bank entities are translated into the presentation currency - the New Taiwan dollar as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

Property, Plant and Equipment

Property, plant and equipment are stated at cost, less subsequent accumulated depreciation and accumulated impairment loss.

Property, plant and equipment in the course of construction are carried at cost, less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Freehold land is not depreciated.

Depreciation on property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. If the lease term is shorter than the useful lives, assets are depreciated over the lease term. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is included in profit or loss.

Intangible Assets

a. Intangible assets acquired separately

   Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

b. Derecognition of intangible assets

   On derecognition of an intangible asset, the difference between the net disposal proceeds and the carrying amount of the asset are recognized in profit or loss.

Impairment of Tangible and Intangible Assets

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized when the bank entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis date basis.

1) Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables.

a) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

ii. The financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Bank's documented risk management or investment strategy, and information about the Banking is provided internally on that basis; or

iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at fair value through profit or loss.

Fair value is determined in the manner described in Note 34.

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 34.

b) Held-to-maturity investments

Corporate bonds, and foreign bonds, which are above specific credit ratings and the Bank has positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of or is determined to be impaired.

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Bank's right to receive the dividends is established.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are presented in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

d) Loans and receivables

Loans and receivables (including trade receivables, loans, cash and cash equivalent, debt investments with no active market, and other receivables) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalent includes time deposits with original maturities within 3 months from the date of acquisition, highly liquid, readily convertible to a known amount of cash and be subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For financial assets carried at amortized cost, such as loans and trade receivables, such assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

For financial assets measured at amortized cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss is not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income. In respect of available-for-sale debt securities, the impairment loss is subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loans, where the carrying amount is reduced through the use of an allowance account. When a trade receivable and loans are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and loans that are written off against the allowance account.

3) Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit or loss.

b. Equity instruments

Debt and equity instruments issued by a bank entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a bank entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Bank's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Bank's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

Except the following situation, all the financial liabilities are measured at amortized cost using the effective interest method:

a) Financial liabilities at fair value through profit or loss

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability. Fair value is determined in the manner described in Note 34.

A financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

ii. The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Bank’s documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

iii. The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and it will not be subsequently reclassified to profit or loss. The remaining amount of changes in the fair value of that liability which incorporates any interest or dividend paid on the financial liability is presented in profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liabilities are derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss. Fair value is determined in the manner described in Note 34.

b) Financial guarantee contracts

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at fair value through profit or loss, are subsequently measured at the higher of the best estimate of the obligation under the contract or the amount initially recognized less cumulative amortization recognized.

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Derivative financial instruments

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, FX swap, cross currency swap, interest rate swaps and currency option.

Derivatives are initially recognized at fair value at the date the derivative contracts are entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship. When the fair value of derivative financial instruments is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instruments is negative, the derivative is recognized as a financial liability.

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the contracts are not measured at fair value through profit or loss.

Bonds or Securities Purchased/Sold under Specific Agreements

Bonds or securities sold under repurchase agreement are recorded at sale price. Interest revenues and expenses are recorded on accrual basis.

Hedge Accounting

The Bank designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges. Hedges of foreign exchange risk on firm commitments are accounted for as fair value hedge.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Hedge accounting is discontinued prospectively when the Bank revokes the designated hedging relationship; when the hedging instrument expires or is sold, terminated, or exercised, or when the hedging instrument no longer meets the criteria for hedge accounting. The fair value adjustment to the carrying amount of the hedged instrument arising from the hedged risk for which the effective interest method is used is amortized to profit or loss from the date of hedge accounting is discontinued. The adjustment is based on a recalculated effective interest rate at the date amortization begins and will be amortized fully by maturity of the financial instrument.

Provisions

Provisions, including those arising from reserve for default losses, reserve for employee benefits and reserve for guarantees, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Bank Notes Payable

The notes payable issued by the Bank are measured at amortized cost using the effective interest method.

To follow the risk management policy of the Bank, part of the bank notes payable with fixed interest rate were hedged by using interest rate swaps.

Revenue Recognition

a. Dividend and interest income

   Dividend income from investments is recognized when the shareholder's right to receive payment has been established provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably.

   Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income is accrued on a time basis by reference to the principal outstanding and at the applicable effective interest rate.

   When the loans become past due and are considered uncollectible, the principal and interest receivable are transferred to delinquent loan accounts, and the accrual of interest income is stopped. Interest income will be recognized when the delinquent interest is collected. If the repayment of loan is extended under an agreement, the related interest should be recognized as deferred revenue, classified into other liability and recognized as income when collected.

b. Service fee

   Service revenue and real estate management service revenue are recognized at once after providing loans or other services. If the service revenue belongs to several significant items, it is recognized when the significant items accomplished, such as the service revenue which the lead arranger bank of syndication loan received. If the service revenue is for further loan service and of significant amount, it is allocated during the period of the service or included in the base of calculation the effective interest rate of loans and receivables.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Bank as lessor

   Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Contingent rents are recognized as income in the period in which they are incurred.

b. The Bank as lessee

   Assets held under finance leases are initially recognized as assets of the Bank at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheets as a finance lease obligation.

   Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalized.

   Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

   Contingent rents are recognized as an expense in the period in which they are incurred.

Employee Benefits

a. Short-term employee benefits

   Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

   Payments to defined contribution retirement benefit plans are recognized as an expense when employees have rendered service entitling them to the contributions.

   Defined benefit costs (including service cost, net interest and remeasurement) under the defined benefit retirement benefit plans are determined using the projected unit credit method. Service cost (including current service cost, and net interest cost) and net interest on the net defined benefit liability are recognized as employee benefits expense in the period they occur. Remeasurement, comprising actuarial gains and losses, and the return on plan assets (excluding interest), is recognized in other comprehensive income in the period in which it occurs. Remeasurement recognized in other comprehensive income is reflected immediately in retained earnings and will not be reclassified to profit or loss.

   Net defined benefit liability represents the actual deficit in the Bank's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

   The Bank provides employees with high-yield savings account. The premium interest rate applies to a fixed amount of principal and the interest is paid to present employees (within employment and retirement) and retired employees. The difference between the premium rate and the market rate is classified as employee benefits.

   According to the "Regulations Governing the Preparation of Financial Reports by Public Banks" Rule No. 28, the premium interest resulting from the yield between the premium rate and the general market rate shall immediately be actuarially calculated based on the FSC-recognized IAS 19 when employees retire. However, if there are authorized regulations from the government regarding the actuarial assumption parameters, the regulations shall prevail. Actuarial benefits and service cost from prior periods are recognized as profit or loss when they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

a. Current tax

   According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain the earnings.

   Adjustments of prior years' tax liabilities are added to or deducted from the current year's tax provision.

b. Deferred tax

   Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. A previously unrecognized deferred tax asset is also reviewed at the end of each reporting period and recognized to the to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank’s accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Estimated Impairment of Loans and Receivables

When there is objective evidence of impairment loss, the Bank takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between an asset’s carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset’s original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Information about the book value of loans as of December 31, 2016 and 2015 is disclosed in Note 9.

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

a. Cash and cash equivalents

	December 31	
	2016	2015
Cash on hand	$ 11,036,052	$ 10,040,168
Checks for clearing	17,454,559	5,715,580
Due from banks	15,083,232	13,901,421
Foreign currencies on hand	1,625,487	1,568,510
	$ 45,199,330	$ 31,225,679

b. Due from Central Bank and call loans to banks

	December 31	
	2016	2015
Call loans to banks	$ 122,778,375	$ 87,474,346
Reserve for checking account	25,184,329	11,917,753
Reserve for demand account	39,605,276	38,419,375
Reserve for foreign deposit	401,760	303,044
Others	6,855,483	8,539,694
	$ 194,825,223	$ 146,654,212

7. FINANCIAL INSTRUMENTS AT FVTPL

Financial Assets at FVTPL

	December 31	
	2016	2015
Financial assets designated as at FVTPL		
Interest rate-linked combination instruments	$ 5,448,301	$ 6,118,506
Derivative financial assets (not applying hedge accounting)		
Futures	77,803	42,697
Forward exchange contracts	221,512	123,948
Interest rate swaps	1,464,398	1,103,962
Cross-currency swaps	922,514	1,279,807
Currency swaps	3,340,446	2,551,295
Currency call option premium	346,116	914,542
Non-derivative financial assets		
Investment in bills	20,970,079	28,601,913
Mutual funds	190,941	207,362
Government bonds	1,700,629	2,523,596
Corporate bonds	16,285	50,987
	29,250,723	37,400,109
	$ 34,699,024	$ 43,518,615

The par values of notes provided for transactions with repurchase agreements were $982,300 thousand and $1,932,800 thousand as of December 31, 2016 and 2015, respectively.

Financial Liabilities at FVTPL

	December 31	
	2016	**2015**
Financial liabilities designated as at FVTPL		
Unsecured U.S. dollar-denominated bank notes	$ 12,606,694	$ 17,156,385
Derivative financial liabilities (not applying hedge accounting)		
Forward contracts	259,933	239,827
Interest rate swaps	1,415,178	1,075,950
Cross-currency swaps	1,104,589	1,464,804
Currency swaps	2,357,964	1,880,631
Currency put option premium	348,788	914,542
	5,486,452	5,575,754
	$ 18,093,146	$ 22,732,139

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.

   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 year ended December 31, 2016, 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 years ended December 31, 2016 and 2015 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 December 31, 2016 and 2015 were as follows:

	December 31	
	2016	**2015**
Currency swaps	$ 363,182,300	$ 360,237,048
Currency options	117,144,777	191,109,535
Forward exchange contracts	27,481,811	24,580,018
Interest rate swaps and asset-swap options	412,196,722	348,578,627
Cross-currency swaps	52,851,494	55,146,025

8. RECEIVABLES, NET

	December 31	
	2016	2015
Accounts receivable	$ 8,990,029	$ 9,659,711
Revenue receivable	3,316	198,368
Interest receivable	3,395,881	3,336,637
Acceptance receivable	5,589,590	4,583,300
Credit card receivable	1,766,729	1,717,950
Settlement price	426,554	130,629
Settlement price receivable	582,536	158,765
Other receivables	98,657	44,732
Less allowance for receivables	(573,031)	(100,649)
	$ 20,280,261	$ 19,729,443

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

9. LOANS, NET

a. The details of loans are as follows:

	December 31	
	2016	2015
Negotiated	$ 6,139,403	$ 4,970,696
Overdraft	1,531,820	1,667,655
Short-term loans	358,167,831	358,647,815
Receivable amount for margin loans	259,931	260,820
Medium-term loans	467,363,994	430,311,252
Long-term loans	546,771,155	539,373,447
Delinquent loans	3,148,731	2,837,570
	1,383,382,865	1,338,069,255
Less allowance for loan losses	(16,122,975)	(16,134,892)
	$ 1,367,259,890	$ 1,321,934,363

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

	For the Year Ended December 31, 2016			
	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	926	1,533,508	10,635	1,545,069
Provision for loan losses	536,056	481,243	22,293	1,039,592
Loans written off	(77,158)	(1,956,205)	(53,601)	(2,086,964)
Others	12,558	(70,463)	1,570	(56,335)
Balance, December 31, 2016	$ 573,031	$ 16,122,975	$ 25,937	$ 16,721,943

	For the Year Ended December 31, 2015			
	Receivables	Loans	Other Financial Assets	Total
Balance, January 1, 2015	$ 295,867	$ 14,671,234	$ 41,776	$ 15,008,877
Recovery of loans written off	17,815	1,799,979	9,884	1,827,678
Provision (reserve) for loan losses	(195,524)	460,865	19,853	285,194
Loans written off	(18,475)	(949,045)	(30,809)	(998,329)
Others	966	151,859	4,336	157,161
Balance, December 31, 2015	$ 100,649	$ 16,134,892	$ 45,040	$ 16,280,581

The delinquent loans of which the accrual of interest income was stopped internally as of December 31, 2016 and 2015 were $3,148,731 thousand and $2,837,570 thousand, respectively. The interest income on delinquent loans not accrued in the years ended December 31, 2016 and 2015 were $84,386 thousand and $77,749 thousand, respectively.

