Chang Hwa Commercial Bank, Ltd.

Financial Statements for the
Years Ended December 31, 2017 and 2016 and
Independent Auditors' Report

Deloitte.

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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, 2017 and 2016, 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, 2017 and 2016, 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, 2017. 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, 2017.

Impairment Assessment of Loans and Receivables

Loans and receivables are the most important assets of the Bank. As of December 31, 2017, the total amount of loans and receivables was $1,401,710,683 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. Therefore, we considered the impairment assessment of loans and receivables to be a key audit matter.

When assessing the appropriateness of the impairment of loans and receivables, we understood the internal controls 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 individual impairment assessment. We reviewed whether the Bank considered the value of the collateral appropriately when evaluating the impairment. For the collective impairment assessment, we evaluated the rationality of the assessment 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, 2017 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 Tung Feng Lee.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 12, 2018

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
Cash and cash equivalents (Notes 4, 6 and 36)	$ 74,835,132	4	$ 45,199,330	2
Due from the Central Bank and call loans to banks (Notes 4, 6 and 36)	165,015,057	8	194,825,223	10
Financial assets at fair value through profit or loss (Notes 4 and 7)	13,552,513	1	34,699,024	2
Derivative financial assets for hedging (Notes 4 and 12)	243,372	-	86,265	-
Receivables, net (Notes 4, 8 and 9)	24,670,023	1	20,280,261	1
Current tax assets (Notes 4 and 30)	135,714	-	56,689	-
Loans, net (Notes 4, 5, 9, 35 and 36)	1,377,040,660	68	1,367,259,890	68
Available-for-sale financial assets, net (Notes 4, 10 and 37)	73,175,886	3	76,824,866	4
Held-to-maturity financial assets, net (Notes 4, 5, 11 and 37)	237,412,046	12	204,864,541	10
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)	64,609	-	88,555	-
Other miscellaneous financial assets (Notes 4, 15 and 37)	27,015,755	1	18,842,264	1
Other financial assets, net	31,247,373	1	23,097,828	1
Property and equipment, net (Notes 4 and 16)	20,639,732	1	20,801,823	1
Investment property, net (Notes 4 and 17)	13,747,787	1	13,753,981	1
Intangible assets, net (Notes 4 and 18)	436,176	-	423,465	-
Deferred tax assets (Notes 4 and 30)	3,175,050	-	2,447,734	-
Other assets, net (Notes 19, 32 and 37)	931,879	-	530,584	-
TOTAL	$ 2,036,258,400	100	$ 2,005,151,504	100
LIABILITIES AND EQUITY				
Due to the Central Bank and banks (Notes 4, 20 and 36)	$ 108,151,867	5	$ 139,162,582	7
Financial liabilities at fair value through profit or loss (Notes 4 and 7)	12,309,330	1	18,093,146	1
Securities sold under repurchase agreements (Note 4)	3,118,536	-	2,954,981	-
Payables (Notes 4, 21 and 28)	34,849,855	2	33,834,971	2
Current tax liabilities (Notes 4 and 30)	954,609	-	550,984	-
Deposits and remittances (Notes 4, 22 and 36)	1,672,079,784	82	1,624,429,817	81
Bank note payables (Notes 4 and 23)	41,739,657	2	31,375,226	2
Other financial liabilities (Notes 4 and 24)	3,662,600	-	2,718,964	-
Reserve for liabilities (Notes 4, 5 and 26)	4,758,835	-	4,524,224	-
Deferred tax liabilities (Notes 4 and 30)	7,019,970	1	6,672,201	-
Other liabilities (Notes 4, 25 and 32)	2,665,793	-	3,310,883	-
Total liabilities	1,891,310,836	93	1,867,627,979	93
EQUITY (Notes 4, 28 and 30)				
Capital stock				
Common stock	94,130,007	5	89,647,626	5
Retained earnings				
Legal reserve	27,410,736	1	23,784,945	1
Special reserve	12,080,950	1	12,020,521	1
Unappropriated earnings	11,779,842	-	11,970,239	-
Other equity				
Exchange differences on translation of foreign financial statements	(1,251,858)	-	(8,125)	-
Unrealized gains on available-for-sale financial assets	797,969	-	108,319	-
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(82)	-	-	-
Total equity	144,947,564	7	137,523,525	7
TOTAL	$ 2,036,258,400	100	$ 2,005,151,504	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, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	%	Amount	%
INTEREST INCOME (Notes 4, 29 and 36)	$ 34,602,915	113	$ 32,589,526	105
INTEREST EXPENSES (Notes 29 and 36)	(11,946,045)	(39)	(10,862,757)	(35)
NET INTEREST INCOME	22,656,870	74	21,726,769	70
NET INCOME OTHER THAN NET INTEREST INCOME				
Net service fee and commission income (Notes 4 and 29)	4,798,618	15	5,411,772	17
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4, 7 and 29)	2,342,942	7	2,071,330	7
Realized gains on available-for-sale financial assets (Notes 4 and 29)	564,466	2	432,225	1
Foreign exchange gains (losses) (Notes 4 and 34)	(76,604)	-	279,662	1
Other miscellaneous net income (Note 12)	510,427	2	1,086,723	4
Net income other than net interest income	8,139,849	26	9,281,712	30
NET REVENUE AND GAINS	30,796,719	100	31,008,481	100
BAD DEBTS EXPENSES AND GUARANTEE LIABILITY PROVISIONS (Notes 4 and 9)	(791,185)	(3)	(1,138,044)	(4)
OPERATING EXPENSES				
Employee benefits expenses (Notes 4 and 29)	(10,607,874)	(34)	(10,549,116)	(34)
Depreciation and amortization expenses (Notes 4 and 29)	(718,826)	(2)	(717,900)	(2)
Other general and administrative expenses	(4,494,615)	(15)	(4,520,380)	(15)
Total operating expenses	(15,821,315)	(51)	(15,787,396)	(51)
INCOME BEFORE INCOME TAX	14,184,219	46	14,083,041	45
INCOME TAX EXPENSE (Notes 4 and 30)	(2,091,113)	(7)	(1,997,069)	(6)
NET INCOME	12,093,106	39	12,085,972	39