The Bank did not write off any loans without legal claim process in the years ended December 31, 2016 and 2015.

c. Details of provision for loan losses for the years ended December 31, 2016 and 2015 were as follows:

	For the Year Ended December 31	
	2016	2015
Provision for receivable and loan (including delinquent loan) losses	$ 1,039,592	$ 285,194
Provision for guarantees	98,452	44,178
	$ 1,138,044	$ 329,372

d. Details of receivables and allowance for loan accounts as of December 31, 2016 and 2015 were as follows:

Receivables

Item		Total Receivable	
		December 31, 2016	December 31, 2015
Objective evidence of impairment	Individual assessment of impairment	$ 438,101	$ 221,100
	Combined assessment of impairment	50,980	47,618
None objective evidence of impairment	Combined assessment of impairment	20,364,211	19,561,374
Total		$ 20,853,292	$ 19,830,092

Item		Total Allowance	
		December 31, 2016	December 31, 2015
Objective evidence of impairment	Individual assessment of impairment	$ 398,440	$ 11,059
	Combined assessment of impairment	18,182	21,502
None objective evidence of impairment	Combined assessment of impairment	156,409	68,088
Total		$ 573,031	$ 100,649

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

Loans

Item		Total Loans	
		December 31, 2016	December 31, 2015
Objective evidence of impairment	Individual assessment of impairment	$ 9,219,054	$ 6,138,564
	Combined assessment of impairment	3,690,862	3,038,210
None objective evidence of impairment	Combined assessment of impairment	1,370,472,949	1,328,892,481
Total		$ 1,383,382,865	$ 1,338,069,255

Item		Total Allowance	
		December 31, 2016	December 31, 2015
Objective evidence of impairment	Individual assessment of impairment	$ 3,322,891	$ 2,891,827
	Combined assessment of impairment	1,032,540	853,573
None objective evidence of impairment	Combined assessment of impairment	11,767,544	12,389,492
Total		$ 16,122,975	$ 16,134,892

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

	December 31	
	2016	2015
Domestic quoted stocks	$ 2,993,065	$ 2,811,056
Government bonds	27,813,944	26,903,320
Corporate bonds	12,418,531	9,936,707
Bank notes	31,719,418	26,734,901
Investment in bills	1,650,583	832,069
Bonds issued by international organizations	229,325	197,149
	$ 76,824,866	$ 67,415,202

The par values of bonds provided for transactions with repurchase agreements were $1,813,100 thousand and $2,193,500 thousand as of December 31, 2016 and 2015, respectively.

Government bonds placed as deposits in courts were $421,200 thousand and $257,300 thousand as of December 31, 2016 and 2015, respectively. Government bonds placed as operating deposits were all $330,000 thousand as of December 31, 2016 and 2015. Government bonds placed as reserve fund for trust compensation were all $170,000 thousand as of December 31, 2016 and 2015. Government bonds pledged for call loans from banks were all $5,000,000 thousand as of December 31, 2016 and 2015.

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

11. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2016	2015
Investment in bills	$ 190,725,273	$ 189,538,946
Bank notes	2,645,392	2,237,422
Corporate bonds	10,524,271	13,008,643
Government bonds	969,605	992,244
	$ 204,864,541	$ 205,777,255

The overseas branches' bonds as collateral for operations as of December 31, 2016 and 2015 were $519,687 thousand and $492,991 thousand, respectively.

Certificate of deposits placed as reserves for clearing at the Central Bank were all $36,000,000 thousand as of December 31, 2016 and 2015. Certificate of deposits which was issued by the Central Bank pledged for call loans from banks were all $300,000 thousand as of December 31, 2016 and 2015.

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

12. DERIVATIVE FINANCIAL INSTRUMENTS FOR HEDGING

	December 31	
	2016	2015
Derivative financial assets under hedge accounting		
Fair value hedges - interest rate swaps	$ 86,265	$ 192,521

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 2016 and 2015 were all $5,200,000 thousand.

The fixed-to-floating interest swaps were designated and effective fair value hedge instruments. During the years ended December 31, 2016 and 2015, 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 $75,226 thousand and $183,580 thousand as of December 31, 2016 and 2015, 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 $(64,613) thousand and $217,468 thousand for the years ended December 31, 2016 and 2015, respectively, and the realized gain or loss of fair-value hedging were $108,354 thousand and $(168,642) thousand, accounted as other non-interest net income and losses, for the years ended December 31, 2016 and 2015, respectively.

13. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2016	**2015**
Domestic unquoted common stocks	$ 4,167,009	$ 4,167,009

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

	December 31	
	2016	**2015**
Beneficiary securities and asset based securities	$ 88,555	$ 112,792
Corporate bonds and bank notes	-	1,938,282
	$ 88,555	$ 2,051,074

The shares of preferred stock of Taiwan High Speed Rail Co., Ltd were redeemed on August 7, 2015.

15. OTHER MISCELLANEOUS FINANCIAL ASSETS

	December 31	
	2016	**2015**
Inward remittance	$ 11,953	$ 29,112
Delinquent loans reclassified from other accounts (excluding loans)	43,094	78,112
Call loans to securities company	161,100	-
Time deposits with original maturity more than 3 months	18,652,054	25,468,153
Less allowance for loan losses	(25,937)	(45,040)
	$ 18,842,264	$ 25,530,337

The market rates of time deposits with original maturity more than 3 months were 0.98%-3.60% and 0.46%-4.70% for the years ended December 31, 2016 and 2015, respectively. Refer to Note 37 for information relating to other miscellaneous financial assets pledged as security.

Please refer to Note 9 for the movement of 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
Cost									
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	-	62,367	146,489	17,546	43,174	21,007	-	43,304	333,887
Disposals	-	-	(704,522)	(36,512)	(104,044)	(18,234)	-	-	(863,312)
Reclassification	(1,222,979)	(537)	5,639	108,094	(5,753)	-	(107,979)	(6,050)	(1,229,565)
Effect of foreign currency exchange differences	-	(3,993)	(1,560)	(450)	(1,728)	(83)	-	(247)	(8,061)
Balance at December 31, 2016	$ 14,657,121	$ 9,108,129	$ 4,652,958	$ 708,565	1,430,509	$ 945,920	$ 4,253	$ 53,494	$ 31,560,949
Accumulated depreciation and impairment									
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	-	178,297	231,535	39,354	45,847	48,831	7,023	-	550,887
Disposals	-	-	(704,491)	(36,498)	(103,840)	(18,234)	-	-	(863,063)
Reclassification	-	(537)	3,734	60,013	(3,758)	-	(59,989)	-	(537)
Effect of foreign currency exchange differences	-	(35)	(793)	(262)	(1,459)	(604)	-	-	(3,153)
Balance at December 31, 2016	$ -	$ 4,113,645	$ 3,986,898	$ 570,966	$ 1,273,907	$ 811,544	$ 2,166	$ -	$ 10,759,126
Carrying amounts at December 31, 2016	$ 14,657,121	$ 4,994,484	$ 666,060	$ 137,599	$ 156,602	$ 134,376	$ 2,087	$ 53,496	$ 20,801,823
Cost									
Balance at January 1, 2015	$ 17,407,630	$ 8,854,428	$ 5,471,249	$ 552,854	$ 1,476,265	$ 909,546	$ 168,860	$ 55,664	$ 34,896,496
Additions	-	253,715	202,163	23,591	40,604	33,258	-	13,468	566,799
Disposals	-	(842)	(468,789)	(13,561)	(19,399)	(3,022)	-		(505,613)
Reclassification	(1,527,530)	(59,735)	-	56,627	-	-	(56,628)	(53,302)	(1,640,568)
Effect of foreign currency exchange differences	-	2,726	2,289	376	1,390	3,448	-	657	10,886
Balance at December 31, 2015	$ 15,880,100	$ 9,050,292	$ 5,206,912	$ 619,887	$ 1,498,860	$ 943,230	$ 112,232	$ 16,487	$ 33,328,000
Accumulated depreciation and impairment									
Balance at January 1, 2015	$ -	$ 3,821,181	$ 4,688,809	$ 459,539	$ 1,304,751	$ 730,121	$ 69,251	$ -	$ 11,073,652
Depreciation expense	-	173,291	235,605	30,709	50,833	52,806	17,340	-	560,584
Disposals	-	(838)	(468,680)	(13,505)	(19,397)	(3,022)	-	-	(505,442)
Reclassification	-	(57,772)	-	31,459	-	-	(31,459)	-	(57,772)
Effect of foreign currency exchange differences	-	58	1,179	157	930	1,646	-	-	3,970
Balance at December 31, 2015	$ -	$ 3,935,920	$ 4,456,913	$ 508,359	$ 1,337,117	$ 781,551	$ 55,132	$ -	$ 11,074,992
Carrying amounts at December 31, 2015	$ 15,880,100	$ 5,114,372	$ 749,999	$ 111,528	$ 161,743	$ 161,679	$ 57,100	$ 16,487	$ 22,253,008

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

	Completed Investment Property
Cost	
Balance at January 1, 2016	$ 12,873,554
Reclassification	1,223,516
Additions	1,122
Disposals	(2,104)
Balance at December 31, 2016	$ 14,096,088
Accumulated depreciation and impairment	
Balance at January 1, 2016	$ 337,045
Reclassification	537
Depreciation expense	6,627
Disposals	(2,102)
Balance at December 31, 2016	$ 342,107
Carrying amounts at December 31, 2016	$ 13,753,981
Cost	
Balance at January 1, 2015	$ 11,285,548
Reclassification	1,587,268
Additions	998
Disposals	(260)
Balance at December 31, 2015	$ 12,873,554
Accumulated depreciation and impairment	
Balance at January 1, 2015	$ 273,108
Reclassification	57,772
Depreciation expense	6,420
Disposals	(255)
Balance at December 31, 2015	$ 337,045
Carrying amounts at December 31, 2015	$ 12,536,509

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 the Bank's investment property as of December 31, 2016 was $28,611,475 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 Bank's investment property as of December 31, 2015 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 years ended December 31, 2016 and 2015 were as follows:

	For the Year Ended December 31	
	2016	**2015**
Rental incomes	$ 187,085	$ 177,075
Direct operating expenses	$ 120,816	$ 90,241

18. INTANGIBLE ASSETS

	Computer Software
Balance at January 1, 2016	$ 500,710
Additions	77,281
Amortization	(160,250)
Reclassification	6,049
Effect of foreign currency exchange differences	(325)
Balance at December 31, 2016	$ 423,465
Balance at January 1, 2015	$ 473,336
Additions	108,820
Amortization	(134,963)
Reclassification	53,300
Effect of foreign currency exchange differences	217
Balance at December 31, 2015	$ 500,710

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

19. OTHER ASSETS

	December 31	
	2016	**2015**
Refundable deposits	$ 284,790	$ 109,225
Assumed collateral and residuals	23,462	23,462
Less: Accumulated impairment	(23,462)	(23,462)
Prepayments	245,534	238,536
Others	260	596
	$ 530,584	$ 348,357

20. DUE TO BANKS AND CENTRAL BANK

	December 31	
	2016	2015
Due to Central Bank	$ 25,087	$ 20,249
Due to banks	27,576,736	30,117,635
Bank overdraft	294,424	951,895
Call loans from banks	109,034,973	90,118,840
Deposits transferred from the Postal Bureau	2,231,362	2,816,609
	$ 139,162,582	$ 124,025,228

21. PAYABLES

	December 31	
	2016	2015
Checks issued to payees for clearing	$ 18,236,396	$ 9,333,298
Accounts payable	1,411,016	1,898,732
Accrued expenses	2,567,345	2,517,194
Interest payable	1,700,411	1,867,700
Acceptances	6,186,691	4,715,573
Others	3,733,112	2,832,435
	$ 33,834,971	$ 23,164,932

22. DEPOSITS

	December 31	
	2016	2015
Checking deposit	$ 42,574,915	$ 37,344,978
Demand deposit	394,963,376	363,453,070
Time deposit	351,997,282	333,234,816
Negotiable certificates of deposit	6,209,967	7,576,400
Savings deposit	827,332,235	804,891,721
Remittances	1,352,042	1,238,726
	$ 1,624,429,817	$ 1,547,739,711

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

	December 31	
Bank Note, Interest Rate and Maturity Date	**2016**	**2015**
Hedged financial liabilities at fair value		
103-1 Note A, 7-year term, interest payable annually, interest rate 1.70%, maturity date: April 16, 2021	$ 2,200,000	$ 2,200,000
103-1 Note B, 10-year term, interest payable annually, interest rate 1.85%, maturity date: April 16, 2024	3,000,000	3,000,000
Valuation adjustment	75,226	183,580
	5,275,226	5,383,580
Non-hedged bank notes payable		
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
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
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
100-2, 10-year terms, interest payable annually, floating rate, maturity date: April 18, 2021	6,700,000	6,700,000
102-1, 3-year terms, interest payable annually, interest rate 2.90%, maturity date: May 29, 2016	-	4,993,000
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
103-1 Note C, 10-year terms, interest payable annually, floating rate, maturity date: April 16, 2024	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	3,000,000	-
105-1 Note B, 10-year terms, interest payable annually, interest rate 1.20%, maturity date: September 27, 2026	3,300,000	-
	26,100,000	29,793,000
	$ 31,375,226	$ 35,176,580

The Bank engaged in derivative transactions as hedging tools for the 103-1 Note A and 103-1 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. Please refer to Note 12.

24. OTHER FINANCIAL LIABILITIES

	December 31	
	2016	2015
Principal structured products	$ 2,410,781	$ 829,163
Appropriations for loan fund	307,807	232,195
Lease payable	376	13,838
	$ 2,718,964	$ 1,075,196

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

	December 31	
	2016	2015
Unearned revenue	$ 899,770	$ 856,983
Guarantee deposits	2,387,785	2,328,710
Deferred income	23,328	28,027
	$ 3,310,883	$ 3,213,720

26. PROVISIONS

	December 31	
	2016	2015
Reserve for employee benefits	$ 3,985,854	$ 3,919,132
Reserve for guarantee liabilities	538,370	452,184
	$ 4,524,224	$ 4,371,316

	Reserve for Guarantee Liabilities
Balance, January 1, 2016	$ 452,184
Provision	98,452
Bad debts written off	(1,571)
Transfer to allowance for loan losses	(10,000)
Exchange differences	(695)
Balance, December 31, 2016	$ 538,370
Balance, January 1, 2015	$ 461,706
Provision	44,178
Bad debts written off	(4,336)
Transfer to allowance for loan losses	(49,943)
Exchange differences	579
Balance, December 31, 2015	$ 452,184

a. The details of reserve for employee benefit please 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.

27. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Bank adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The defined benefit plan adopted by the Bank in accordance with the Labor Standards Law is operated by the government. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Bank contributes amounts equal to 10% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee’s name. Before the end of each year, the Bank assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Bank is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (“the Bureau”); the Bank has no right to influence the investment policy and strategy.

The amounts included in the balance sheets in respect of the Bank's defined benefit plans were as follows:

	December 31	
	2016	**2015**
Present value of defined benefit obligation	$ 9,375,700	$ 9,421,583
Fair value of plan assets	(6,748,672)	(6,814,352)
Deficit	2,627,028	2,607,231
Others	13,211	8,639
Net defined benefit liability	$ 2,640,239	$ 2,615,870

Movements in net defined benefit liability (asset) were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liability (Asset)**
Balance at January 1, 2016	$ 9,421,583	$ 6,814,352	$ 2,607,231
Service cost			
Current service cost	265,452	-	265,452
Net interest cost	140,279	103,600	36,679
Recognized in profit or loss	405,731	103,600	302,131
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(55,689)	55,689
Actuarial (gain) loss - experience adjustments	187,812	-	187,812
Recognized in other comprehensive income	187,812	(55,689)	243,501
Contributions from the employer	-	525,835	(525,835)
Benefits paid	(639,426)	(639,426)	-
Balance at December 31, 2016	$ 9,375,700	$ 6,748,672	$ 2,627,028
Balance at January 1, 2015	$ 8,813,026	$ 6,567,714	$ 2,245,312
Service cost			
Current service cost	258,868	-	258,868
Net interest cost	151,218	115,327	35,891
Recognized in profit or loss	410,086	115,327	294,759
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	60,041	(60,041)
Actuarial (gain) loss - changes in financial assumptions	250,710	-	250,710
Actuarial (gain) loss - experience adjustments	254,844	-	254,844
Recognized in other comprehensive income	505,554	60,041	445,513
Contributions from the employer	-	378,353	(378,353)
Benefits paid	(307,083)	(307,083)	-
Balance at December 31, 2015	$ 9,421,583	$ 6,814,352	$ 2,607,231

Through the defined benefit plans under the Labor Standards Law, the Bank is exposed to the following risks:

1) Investment risk: The plan assets are invested in domestic/and foreign/equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

2) Interest risk: A decrease in the government and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

The actuarial valuations of the present value of the defined benefit obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2016	**2015**
Discount rate(s)	1.50%	1.50%
Expected rate(s) of salary increase	2.00%	2.00%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of the defined benefit obligation would increase (decrease) as follows:

	December 31, 2016
Discount rate(s)	
0.25% increase	$ (242,143)
0.25% decrease	$ 251,948
Expected rate(s) of salary increase	
0.25% increase	$ 250,063
0.25% decrease	$ (241,559)

The sensitivity analysis presented above may not be representative of the actual change in the present value of the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2016	**2015**
The expected contributions to the plan for the next year	$ 324,000	$ 324,000
The average duration of the defined benefit obligation	10 years	11 years

c. Plan of high-yield savings account for employee

The Bank has the obligation to pay premium interest on the high-yield savings account of its present employees and retired employees. Such obligation is recognized based on its internal guidelines in the Rules of Employee Preferential Deposit for Retired Employees. Refer to Note 29 for related expense.

1) Reconciliation of assets and liabilities at the end of the reporting period with the present value of defined benefit obligation and the fair value of plan assets was as follows:

	December 31	
	2016	2015
Present value of defined benefit obligation	$ 1,345,615	$ 1,303,262
Less: Fair value of defined benefit plan assets	-	-
Assets and liabilities at the end of the reporting period	$ 1,345,615	$ 1,303,262

2) Analysis of defined benefit obligation

	December 31	
	2016	2015
All or part of defined benefit obligation contributed	$ -	$ -
Defined benefit obligation not contributed	1,345,615	1,303,262
	$ 1,345,615	$ 1,303,262

3) Movements of the present value of defined benefit obligation

	For the Year Ended December 31	
	2016	2015
Balance, January 1	$ 1,303,262	$ 1,318,617
Interest cost	49,466	50,068
Actuarial gains and losses	254,520	191,904
Benefits paid	(261,633)	(257,327)
Balance, December 31	$ 1,345,615	$ 1,303,262

4) Movements of the fair value of plan assets

	For the Year Ended December 31	
	2016	2015
Balance, January 1	$ -	$ -
Contribution by employers	261,633	257,237
Benefits paid	(261,633)	(257,237)
Balance, December 31	$ -	$ -

5) Details of gains and losses recognized in expenses

	For the Year Ended December 31	
	2016	2015
Interest cost	$ 49,466	$ 50,068
Actuarial gains and losses	254,520	191,904
	$ 303,986	$ 241,972

6) Main actuarial assumptions

	For the Year Ended December 31	
	2016	2015
Discount rate of high-yield savings account for employee	4.00%	4.00%
Return rate of funds deposited	2.00%	2.00%
Account balance decrease rate per year	1.00%	1.00%
Probability of future high-yield savings account system change	50.00%	50.00%
Mortality rate	Based on Taiwan Life Insurance Industry Mortality Tables	Based on Taiwan Life Insurance Industry Mortality Tables
Rate provided to ordinary clients for similar deposit	1.30%-1.36%	1.39%-1.45%

28. EQUITY

a. Capital stock

Common stock

	December 31	
	2016	2015
Number of stocks authorized (in thousands)	9,000,000	9,000,000
Stocks authorized	$ 90,000,000	$ 90,000,000
Number of stocks issued and fully paid (in thousands)	8,964,762	8,457,323
Stocks issued	$ 89,647,626	$ 84,573,232

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, 2015, the Bank’s authorized and registered capital was $80,000,000 thousand divided into 8,000,000 thousand stocks at a $10 par value; the total paid-in capital was $79,040,404 thousand. In June 2015, the Bank increased the Bank’s registered capital by $10,000,000 thousand. In August 2016 and 2015, the Bank had resolved capitalization of earnings and increased the Bank’s paid-in capital by $5,074,394 thousand and $5,532,828 thousand, respectively. The amount of the Bank’s authorized and registered capital at December 31, 2016 and 2015 were all $90,000,000 thousand divided into 9,000,000 thousand stocks and, also at those dates, the amounts of total paid-in capital were $89,647,626 thousand and $84,573,232 thousand, divided into 8,964,762 thousand outstanding stocks and 8,457,323 thousand outstanding stocks, respectively, 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, please refer to Note 29, item 6, 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 2015 and 2014 had been approved in the shareholders' meetings on June 8, 2016 and June 12, 2015. The appropriations of earnings and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2015	**2014**	**2015**	**2014**
Legal reserve	$ 3,493,001	$ 3,269,154	$ -	$ -
Dividends of common stock - cash	2,960,063	1,580,808	0.35	0.20
Dividends of common stock - stock	5,074,394	5,532,828	0.60	0.70

The appropriations 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 in June 2017.

c. Special reserve

	December 31	
	2016	**2015**
Special reserves appropriated following first-time adoption of IFRSs	$ 11,778,829	$ 11,778,829
Others	241,692	241,692
	$ 12,020,521	$ 12,020,521