(Continued)

CHANG HWA COMMERCIAL BANK, LTD.

STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016	
	Amount	**%**	**Amount**	**%**
OTHER COMPREHENSIVE LOSS				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans (Notes 4 and 27)	$ (421,325)	(1)	$ (243,501)	-
Changes in the fair value attributable to changes in the credit risk of financial liabilities designated as at fair value through profit or loss	(82)	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 30)	71,625	-	41,395	-
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations (Note 4)	(1,383,702)	(4)	(883,139)	(3)
Unrealized gains on available-for-sale financial assets (Note 4)	701,409	2	(127,868)	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 30)	128,210	-	135,770	-
Other comprehensive loss for the year, net of income tax	(903,865)	(3)	(1,077,343)	(3)
TOTAL COMPREHENSIVE INCOME	$ 11,189,241	36	$ 11,008,629	36
EARNINGS PER SHARE (Note 31)				
Basic	$ 1.28		$ 1.28	
Diluted	$ 1.28		$ 1.28	

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of the Bank								
						Other Equity			
	Capital Stock		Retained Earnings			Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Changes in the Fair Value Attributable to Changes in the Credit Risk of Financial Liabilities Designated as at Fair Value through Profit or Loss	
	Shares (Thousand)	Amount	Legal Reserve	Special Reserve	Unappropriated Earnings				Total Equity
BALANCE, JANUARY 1, 2016	8,457,323	$ 84,573,232	$ 20,291,944	$ 12,020,521	$ 11,613,831	$ 733,874	$ 241,557	$ -	$ 129,474,959
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 loss for the year ended December 31, 2016, net of tax	-	-	-	-	(202,106)	(741,999)	(133,238)	-	(1,077,343)
Total comprehensive income (loss) 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
Appropriation of 2016 earnings									
Legal reserve	-	-	3,625,791	-	(3,625,791)	-	-	-	-
Special reserve	-	-	-	60,429	(60,429)	-	-	-	-
Cash dividends	-	-	-	-	(3,765,202)	-	-	-	(3,765,202)
Stock dividends	448,239	4,482,381	-	-	(4,482,381)	-	-	-	-
Net income for the year ended December 31, 2017	-	-	-	-	12,093,106	-	-	-	12,093,106
Other comprehensive income (loss) for the year ended December 31, 2017, net of tax	-	-	-	-	(349,700)	(1,243,733)	689,650	(82)	(903,865)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	11,743,406	(1,243,733)	689,650	(82)	11,189,241
BALANCE, DECEMBER 31, 2017	9,413,001	$ 94,130,007	$ 27,410,736	$ 12,080,950	$ 11,779,842	$ (1,251,858)	$ 797,969	$ (82)	$ 144,947,564