29. NET INCOME

a. Net interest income

	For the Year Ended December 31	
	2016	**2015**
Interest income		
Loans	$ 27,051,838	$ 27,207,183
Due from and call loans to banks	2,370,374	2,635,126
Investment in marketable securities	3,034,108	3,032,402
Others	133,206	116,792
	32,589,526	32,991,503
Interest expense		
Deposits	(9,168,024)	(10,229,644)
Due to the Central Bank and call loans from banks	(1,026,528)	(770,123)
Others	(668,205)	(1,075,807)
	(10,862,757)	(12,075,574)
Net interest income	$ 21,726,769	$ 20,915,929

b. Net service fee and commissions income

	For the Year Ended December 31	
	2016	2015
Service fee and commissions income		
Fees from import and export	$ 358,054	$ 360,095
Remittance fees	478,993	466,050
Loan and guarantees fees	813,301	588,718
Fees from trustee	549,278	782,214
Fees from trustee business	251,794	266,280
Others	3,944,005	3,448,816
	6,395,425	5,912,173
Service fee and commissions		
Interbank fees	(138,493)	(133,796)
Fees from trustee business	(23,062)	(34,164)
Management fees	(85,803)	(84,323)
Others	(736,295)	(754,584)
	(983,653)	(1,006,867)
Net service fee and commissions income	$ 5,411,772	$ 4,905,306

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

	For the Year Ended December 31	
	2016	2015
Disposal gains (losses) on financial assets and liabilities at FVTPL		
Stocks and beneficiary certificates	$ 2,208	$ 14,758
Bonds	68,323	64,360
Bills	15	30
Derivative financial instruments	2,274,771	305,130
Net interest income	(178,798)	(192,865)
Stock dividends and bonuses	2,317	1,470
	2,168,836	192,883
Valuation gains (losses) on financial assets and liabilities at FVTPL		
Stocks and beneficiary certificates	(2,314)	(3,356)
Bonds	(187,526)	2,887
Bills	13,645	(8,642)
Derivative financial instruments	78,689	223,016
	(97,506)	213,905
	$ 2,071,330	$ 406,788

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

	For the Year Ended December 31	
	2016	2015
Stock dividends and bonus	$ 143,823	$ 99,071
Disposal gains (losses)		
Stock	117,009	15,377
Bonds	171,393	165,740
	$ 432,225	$ 280,188

e. Depreciation and amortization expenses

	For the Year Ended December 31	
	2016	2015
Property and equipment	$ 550,887	$ 560,584
Investment property	6,627	6,420
Intangible assets and other deferred assets	160,386	135,264
	$ 717,900	$ 702,268

f. Employee benefits expenses

	For the Year Ended December 31	
	2016	2015
Short-term benefits	$ 9,459,706	$ 9,298,793
Post-employment benefits		
Defined contribution plans	155,443	145,456
Defined benefit plans	302,131	294,759
High-yield savings account for employees	303,986	241,972
Other post-employment benefits	327,850	212,188
	$ 10,549,116	$ 10,193,168

1) Employees' compensation and remuneration of directors for 2016 and 2015

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. The employees' compensation and remuneration of directors for the years ended December 31, 2016 and 2015 which have been approved by the Company's board of directors on February 24, 2017 and March 17, 2016, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2016	2015
Employees' compensation	5%	5%
Remuneration of directors	0.4%	0.4%

Amount

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

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.

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.

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

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.

2) Bonus to employees and remuneration of directors and supervisors for 2014

The bonus to employees and remuneration of directors and supervisors for 2014 which have been approved in the shareholders' meeting on June 12, 2015 were as follows:

	For the Year Ended December 31, 2014
	Cash
Bonus to employees	$ 610,242
Remuneration of directors and supervisors	95,350

There was no difference between the amounts of the bonus to employees and the remuneration of directors and supervisors approved in the shareholders' meeting on June 12, 2015 and the amounts recognized in the consolidated financial statements for the year ended December 31, 2014.

Information on the bonus to employees and remuneration of directors and supervisors resolved by the shareholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

30. INCOME TAX

a. Major components of tax expense recognized in profit or loss.

	For the Year Ended December 31	
	2016	2015
Current tax		
In respect of the current year	$ 1,575,232	$ 1,179,493
Adjustments for prior years	2,096	(63,366)
Deferred tax		
In respect of the current year	124,262	801,020
Income tax on unappropriated earnings	-	30,298
Non-deductible tax of overseas branches	295,479	155,419
Income tax expense recognized in profit or loss	$ 1,997,069	$ 2,102,864

A reconciliation of accounting profit and income tax expenses is as follows:

	For the Year Ended December 31	
	2016	2015
Profit before tax	$ 14,083,041	$ 13,746,201
Income tax expense calculated at the statutory rate	2,394,117	2,336,854
Nondeductible expenses in determining taxable income	(58,924)	1,191
Overseas' branch's additional income of deferred tax effect	127,480	89,001
Tax-exempt income	(763,179)	(514,513)
Income tax on unappropriated earnings	-	30,298
Non-deductible tax of overseas branches	295,479	155,419
Adjustments for prior years' tax	-	67,980
Others	2,096	(63,366)
Income tax expense recognized in profit or loss	$ 1,997,069	$ 2,102,864

The applicable tax rate used above is the corporate tax rate of 17% payable by the Bank in ROC, while the applicable tax rate used by branches in China is 25%. Tax rated used by other bank entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 2016 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
Deferred tax		
In respect of the current year:		
Translation of foreign operations	$ (141,140)	$ 6,375
Fair value changes of available-for-sale financial asset	5,370	(6,280)
Actuarial gains and losses on defined benefit plan	(41,395)	(75,737)
Total income tax recognized in other comprehensive income	$ (177,165)	$ (75,642)

c. Current tax assets and liabilities

	For the Year Ended December 31	
	2016	2015
Current tax assets		
Tax refund receivable	$ 45,926	$ 39,486
Others	10,763	15,950
	$ 56,689	$ 55,436
Current tax liabilities		
Income tax payable	$ 550,984	$ 146,692

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Doubtful debts	$ 1,621,191	$ (39,275)	$ -	$ 1,581,916
Others	746,298	83,495	36,025	865,818
	$ 2,367,489	$ 44,220	$ 36,025	$ 2,447,734
Deferred tax liabilities				
Land revaluation increment tax	$ 6,156,692	$ -	$ -	$ 6,156,692
Temporary differences	488,167	168,482	(141,140)	515,509
	$ 6,644,859	$ 168,482	$ (141,140)	$ 6,672,201

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Doubtful debts	$ 1,778,870	$ (157,679)	$ -	$ 1,621,191
Others	851,833	(187,552)	82,017	746,298
	2,630,703	(345,231)	82,017	2,367,489
Tax losses	555,329	(555,329)	-	-
	$ 3,186,032	$ (900,560)	$ 82,017	$ 2,367,489

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax liabilities				
Land revaluation increment tax	$ 6,156,692	$ -	$ -	$ 6,156,692
Temporary differences	581,332	(99,540)	6,375	488,167
	$ 6,738,024	$ (99,540)	$ 6,375	$ 6,644,859

(Concluded)

e. Integrated income tax

	December 31	
	2016	2015
Unappropriated earnings generated on and after January 1, 1998	$ 11,970,239	$ 11,613,831
Shareholder-imputed credits account	$ 1,132,836	$ 859,993

	For the Years Ended December 31	
	2016 (Expected)	2015
Creditable ratio for distribution of earnings	9.75%	9.19%

e. 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 2015 were adjusted retrospectively as followings:

Unit: NT$ Per Share

	For the Year Ended December 31, 2015	
	Before Adjusted Retrospectively	After Adjusted Retrospectively
Basic earnings per share	$ 1.38	$ 1.30
Diluted earnings per share	$ 1.37	$ 1.29

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

	For the Year Ended December 31	
	2016	2015
Net profit for the year	$ 12,085,972	$ 11,643,337

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

	For the Year Ended December 31	
	2016	**2015**
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 or bonus issue to employees	52,388	63,299
Weighted average number of common stocks used in the computation of diluted earnings per share	9,017,150	9,028,061

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 December 31, 2016 and 2015, refundable deposits paid under operation leases amounted to $39,579 thousand and $39,006 thousand, respectively.

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

	December 31	
	2016	**2015**
Not later than 1 year	$ 557,224	$ 561,595
Later than 1 year and not later than 5 years	1,150,303	1,066,544
Later than 5 years	302,443	365,478
	$ 2,009,970	$ 1,993,617

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 December 31, 2016 and 2015, refundable deposits received under operation leases amounted to $51,430 thousand and $49,272 thousand, respectively.

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

	December 31	
	2016	**2015**
Not later than 1 year	$ 230,985	$ 191,030
Later than 1 year and not later than 5 years	551,598	422,066
Later than 5 years	77,655	77,442
	$ 860,238	$ 690,538

33. CAPITAL RISK MANAGEMENT

a. Summary

The Bank's goals in capital management are as follows:

1) The Bank's qualified regulatory capital should meet the requirement of capital adequacy regulations, and reached the minimum capital adequacy ratio.

2) To ensure the Bank is able to meet the capital heeds, it should be evaluated periodicity and observed the variation between regulatory capital and risk assets to keep common equity ratio in the interval approved by the board of directors.

3) Related to the calculation of qualified regulatory capital and legal capital were according to the regulation of administration.

b. Capital management procedures

The Bank kept capital adequacy ratio completely to meet the requirement of the administration, and declared to the administration quarterly.

In addition, the capital management procedures for the overseas subsidiaries of the Bank were carried out according to the regulation of local administrations.

The Bank's capital adequacy performance, which was calculated based on Regulations Governing the Capital Adequacy and Capital Category of Banks, was reported to the Asset and Liability Management Committee of the Bank periodically. The regulatory capital was classified into Tier 1 Capital, other Tier 1 Capital and Tier 2 Capital.

1) Tier 1 Capital: Include Common Equity and other Tier 1 Capital

   Common Equity: Include common stock (include capital collected in advance), Capital reserves (exclude additional paid-in capital in excess of par - preferred stock), accumulated profit, reserve and adjusted equity. Deduct: Legal adjustments.

2) Other Tier 1 Capital: Include noncumulative perpetual preferred stock, noncumulative perpetual subordinated debts. Deduct: Legal adjustments.

3) Tier 2 Capital: Include cumulative perpetual preferred stock, cumulative perpetual subordinated debts, revaluation reserve, long-term subordinated debt, non-perpetual preferred stock include stock issue price 45% of unrecognized available for sale financial assets convertible bonds, operating reserves and allowance for doubtful accounts. Deduct: Legal adjustments.

c. Capital adequacy

<table>
<tr><th colspan="3">Period
Item</th><th>December 31, 2016</th><th>December 31, 2015</th></tr>
<tr><td rowspan="4">Self-owned capital</td><td colspan="2">Common equity Tier I</td><td>$ 121,271,653</td><td>$ 112,853,258</td></tr>
<tr><td colspan="2">Other Tier I capital</td><td>2,332,643</td><td>2,606,267</td></tr>
<tr><td colspan="2">Tier II capital</td><td>43,971,841</td><td>38,454,781</td></tr>
<tr><td colspan="2">Self-owned capital</td><td>167,576,137</td><td>153,914,306</td></tr>
<tr><td rowspan="9">Risk-weighted assets</td><td rowspan="3">Credit risk</td><td>Standardized approach</td><td>1,330,834,716</td><td>1,249,155,462</td></tr>
<tr><td>IRB</td><td>-</td><td>-</td></tr>
<tr><td>Securitization</td><td>17,711</td><td>22,558</td></tr>
<tr><td rowspan="3">Operation risk</td><td>Basic indicator approach</td><td>-</td><td>-</td></tr>
<tr><td>Standardized approach/optional standard</td><td>50,906,050</td><td>46,064,950</td></tr>
<tr><td>Advanced internal rating based approach</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Market price risk</td><td>Standardized approach</td><td>13,292,788</td><td>11,798,713</td></tr>
<tr><td>Internal model approach</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Total</td><td>1,395,051,265</td><td>1,307,041,683</td></tr>
<tr><td colspan="3">Capital adequacy ratio</td><td>12.01%</td><td>11.78%</td></tr>
<tr><td colspan="3">Common equity Tier I to risk-weighted assets ratio</td><td>8.69%</td><td>8.63%</td></tr>
<tr><td colspan="3">Tier I capital to risk-weighted assets ratio</td><td>8.86%</td><td>8.83%</td></tr>
<tr><td colspan="3">Leverage ratio</td><td>5.76%</td><td>5.65%</td></tr>
</table>

Note 1: The ratios are calculated in accordance with the Regulations Governing the Capita l Adequacy and Capital category of Banks.

Note 2: Annual financial report should include the capital adequacy ratio in current and previous period. Besides semiannual report should disclose the ratio the end of last year.

Note 3: Formula:

a. Self-owned capital = Common equity Tier I + Other Tier I capital + Tier II capital

b. Risk-weighted assets = Credit risk-weighted assets + (Operation risk capital + Market price risk capital) x 12.5

c. Capital adequacy = Self-owned capital ÷ Risk-weighted assets

d. Common equity Tier I capital to risk-weighted assets ratio = Common equity Tier I capital ÷ Risk-weighted assets

e. Tier I capital to risk-weighted assets ratio = (Common equity Tier I + Other Tier I capital) ÷ Risk-weighted assets

f. Leverage ratio = Tier I capital ÷ Adjusted average assets

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

	December 31			
	2016		2015	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Held-to-maturity investments	$ 204,864,541	$ 204,960,525	$ 205,777,255	$ 205,870,456
Bonds investment with no active market	88,555	91,914	2,051,074	2,065,441
Financial liabilities				
Bond payables	31,375,226	31,824,888	35,176,580	36,206,685

2) Fair value hierarchy

Fair value hierarchy as at December 31, 2016

	Total	Level 1	Level 2	Level 3
Financial assets				
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	-
Financial liabilities				
Bond payables	31,824,888	-	7,275,226	24,549,662

Fair value hierarchy as at December 31, 2015

	Total	Level 1	Level 2	Level 3
Financial assets				
Held-to-maturity investments	$ 205,870,456	$ 2,031,983	$ 14,299,527	$ 189,538,946
Bonds investment with no active market	2,065,441	-	2,065,441	-
Financial liabilities				
Bond payables	36,206,685	-	7,383,580	28,823,105

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

1) Fair value hierarchy

Fair Value Measurement of Financial Instruments	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Non-derivative financial products				
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	-
Derivative financial products				
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	December 31, 2015 Total	Level 1	Level 2	Level 3
Non-derivative financial products				
Assets				
Financial assets at FVTPL	$ 37,502,364	$ 7,867,973	$ 29,634,391	$ -
Trading assets	31,383,858	2,776,230	28,607,628	-
Mutual funds	207,362	207,362	-	-
Bond investments	2,574,583	2,568,868	5,715	-
Others	28,601,913	-	28,601,913	-
Financial assets designated upon initial recognition as at fair value through profit or loss	6,118,506	5,091,743	1,026,763	-
Available-for-sale financial assets	67,415,202	39,679,658	27,735,544	-
Stock investments	2,811,056	2,811,056	-	-
Bond investments	63,772,077	36,036,533	27,735,544	-
Others	832,069	832,069	-	-
Liabilities				
Financial liabilities at FVTPL	17,156,385	-	17,156,385	-
Derivative financial products				
Assets				
Financial assets at FVTPL	6,016,251	42,697	5,973,554	-
Other financial assets				
Hedging derivative financial instruments	192,521	-	192,521	-
Liabilities				
Financial liabilities at FVTPL	5,575,754	-	5,575,754	-

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

2) Reconciliation of Level 3 fair value measurements of financial instruments

Item	For the Year Ended December 31, 2015 Beginning Balance	Valuation Gains (Losses)	Increase Buy or Issue	Increase Transfer In	Decrease Sell, Disposal	Decrease Transfer Out	Ending Balance
Financial assets designated upon initial recognition as at fair value through profit or loss	$ 2,368,757	$ 6,493	$ -	$ -	$ -	$ (2,375,250) (Note)	$ -

Note: The fair values of the financial instruments were based on the observable inputs and therefore transferred out to Level 2.

Valuation gains (losses) mentioned above recognized in current profits or losses in the amounts of $6,493 thousand was attributed to gains (losses) on assets owned during the years ended December 31, 2015.

3) 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 changed the VaR method to historical simulation method on January 27, 2014. 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 December 31, 2016 and 2015, the Bank's VaR factors based on historical simulation method were as follows:

	For the Year Ended December 31, 2016			
	Average	Highest	Lowest	Ending Balance
Exchange VaR	$ 132,869	$ 210,803	$ 84,965	$ 124,001
Interest rate VaR	31,516	39,497	26,264	31,699
Equity securities VaR	932	1,293	576	576
Value at risk	$ 165,317	$ 251,593	$ 111,805	$ 156,276

	For the Year Ended December 31, 2015			
	Average	Highest	Lowest	Ending Balance
Exchange VaR	$ 194,224	$ 240,624	$ 157,538	$ 178,307
Interest rate VaR	23,113	33,243	16,638	24,754
Equity securities VaR	1,387	2,076	554	554
Value at risk	$ 218,724	$ 275,943	$ 174,730	$ 203,615

2) Primary foreign currencies

The significant foreign-currency financial assets and liabilities as of December 31, 2016 and 2015 were as follows:

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	December 31, 2016		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
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

(Continued)

	December 31, 2016		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial liabilities			
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	4.62400	73,628,960
Non-monetary items			
USD	401,490	32.2200	12,936,008

(Concluded)

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	December 31, 2015		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 5,645,010	32.8800	$ 185,607,929
GBP	63,612	48.7500	3,101,085
AUD	1,006,015	23.9750	24,119,210
HKD	2,622,818	4.2420	11,125,994
CAD	139,611	23.7200	3,311,573
ZAR	3,469,471	2.1200	7,355,279
JPY	44,888,355	0.2730	12,254,521
EUR	462,107	35.9200	16,598,883
NZD	97,431	22.5000	2,192,198
RMB	16,254,654	4.9930	81,159,487
Non-monetary items			
USD	181,848	32.8800	5,979,162
Financial liabilities			
Monetary items			
USD	7,389,128	32.8800	242,954,529
GBP	66,341	48.7500	3,234,124
AUD	917,100	23.9750	21,987,473
HKD	2,013,797	4.2420	8,542,527
CAD	144,919	23.7200	3,437,479
ZAR	3,231,377	2.1200	6,850,519
JPY	43,759,871	0.2730	11,946,445
EUR	521,328	35.9200	18,726,102
NZD	109,150	22.5000	2,455,875
RMB	14,995,804	4.9930	74,874,049
Non-monetary items			
USD	542,028	32.8800	17,821,881

For the years ended December 31, 2016 and 2015, net foreign exchange gains were $279,662 thousand and $1,647,056 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:

December 31, 2016

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	**Master Netting Arrangement**	**Other Credit Enhancements (Describe)**	**Total**
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

December 31, 2015

	Maximum Exposure to Credit Risk Mitigated by			
`	**Collateral**	**Master Netting Arrangement**	**Other Credit Enhancements (Describe)**	**Total**
Loans	$ 823,065,441	$ -	$ -	$ 823,065,441
Financial assets at fair value through profit or loss	19,613,086	-	-	19,613,086
Available-for-sale financial assets	2,977,472	-	-	2,977,472
Held-to-maturity financial assets	2,274,908	-	-	2,274,908
Debt investments with no active market	838,702	-	-	838,702

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. Please refer to the notes to the financial statements.

As of December 31, 2016 and 2015, the maximum exposure to credit risk (before deducting the guarantees or other credit enhancement instruments and the irrepealable maximum amount of exposure) were as follows:

Financial Instrument Type	December 31 2016	December 31 2015
Unused loan commitments (excluding credit card)	$ 93,836,687	$ 107,576,609
Credit card credit commitment	371,718	347,862
Unused issued letters of credit	23,053,060	17,841,443
Guarantees in guarantee business	44,626,870	34,838,957

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:

	December 31			
	2016		2015	
Industry Type	Carrying Value	Percentage of Item (%)	Carrying Value	Percentage of Item (%)
Financial and insurance	$ 64,187,414	5	$ 69,546,315	5
Manufacturing	337,151,780	24	336,412,256	25
Wholesale and retail	121,089,857	9	120,394,303	9
Real estate and leasing	98,686,674	7	95,714,952	7
Service	43,032,933	3	34,962,605	3
Individuals	444,708,300	32	440,352,896	33
Others	274,525,907	20	240,685,928	18
	$ 1,383,382,865		$ 1,338,069,255	

	December 31			
	2016		2015	
Geographic Location	Carrying Value	Percentage of Item (%)	Carrying Value	Percentage of Item (%)
Asia	$1,316,938,252	95	$ 1,283,595,979	96
America	47,678,320	4	38,227,608	3
Europe	16,835,940	1	14,656,050	1
Others	1,930,353	-	1,589,618	-
	$ 1,383,382,865		$ 1,338,069,255	

	December 31			
	2016		2015	
Securities Type	Carrying Value	Percentage of Item (%)	Carrying Value	Percentage of Item (%)
Unsecured	$ 514,497,433	37	$ 515,003,814	38
Secured				
Properties	722,217,556	52	678,140,284	51
Others	146,667,876	11	144,925,157	11
	$ 1,383,382,865		$ 1,338,069,255	

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	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	
In-balance-sheet items											
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	December 31, 2015										
	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	
In-balance-sheet items											
Receivables	$ 8,256,011	$ 3,754,199	$ 233,619	$ 7,311,855	$ 19,555,684	$ 5,690	$ 268,718	$ 19,830,092	$ 32,561	$ 68,088	$ 19,729,443
Credit cards	-	-	-	1,705,377	1,705,377	-	21,946	1,727,323	11,842	4,910	1,710,571
Other	8,256,011	3,754,199	233,619	5,606,478	17,850,307	5,690	246,772	18,102,769	20,719	63,178	18,018,872
Loans	360,671,585	691,923,764	167,048,979	107,337,347	1,326,981,675	1,910,806	9,176,774	1,338,069,255	3,745,400	12,389,492	1,321,934,363

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

(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	December 31, 2015				
	Neither Past Due Nor Impaired				
	High	Medium	Weak	Non-ratings	Total
Consumer finance	$ 75,713,515	$ 167,667,619	$ 139,937,877	$ 54,055,386	$ 437,374,397
Corporation finance	284,958,070	524,256,145	27,111,102	53,281,961	889,607,278
Total	$ 360,671,585	$ 691,923,764	$ 167,048,979	$ 107,337,347	$ 1,326,981,675

iii. Credit quality analysis of non-credit financial assets

(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 (Note)	237,401	148,846	-	88,555
Securities	88,555	-	-	-	88,555	-	148,846 (Note)	237,401	148,846	-	88,555

Note: Cost on the reclassification date.