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, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before income tax	$ 14,184,219	$ 14,083,041
Non-cash (income and gains) or expenses and losses		
Bad debts expenses and guarantee liability provisions	791,185	1,138,044
Depreciation expenses	539,021	557,514
Amortization expenses	179,805	160,386
Interest income	(34,602,915)	(32,589,526)
Interest expenses	11,946,045	10,862,757
Dividends income	(366,054)	(789,842)
Net gain on financial assets and liabilities at fair value through profit or loss	(818,409)	(2,378,874)
Gain on disposal of investments	(434,481)	(288,460)
Unrealized foreign exchange (gains) losses	(1,524,533)	307,544
Other adjustments	(57,237)	(366,905)
Changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank	5,014,917	(12,866,982)
Decrease in financial assets at fair value through profit or loss	18,374,678	9,520,686
Increase in receivables	(4,320,831)	(1,037,630)
Increase in loans	(10,101,128)	(45,806,771)
Decrease (increase) in available-for-sale financial assets	6,473,481	(7,595,267)
(Increase) decrease in held-to-maturity financial assets	(32,547,505)	912,772
(Increase) decrease in other financial assets	(8,568,278)	8,626,729
Increase in other assets	(399,581)	(181,428)
Decrease in due to the Central Bank and banks	(39,852)	(3,121,308)
Increase in deposits and remittances	47,649,967	76,690,106
Increase in payables	621,026	10,837,328
Decrease in financial liabilities at fair value through profit or loss	(928,116)	(3,760,030)
Decrease in reserve for liabilities	(153,811)	(177,474)
Increase in other financial liabilities	943,636	1,643,768
(Decrease) increase in other liabilities	(614,310)	78,779
Cash flows generated from operations	11,240,939	24,458,957
Interest received	32,988,589	31,386,075
Dividends received	366,054	789,842
Interest paid	(11,553,981)	(11,030,981)
Income taxes refunded	31,183	-
Income taxes paid	(1,867,200)	(1,468,515)
Net cash flows generated from operating activities	31,205,584	44,135,378
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(430,775)	(333,887)
Acquisition of investment property	(390)	(1,122)
Acquisition of intangible assets	(181,941)	(77,281)
Proceeds from disposal of property and equipment	4,287	38
Net cash used in investing activities	(608,819)	(412,252)

(Continued)

CHANG HWA COMMERCIAL BANK, LTD.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017	2016
CASH FLOWS FROM FINANCING ACTIVITIES		
(Decrease) increase in due to the Central Bank and call loans from banks	$ (30,970,863)	$ 14,378,822
Proceeds from issuance of bank notes	10,200,000	6,300,000
Repayment of bank notes	-	(9,624,000)
Cash dividends distributed	(3,765,202)	(2,960,063)
Increase (decrease) in securities sold under repurchase agreements	163,555	(1,657,066)
Net cash (used in) generated from financing activities	(24,372,510)	6,437,693
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,383,702)	(883,139)
NET INCREASE IN CASH AND CASH EQUIVALENTS	4,840,553	49,277,680
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	167,977,705	118,700,025
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 172,818,258	$ 167,977,705

	December 31	
	2017	2016
Reconciliation of cash and cash equivalents		
Cash and cash equivalents in balance sheet	$ 74,835,132	$ 45,199,330
Call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 permitted by the Financial Supervisory Commission	97,983,126	122,778,375
Cash and cash equivalents at end of period	$ 172,818,258	$ 167,977,705

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

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 ("TWSE").

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 and a representative office in Yangon.

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 equity after the merger.

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

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

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Bank's board of directors on February 12, 2018.