(In Thousands of New Taiwan Dollars)

Item	December 31, 2015										
	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	$ 67,093,360	$ -	$ -	$ 291,842	$ 67,385,202	$ -	$ 150,000	$ 67,535,202	$ 120,000	$ -	$ 67,415,202
Bonds	63,480,235	-	-	291,842	63,772,077	-	-	63,772,077	-	-	63,772,077
Stocks	2,781,056	-	-	-	2,781,056	-	150,000	2,931,056	120,000	-	2,811,056
Bills	832,069	-	-	-	832,069	-	-	832,069	-	-	832,069
Held-to-maturity financial assets	205,777,255	-	-	-	205,777,255	-	-	205,777,255	-	-	205,777,255
Bonds	16,238,309	-	-	-	16,238,309	-	-	16,238,309	-	-	16,238,309
Bills	189,538,946	-	-	-	189,538,946	-	-	189,538,946	-	-	189,538,946
Other financial assets	1,401,984	-	-	649,090	2,051,074	-	151,896 (Note)	2,202,970	151,896	-	2,051,074
Securities and bonds	1,401,984	-	-	649,090	2,051,074	-	151,896 (Note)	2,202,970	151,896	-	2,051,074

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	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	December 31, 2015		
	Past Due Up to One Month	Past Due Over One Month	Total
Loans			
Consumer finance	$ 1,432,093	$ 362,836	$ 1,794,929
Corporation finance	69,943	45,934	115,877

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 December 31, 2016 and 2015, the ratio of liquidity reserve is 16.14% and 16.48%, 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	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
	356,922,296	104,356,270	126,591,835	220,860,584	680,772,656	1,489,503,641
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
	175,063,793	131,562,454	133,201,999	204,770,747	712,038,870	1,356,637,863
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	December 31, 2015					
	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	$ 15,844,045	$ -	$ -	$ -	$ -	$ 15,844,045
Due from the Central Bank and call loans to other banks	26,469,047	4,179,952	3,889,574	8,416,082	22,571,460	65,526,115
Financial assets at fair value through profit or loss	30,495,415	-	-	-	-	30,495,415
Receivables	30,347,555	868,017	336,169	185,511	23,442	31,760,694
Loans	126,948,235	85,399,511	79,069,950	127,263,918	662,062,408	1,080,744,022
Available-for-sale financial assets	-	-	-	253,180	28,659,717	28,912,897
Held-to-maturity financial assets	142,100,000	5,400,000	749,957	4,830,568	13,429,830	166,510,355
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	-	-	-	-	13,812,491	13,812,491
	372,204,297	95,847,480	84,045,650	141,749,259	744,726,357	1,438,573,043
Major maturity funds outflows						
Due to the Central Bank and banks	309,593	614,799	279,206	1,759,635	-	2,963,233
Due to the Central Bank and call loans to other banks	7,005,000	15,000	-	-	-	7,020,000
Securities sold under repurchase agreements	2,385,469	1,851,277	124,649	-	-	4,361,395
Payables	26,642,222	1,740,480	438,972	1,452,177	603,646	30,877,497
Deposits and remittances	139,784,281	130,939,306	122,281,893	264,587,961	550,249,329	1,207,842,770
Bank notes payable	-	-	-	5,000,000	25,000,000	30,000,000
Other maturity funds outflows items	28,780	48,886	29,743	196,471	5,349,751	5,653,631
	176,155,345	135,209,748	123,154,463	272,996,244	581,202,726	1,288,718,526
Gap	$ 196,048,952	$ (39,362,268)	$ (39,108,813)	$ (131,246,985)	$ 163,523,631	$ 149,854,517

Note: The amounts listed above were the position in N.T. 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
	2,942,666	1,817,978	1,164,117	1,441,015	4,309,751	11,675,527
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
	4,824,474	2,744,953	940,862	1,232,413	3,322,747	13,065,449
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	December 31, 2015					
	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	$ 249,869	$ 82,003	$ -	$ -	$ -	$ 331,872
Due from the Central Bank and call loans to other banks	1,084,240	934,188	35,771	5,820	414,131	2,474,150
Financial assets at fair value through profit or loss	188,072	-	-	-	-	188,072
Receivables	582,754	120,925	120,979	1,537	630	826,825
Loans	510,173	774,879	680,161	549,105	3,844,856	6,359,174
Available-for-sale financial assets	-	21,004	9,875	-	83,213	114,092
Held-to-maturity financial assets	-	-	-	-	45,178	45,178
Debts instrument without active market	-	-	-	-	3,430	3,430
Other maturity funds inflow items	-	-	11,000	-	16,357	27,357
	2,615,108	1,932,999	857,786	556,462	4,407,795	10,370,150
Major maturity funds outflows						
Due to the Central Bank and banks	890,299	23,612	672	1,112	16,044	931,739
Due to the Central Bank and call loans to other banks	1,816,668	406,000	38,000	20,000	410,000	2,690,668
Financial liabilities at fair value through profit or loss	-	-	-	146,160	375,628	521,788
Payables	929,844	16,834	1,987	904	4,037	953,606
Deposits and remittances	1,929,078	1,305,611	770,315	1,082,320	2,291,970	7,379,294
Other maturity funds outflows items	41,242	942	228	1,074	10,291	53,777
	5,607,131	1,752,999	811,202	1,251,570	3,107,970	12,530,872
Gap	$ (2,992,023)	$ 180,000	$ 46,584	$ (695,108)	$ 1,299,825	$ (2,160,722)

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	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	December 31, 2015					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	$ 120,763,877	$ 171,822,681	$ 49,938,678	$ 34,842,655	$ -	$ 377,367,891
Inflows	121,550,739	171,903,419	49,918,619	34,904,795	-	378,277,572
Interest rate derivative instruments						
Outflows	11,130,415	5,032,635	17,771,081	10,549,309	10,748,999	55,232,439
Inflows	11,442,427	5,221,938	17,238,993	10,485,959	10,717,982	55,107,299
Total outflows	$ 131,894,292	$ 176,855,316	$ 67,709,759	$ 45,391,964	$ 10,748,999	$ 432,600,330
Total inflows	$ 132,993,166	$ 177,125,357	$ 67,157,612	$ 45,390,754	$ 10,717,982	$ 433,384,871

e) Maturity analysis of off-balance-sheet items

Bank's off-balance-sheet items - irrevocable loans, guarantees, 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	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	December 31, 2015					
	0-30 Days	**31-90 Days**	**91-180 Days**	**181 Days-1 Year**	**Over 1 Year**	**Total**
Irrevocable loan commitments issued	$ 82,419,939	$ 1,699,601	$ 5,329,753	$ 7,153,150	$ 10,974,166	$ 107,576,609
Credit card credit commitment	-	1,816	7,335	12,718	325,993	347,862
Letters of credit issued yet unused	17,777,044	64,399	-	-	-	17,841,443
Guarantees	33,323,076	246,103	74,655	836,973	358,150	34,838,957
	$ 133,520,059	$ 2,011,919	$ 5,411,743	$ 8,002,841	$ 11,658,309	$ 160,604,871

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

Business Type \ Item			December 31, 2016					December 31, 2015				
			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		$ 1,281,512	$ 432,229,261	0.30%	$ 4,639,707	362.05%	$ 1,396,999	$ 389,922,671	0.36%	$ 3,641,728	260.68%
	Unsecured		959,523	506,445,268	0.19%	5,555,562	578.99%	474,616	507,793,570	0.09%	5,901,103	1,243.34%
Consumer finance	Mortgage loans (Note d)		774,431	278,084,284	0.28%	4,224,539	545.50%	633,884	285,913,032	0.22%	4,288,695	676.57%
	Cash cards (Note h)		-	-	-	-	-	-	-	-	-	-
	Credit loans (Note e)		5,849	1,862,280	0.31%	19,948	341.05%	1,416	1,736,436	0.08%	20,982	1,481.78%
	Others (Note f)	Secured	493,975	163,274,105	0.30%	1,667,738	337.62%	325,055	150,979,061	0.22%	2,264,686	696.71%
		Unsecured	552	1,487,667	0.04%	15,481	2,804.53%	10,537	1,724,485	0.61%	17,698	167.96%
Total			3,515,842	1,383,382,865	0.25%	16,122,975	458.58%	2,842,507	1,338,069,255	0.21%	16,134,892	567.63%

Business Type \ Item	December 31, 2016					December 31, 2015				
	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	2,468	1,726,689	0.14%	19,119	774.68%	$ 5,499	$ 1,633,468	0.34%	$ 19,340	351.70%
No recourse receivable factoring (Note g)	-	7,840,444	-	78,404	-	-	8,369,870	-	23,077	-

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	December 31, 2016		December 31, 2015	
	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)	$ 52	$ 2,105	$ 82	$ 2,945
Negotiated accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing receivables (Note b)	275	13,677	399	9,443
Total	327	15,782	481	12,388

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

December 31, 2016			
Rank (Note a)	**Transaction Party (Note b)**	**Loans (Note c)**	**As Proportion of Net Equity (%)(Note d)**
1	A Group (plastic skin, plate and tube manufacturing industry)	$ 33,300,793	24.21
2	B Corporation (railway transportation industry)	30,647,034	22.28
3	C Group (airline industry)	22,115,079	16.08
4	D Group (synthesis construction industry)	16,276,245	11.84
5	E Group (concrete manufacturing industry)	14,405,642	10.48
6	F Group (computer, peripheral equipment and software wholesale industry)	8,289,270	6.03
7	G Group (financial services industry)	7,857,038	5.71
8	H Group (real estate development industry)	7,689,000	5.59
9	I Group (steel manufacturing industry)	7,539,485	5.48
10	J Group (liquid crystal panel and components manufacturing industry)	7,535,032	5.48

December 31, 2015			
Rank (Note a)	**Transaction Party (Note b)**	**Loans (Note c)**	**As Proportion of Net Equity (%)(Note d)**
1	B Corporation (railway transportation industry)	$ 33,586,063	25.94
2	A Group (petroleum and coal products manufacturing industry)	29,114,264	22.49
3	C Group (airline industry)	22,648,185	17.49
4	E Group (petrochemical industry)	11,081,682	8.56
5	D Group (synthesis construction industry)	10,786,085	8.33
6	K Group (steel refining industry)	8,296,438	6.41
7	I Group (steel manufacturing industry)	7,516,703	5.81
8	H Group (real estate development industry)	7,172,000	5.54
9	F Group (liquid crystal panel and components manufacturing industry)	6,876,717	5.31
10	G Group (financial intermediation industry)	6,414,158	4.95

Note a: Sorted by the balance of loans on December 31, 2016 and 2015, 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	December 31, 2016				
	1-90 Days	**91-180 Days**	**181 Days-1 Year**	**More Than 1 Year**	**Total**
Interest-sensitive assets	$ 1,269,307,194	$ 40,458,358	$ 22,450,149	$ 91,540,909	$ 1,423,756,610
Interest-sensitive liabilities	333,593,854	791,540,046	101,368,336	31,089,085	1,257,591,321
Interest sensitivity gap	935,713,340	(751,081,688)	(78,918,187)	60,451,824	166,165,289
Net equity					115,193,351
Ratio of interest-sensitive assets to liabilities					113.21%
Ratio of interest sensitivity gap to net equity					144.25%

(In Thousands of New Taiwan Dollars; %)

Item	December 31, 2015				
	1-90 Days	**91-180 Days**	**181 Days-1 Year**	**More Than 1 Year**	**Total**
Interest-sensitive assets	$ 1,267,507,477	$ 27,129,583	$ 13,415,785	$ 86,585,684	$ 1,394,638,529
Interest-sensitive liabilities	335,247,723	748,037,555	105,659,727	24,828,487	1,213,773,492
Interest sensitivity gap	932,259,754	(720,907,972)	(92,243,942)	61,757,197	180,865,037
Net equity					111,678,202
Ratio of interest-sensitive assets to liabilities					114.90%
Ratio of interest sensitivity gap to net equity					161.95%

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	December 31, 2016				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	$ 11,695,399	$ 1,255,645	$ 1,194,422	$ 228,174	$ 14,373,640
Interest-sensitive liabilities	14,170,543	746,860	767,441	20,036	15,704,880
Interest sensitivity gap	(2,475,144)	508,785	426,981	208,138	(1,331,240)
Net equity					367,773
Ratio of interest-sensitive assets to liabilities					91.52%
Ratio of interest sensitivity gap to net equity					(361.97%)

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

Item	December 31, 2015				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	$ 10,381,782	$ 905,269	$ 52,120	$ 92,517	$ 11,431,688
Interest-sensitive liabilities	11,790,745	504,859	648,353	75	12,944,032
Interest sensitivity gap	(1,408,963)	400,410	(596,233)	92,442	(1,512,344)
Net equity					244,438
Ratio of interest-sensitive assets to liabilities					88.32%
Ratio of interest sensitivity gap to net equity					(618.70%)

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		December 31, 2016	December 31, 2015
Return on total assets	Pretax	0.72%	0.74%
	After tax	0.62%	0.63%
Return on net equity	Pretax	10.55%	11.05%
	After tax	9.05%	9.36%
Profit margin		38.98%	39.24%

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 December 31 of 2016 and 2015, respectively.

e. Maturity analysis of assets and liabilities

(In Thousands of New Taiwan Dollars)

	Total	December 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	$ 1,715,407,610	$ 217,882,071	$ 175,326,732	$ 228,633,704	$ 148,631,534	$ 238,682,665	$ 706,250,904
Major maturity cash outflows	2,222,080,238	142,241,450	148,319,598	348,521,395	264,651,463	443,541,393	874,804,939
Gap	(506,672,628)	75,640,621	27,007,134	(119,887,691)	(116,019,929)	(204,858,728)	(168,554,035)

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2015					
		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	$ 1,623,502,234	$ 215,059,161	$ 181,532,162	$ 194,333,821	$ 107,210,544	$ 154,925,867	$ 770,440,679
Major maturity cash outflows	2,229,849,144	103,582,737	193,408,578	325,083,300	241,528,797	497,461,930	868,783,802
Gap	(606,346,910)	111,476,424	(11,876,416)	(130,749,479)	(134,318,253)	(342,536,063)	(98,343,123)

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	December 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	$ 22,387,536	$ 8,975,508	$ 4,198,450	$ 2,006,425	$ 2,684,110	$ 4,523,043
Major maturity cash outflows	27,799,842	9,713,083	5,422,109	2,914,319	4,358,604	5,391,727
Gap	(5,412,306)	(737,575)	(1,223,659)	(907,894)	(1,674,494)	(868,684)

(In Thousands of U.S. Dollars)

	Total	December 31, 2015				
		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	$ 19,218,912	$ 7,507,420	$ 4,017,235	$ 1,801,543	$ 1,302,600	$ 4,590,114
Major maturity cash outflows	24,301,953	8,835,716	3,764,253	2,992,149	3,890,522	4,819,313
Gap	(5,083,041)	(1,328,296)	252,982	(1,190,606)	(2,587,922)	(229,199)

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

f. Sale of non-performing loans

(In Thousands of New Taiwan Dollars)

Transaction Date	Counterparty	Composition of NPLs	Book Value	Sales Price	Gain on Disposal	Agreement with Added Terms	Relationship
2016.08.02	Deutsche Bank AG, London Branch	International syndicated loan (foreign currency unsecured loans debt)	$ -	$ 177,972	$ 177,972	None	None

(In Thousands of New Taiwan Dollars)

Transaction Date	Counterparty	Composition of NPLs	Book Value	Sales Price	Gain on Disposal	Agreement with Added Terms	Relationship
2015.04.02	Wells Fargo Bank	Unsecured loans debt	$ -	$ 20,435	$ 20,435	None	None

g. Trust accounts

Under Article 3 of the Trust Law, the Bank can offer trust services. The items and amounts of trust accounts as of December 31, 2016 and 2015 were as follows:

	December 31	
	2016	2015
Special purpose trust accounts - domestic	$ 24,689,081	$ 25,523,639
Special purpose trust accounts - foreign	76,545,719	78,144,619
Insurance trust	1,046	1,038
Retirement and breeds trust	327,389	259,478
Umbilical-cord-blood trust	8,912,851	7,943,603
Money claim and guarantee trust	75,000	79,200
Marketable securities trust	3,543,841	910,467
Real estate trust	13,598,963	10,359,078
Securities under custody	119,703,445	137,125,599
Other money trust	1,833,292	785,663
	$ 249,230,627	$ 261,132,384

h. Disclosures on trust assets and liabilities and assets register as required by Enforcement Rules of ROC Trust Law Article 17 were as follows:

Balance Sheet of Trust

Trust Assets	December 31 2016	December 31 2015	Trust Liabilities	December 31 2016	December 31 2015
Bank deposits	$ 4,229,913	$ 3,678,523	Trust capital		
Insurance claims	75,000	79,200	Money trust	$ 112,113,342	$ 113,574,602
Financial assets			Insurance claims	75,000	79,200
Common stocks	3,945,809	1,184,299	Marketable securities trust	3,467,283	813,200
Mutual funds	106,783,085	107,556,099	Real estate trust	13,608,304	10,373,433
Bonds	1,940,611	1,375,880	Securities under custody payable	119,703,445	137,125,599
Adjustments - common stock	-	3,174	Administration payable	93	103
Adjustments - mutual funds	-	(52,673)	Income taxes payable	970	995
			Profit and loss	202,713	153,016
Adjustments - bonds	-	3,828	Unappropriated retained earnings - realized capital gain/loss	15,104	15,809
Interest receivable	16,816	11,944			
Dividends receivable	-	20,028			
Land	7,695,635	7,335,606	Unappropriated retained earnings - gain on revenue/expense investment	413,944	256,101
Buildings	630,375	581,241			
Construction in progress	4,209,938	2,229,636			
Securities under custody	119,703,445	137,125,599			
			Unappropriated retained earning	(369,571)	(1,259,674)
Total trust assets	$ 249,230,627	$ 261,132,384	Total trust liabilities	$ 249,230,627	$ 261,132,384

Trust Assets Register

Investments	December 31 2016	2015
Bank deposits	$ 4,229,913	$ 3,678,523
Insurance claims	75,000	79,200
Financial assets		
Common stocks	3,945,809	1,187,473
Mutual funds	106,783,085	107,503,426
Bonds	1,940,611	1,379,708
Land	7,695,635	7,335,606
Buildings	630,375	581,241
Construction in progress	4,209,938	2,229,636
Others	16,816	31,972
Securities under custody	119,703,445	137,125,599
Total trust assets	$ 249,230,627	$ 261,132,384

Income Statement of Trust

Investments	For the Year Ended December 31 2016	2015
Revenue		
Interest income	$ 66,233	$ 73,149
Dividends	51,430	66,998
Rental revenues	7,211	45,329
Gain on mutual funds	19,074	13,387
Foreign exchange gains	588,327	602,748
Realized capital gain - mutual funds	-	12,354
Realized capital gain - quoted stocks	-	4,055
Realized capital gain - bonds	-	5,889
Unrealized capital gain - mutual funds	15,911	5,218
Unrealized capital gain - quoted stocks	116,330	123,796
Unrealized capital gain - bonds	17,575	17,316
	882,091	970,239
Expense		
Maintenance	(1,659)	(1,813)
Tax expense	(2,174)	(1,321)
Others	(10,520)	(18,065)
Foreign exchange losses	(546,140)	(589,723)
Realized capital loss - bonds	-	(7,333)
Unrealized capital loss - bonds	(21,382)	(13,489)
Realized capital loss - mutual funds	-	(6,965)
Unrealized capital loss - mutual funds	(36,685)	(57,891)
Unrealized capital loss - quoted stocks	(60,818)	(120,623)
	(679,378)	(817,223)
	$ 202,713	$ 153,016

36. RELATED-PARTY TRANSACTIONS

a. Related parties and their relationships with the Bank

Name	Relationship
Direct, supervisor and managers and the relatives	CHB's director, supervisor and managers and the relatives
Taishin Financial Holding	CHB'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 manager's spouse of Chang Hwa Bank
Others	FSC-approved IAS 24, "Related Party Disclosures" other related parties

b. Significant transactions with related parties

1) Loans

	Balance	Percentage of Loans (%)
Balance as of December 31, 2016	$ 1,221,091	0.09
Balance as of December 31, 2015	1,148,344	0.09

For the years ended December 31, 2016 and 2015, interest ranged from 0.00% to 3.57% and 0.00% to 4.80%, interest revenues were $17,364 thousand and $23,846 thousand, respectively.

	December 31, 2016					
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
Consumer loans						
30 accounts	$ 13,075	$ 13,875	$ 13,075	$ -	Credit	None
Self-use residential mortgage loans						
198 accounts	1,162,260	1,202,477	1,162,260	-	Real estate	None
Others						
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

	December 31, 2015					
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
Consumer loans						
27 accounts	$ 11,691	$ 12,630	$ 11,691	$ -	Credit	None
Self-use residential mortgage loans						
206 accounts	1,087,294	1,113,387	1,087,294	-	Real estate	None

Others	December 31, 2015 Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
Crown Department Company	$ 37,550	$ 78,100	$ 37,550	$ -	Real estate	None
Other - individual 15 accounts (Note)	11,809	13,974	11,809	-	Foreign currency or deposit	None

(Concluded)

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 loan within $800 thousand per person bore interest at 1.26% in December 31, 2016 and 1.40% in December 31, 2015, 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

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

3) Deposits

	Balance	Percentage of Loans (%)
Balance as of December 31, 2016	$ 4,002,457	0.25
Balance as of December 31, 2015	3,568,423	0.23

For the years ended December 31, 2016 and 2015, the interest rates interval were all between 0.00% to 13.00%; the interest expense were $53,421 thousand and $56,001 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)

Name	Department	Currency	December 31, 2016 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

(In Thousands of Original Currencies)

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
			December 31, 2015		
Land Bank	DBU	NTD	$ 1,500,000	0.23-0.87	$ 1,192
	OBU	USD	78,000	0.11-0.83	48
		JPY	390,000	0.13	93
	Hong Kong Branch	USD	52,000	0.11-0.86	219
Taiwan Business Bank	OBU	USD	25,000	0.14-0.80	172
		RMB	30,000	1.30-5.00	1,192
		EUR	1,500	0.01-0.05	-
	Hong Kong Branch	USD	10,000	0.11-0.50	62
		AUD	5,000	2.24-2.30	51

Call loans from banks

(In Thousands of Original Currencies)

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
			December 31, 2016		
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

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
			December 31, 2015		
Land Bank	DBU	NTD	$ 5,000	0.24-0.88	$ 2,252
	OBU	AUD	5,000	1.95-2.30	3
	New York Branch	USD	30,000	0.14-0.39	25
	Los Angeles Branch	USD	20,000	0.10-0.37	5
	London Branch	USD	30,000	0.13-0.80	60
		EUR	15,000	0.02	-
Taiwan Business Bank	London Branch	EUR	15,000	0.02-0.03	-

5) Due from banks and due to banks

Due from banks

(In Thousands of New Taiwan Dollars)

Name	Department	Currency	December 31 2016 Ending Balance	December 31 2015 Ending Balance
Land Bank	DBU	NTD	$ 3	$ 69
Taiwan Business Bank	DBU	NTD	722	5

Due to banks

(In Thousands of Original Currencies)

Name	Department	Currency	December 31 2016 Ending Balance	December 31 2015 Ending Balance
The Export-Import Bank	DBU	NTD	$ 613	$ 1,308
Taishin International Bank	New York Branch	USD	47	45
Land Bank	DBU	NTD	277	277

c. Compensation of directors, supervisors and management personnel:

	For the Year Ended December 31 2016	For the Year Ended December 31 2015
Short-term benefits	$ 113,179	$ 160,809
Post-employment benefits	1,939	10,597
	$ 115,118	$ 171,406

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

37. PLEDGED ASSETS

The summary of the Bank's pledged assets as of December 31, 2016 and 2015 were as follows:

Pledged Assets	Description	December 31 2016	December 31 2015
Available-for-sale financial assets	Government bonds	$ 5,921,200	$ 5,757,300
Held-to-maturity financial assets	Bonds and certificate of deposits	36,819,687	36,792,991
Time deposits with original maturity more than 3 months	Time deposit	5,780,000	8,338,310
Refundable deposits	Cash	284,790	109,225

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 December 31, 2016 and 2015:

	December 31	
	2016	**2015**
Trust liabilities	$ 249,230,627	$ 261,132,384
Unused loan commitments	93,836,687	107,576,609
Credit card credit commitment	371,718	347,862
Unused issued letters of credit	23,053,060	17,841,443
Guarantees issued in guarantee business	44,626,870	34,838,957
Repayment note and time deposit held for custody	12,828,805	10,061,107
Liabilities on joint loans	512,886	288,195

b. A lawsuit was filed by the Ministry of Defence and Support for Armed Forces, the Islamic Republic of Iran (hereinafter referred to as "the Iranian plaintiff") in 1991 against the Group concerning a dispute in which the Iranian plaintiff sought "request for payment via electronic remittance" for the amount of US$15 million. After the Supreme Court ruled in favor of the Group on August 1, 2002, the Iranian plaintiff countered by resuming another lawsuit it had filed against the Group in 1997: "Demand for the Return of the Remittance by Way of Subrogation". On September 10, 2004, the Taipei local district court again ruled in favor of the Group with regard to the aforesaid "Demand for the Return of the Remittance by Way of Subrogation". On July 13, 2010, the Taiwan Superior Court once more ruled in favor of the Group. The Iranian party again appealed the decision to the Supreme Court on August 10, 2010. On November 4, 2010, the Supreme Court ordered the Taiwan Superior Court to review the ruling. On December 27, 2011, the Taiwan Superior Court again ruled in favor of the Bank. The Iranian plaintiff, after refusing to accept the decision of the Court, appealed to the Supreme Court on January 19, 2012. On July 31, 2012, the Supreme Court ordered the Taiwan Superior Court to review the ruling. On September 24, 2013, the Taiwan Superior Court again ruled in favor of the Bank. The Iranian plaintiff appealed to the Supreme Court again on October 16, 2013. On October 16, 2014, the Supreme Court ruled in favor of the Bank. The Iranian plaintiff appealed to the Supreme Court again on November 28, 2014. The Supreme Court rejected the appeal on January 13, 2016.

c. Damagers amounted to $45,609 thousand between Chang Hwa Bank and TDK Corporation currently in trial in Taiwan Superior Court. The verdict is still pending.

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 year ended December 31, 2016	None
2	Acquisition of fixed assets over NT$300 million or 10% of outstanding capital for the year ended December 31, 2016	None
3	Disposal of fixed assets over NT$300 million or 10% of outstanding capital for the year ended December 31, 2016	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 December 31, 2016	None
6	Sale of NPL	Note 35
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 December 31, 2016	None
5	Accumulated purchases and sales balance of specific marketable security over NT$300 million or 10% of outstanding capital for the year ended December 31, 2016	None
6	Acquisition of property, plant and equipment over NT$300 million or 10% of outstanding capital for the year ended December 31, 2016	None
7	Disposal of property, plant and equipment over NT$300 million or 10% of outstanding capital for the year ended December 31, 2016	None
8	Receivables from related parties over NT$300 million or 10% of outstanding capital as of December 31, 2016	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. LOANS TO PARTIES WITH COMMON INTERESTS

Investees' Names (Note a)	Investees' Location	Principal Business Activities	Ownership Interest (%) at Ending Balance	Investment Book Value	Recognized Investment Income (Loss) of Current Period	Sum of Ownership (Note a)			
						Current Shares	Imputed Shares (Note b)	Shares	Ownership Interest (%)
MasterLink Securities Corp.	Taipei City	Security brokerage	3.95	$ 576,092	$ -	64,152,806	-	64,152,806	3.95
Asia Pacific Broadband Telecom Co.	Taipei City	Type I & type II telecommunications business	0.35	155,250	-	15,000,000	-	15,000,000	0.35
Taiwan High Speed Rail Corporation	Taipei City	High speed rail road	0.79	818,800	-	44,500,000	-	44,500,000	0.79
Taiwan Stock Exchange Co.	Taipei City	Securities brokerage, margin lending, and underwriting financial products	3.00	72,012	-	20,310,706	-	20,310,706	3.00
Taiwan Sugar Co.	Tainan City	Manufacture correlative products of sugar and crop	0.41	44,309	-	23,246,159	-	23,246,159	0.41
Taiwan Power Co.	Taipei City	Generate electric power, power distribution, and cable assemble	0.71	1,872,923	-	235,726,532	-	235,726,532	0.71
Taipei Foreign Exchange Inc.	Taipei City	Exchange trading, DEPOS, and Swap	3.53	7,000	-	700,000	-	700,000	3.53
Lieu-An Service Co., Ltd.	Taipei City	ATM purchase, rental, and repair or maintenance	5.00	1,250	-	125,000	-	125,000	5.00
CDIB & Partners Investment Holding Co.	Taipei City	Investment	4.95	500,000	-	54,000,000	-	54,000,000	4.95
Nomura Asset Management Taiwan Ltd.	Taipei City	Securities investment trust	4.09	18,043	-	1,413,725	-	1,413,725	4.09
Financial Information Service Co., Ltd.	Taipei City	Type II telecommunications business	1.16	46,446	-	6,047,370	-	6,047,370	1.16
Taiwan Futures Exchange	Taipei City	Futures exchange	1.00	20,000	-	3,060,002	-	3,060,002	1.00
Taiwan Assets Management Co., Ltd.	Taipei City	Acquisition of delinquent loans, evaluation, auction, and management	11.35	1,500,000	-	150,000,000	-	150,000,000	11.35
Taiwan Financial Asset Service Co.	Taipei City	Auction assets of the recognition of an impartial third party	2.94	50,000	-	5,000,000	-	5,000,000	2.94
Financial Evolution Co., Ltd.	Taipei City	Financial information systems development	4.12	9,860	-	905,475	-	905,475	4.12
Taiwan Depository & Clearing Corporation	Taipei City	Provide book-entry of securities transactions	0.08	6,749	-	292,499	-	292,499	0.08
Sunlight Assets Management Co., Ltd.	Taipei City	Acquisition of delinquent loans, evaluation, auction, and management	0.70	417	-	41,768	-	41,768	0.70
Taiwan Mobile Payment Corporation	Taipei City	Electronic Information provider	3.00	18,000	-	1,800,000		1,800,000	3.00
Tai Yu Products Corporation	Taichung City	Frozen agricultural products	4.77	(Note c)	-	5,748,382	-	5,748,382	4.77
Chi-Yi Construction Management Company	New Taipei City	Residential development and lease	1.47	(Note c)	-	556,965	-	556,965	1.47

Note a: The investees' voting shares, and imputed shares were owned by the Bank and related parties.

Note b: Imputed shares are considered if equity securities such as convertible bonds, warrants, etc., or derivative contracts such as stock options, are converted.

Note c: The Bank had recognized the loss on investment in Tai Yu Products Corporation and Chi-Yi Construction Management Company.

41. 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 Year Ended December 31, 2016						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch	Others	Total
Net interest income	$ 13,398,254	$ 3,569,976	$ 1,211,370	$ -	$ 3,547,243	$ (74)	$ 21,726,769
Net service fee and commissions income	1,586,754	187,007	(52,670)	3,377,335	313,346	-	5,411,772
Net income on financial instrument	-	-	3,431,699	-	41,333	-	3,473,032
Others	23,634	-	6,944	2,159	54,608	309,563	396,908
Net revenue and gains	15,008,642	3,756,983	4,597,343	3,379,494	3,956,530	309,489	31,008,481
Bad debts expenses and guarantee liability provisions	(42,694)	-	(339,691)	-	(755,659)	-	(1,138,044)
Operating expenses	-	-	-	-	-	-	(15,787,396)
Income before income tax	$ 14,965,948	$ 3,756,983	$ 4,257,652	$ 3,379,494	$ 3,200,871	$ 309,489	$ 14,083,041

	For the Year Ended December 31, 2015						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch	Others	Total
Net interest income	$ 12,940,143	$ 3,907,248	$ 1,139,683	$ -	$ 2,929,886	$ (1,031)	$ 20,915,929
Net service fee and commissions income	1,354,190	205,415	(34,529)	3,132,820	247,410	-	4,905,306
Net income on financial instrument	-	-	2,565,867	-	63,001	-	2,628,868
Others	30,972	-	9,393	-	15,115	1,151,451	1,206,931
Net revenue and gains	14,325,305	4,112,663	3,680,414	3,132,820	3,255,412	1,150,420	29,657,034
Bad debts expenses and guarantee liability provisions	94,362	-	96	-	(423,830)	-	(329,372)
Operating expenses	-	-	-	-	-	-	(15,581,461)
Income before income tax	$ 14,419,667	$ 4,112,663	$ 3,680,510	$ 3,132,820	$ 2,831,582	$ 1,150,420	$ 13,746,201

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

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

	December 31, 2015						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Oversea Branch	Others	Adjustment	Total
Assets	$ 1,212,492,604	$ -	$ 579,377,116	$ 184,251,101	$ 64,146,858	$ (134,010,460)	$ 1,906,257,219
Liabilities	$ 1,419,188	$ 1,504,608,294	$ 199,314,526	$ 168,805,353	$ 36,645,359	$ (134,010,460)	$ 1,776,782,260

CHANG HWA COMMERCIAL BANK, LTD.

INFORMATION OF INVESTMENT IN MAINLAND CHINA
YEAR ENDED DECEMBER 31, 2016
(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, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Net Income (Loss) of the Investee (Note 2)	% of Direct or Indirect Investment	Investment Gain (Losses)	Carrying Amount as of December 31, 2016	Accumulated Repatriation of Investment Income as of December 31, 2016	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 December 31, 2016	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)	$ 20,628,529

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

a. Direct investment in Mainland China.

b. Investment in Mainland China through reinvestment in existing enterprise in a third area.

c. Others.

Note 2: Equity in the profits (losses):

a. If the entity is still in preparation stage and there is no equity in profits (losses), the condition should be noted.

b. 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.

1) Financial statement audited (reviewed) by international accounting firms that cooperate with accounting firms in ROC.

2) Consolidated financial statements audited (reviewed) by Taiwan parent company’s CPA.

3) 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, subsidiaries or acquire shares or capital contribution from local shareholders in Mainland China.

b. The subsidiaries whose issued stocks with voting rights or more than 50% of capital is held by banks in Taiwan that have investment in Mainland China.

(Concluded)