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

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

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

b. 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) (collectively, the "IFRSs") endorsed by the FSC for application starting from 2018 and the amendments to IFRS 9 for early adoption starting from 2018

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 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 3)
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
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.

Note 3: The amendments to IFRS 9 are not yet endorsed by the FSC; however, the FSC permits that entities may elect to early adopt the amendments starting from 2018.

1) IFRS 9 “Financial Instruments” and related amendment

Recognition and measurement of financial assets

With regard 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.

The Bank elects to early adopt the amendments to IFRS 9 “Prepayment Features with Negative Compensation” when it first applies IFRS 9. The amendments stipulated that for the purpose of assessing whether contractual cash flows are solely payments of principal and interest on the principal amount outstanding, the prepayment amount of a contractual term may include reasonable compensation that shall be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

The Bank analyzed the facts and circumstances of its financial assets that exist at December 31, 2017 and performed the assessment of the impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

a) Listed bank note as fair value through profit or loss and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows;

b) Listed shares, emerging market shares, and unlisted shares classified as available-for-sale will be designated as at fair value through other comprehensive income and the fair value gains or losses accumulated in other equity will be transferred directly to retained earnings instead of being reclassified to profit or loss on disposal;

c) Debt investments classified as available-for-sale, held-to-maturity financial assets, debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows and will be classified as at fair value through other comprehensive income under IFRS 9, because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets will be classified as at fair value through profit or loss, because, on initial recognition, the contractual cash flows are solely payments of principal and interest on the principal outstanding but the objective of the Bank's business model is not to collect contractual cash flows and neither is it achieved both by collecting contractual cash flows and selling financial assets and will be classified as at fair value through profit or loss, because, on initial recognition, the contractual cash flows are not solely payments of principal and interest on the principal outstanding.

IFRS 9 requires impairment loss on financial assets to be recognized by using the "Expected Credit Losses Model". The 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.

The Bank elects not to restate prior reporting periods when applying the requirements for the classification, measurement and impairment of financial assets under IFRS 9 with the cumulative effect of the initial application recognized at the date of initial application and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss	$ 13,552,513	$ (4,967,089)	$ 8,585,424
Financial assets at fair value through other comprehensive income	-	76,011,561	76,011,561
Available-for-sale financial assets, net	73,175,886	(73,175,886)	-
Held-to-maturity financial assets, net	237,412,046	(237,412,046)	-
Financial assets measured at amortized cost	-	246,755,365	246,755,365
Derivative financial assets for hedging, net	243,372	(243,372)	-
Financial assets for hedging	-	243,372	243,372
Financial assets carried at cost	4,167,009	(4,167,009)	-
Debt investments without active market	64,609	(64,609)	-
Receivables, net	24,670,023	515,077	25,185,100
Total effect on assets	$ 353,285,458	$ 3,495,364	$ 356,780,822
Reserve for loan commitments	$ -	$ 472,742	$ 472,742
Deferred tax liabilities	7,019,970	(71,226)	6,948,744
Total effect on liabilities	$ 7,019,970	$ 401,516	$ 7,421,486
Retained earnings	$ 51,271,528	$ (347,751)	$ 50,923,777
Other equity	(453,971)	3,441,599	2,987,628
Total effect on equity	$ 50,817,557	$ 3,093,848	$ 53,911,405

Hedge accounting

The main changes in hedge accounting amended the application requirements for hedge accounting to better reflect the entity's risk management activities. Compared with IAS 39, the main changes include: (1) enhancing types of transactions eligible for hedge accounting, specifically broadening the risks eligible for hedge accounting of non-financial items; (2) changing the way the hedging cost of 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.

The assessment of the Banks's current hedging relationships indicates that they will qualify as continuing hedging relationships upon application of IFRS 9.

2) Amendments 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.

In assessing deferred tax asset, the Bank currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit; the amendment will be applied retrospectively in 2018.

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.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
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 16 “Leases”	January 1, 2019 (Note 2)
IFRS 17“Insurance Contracts”	January 1, 2021
Amendments to IAS 28 “Long-term Interests in Associates and Joint Ventures”	January 1, 2019
IFRIC 23 “Uncertainty Over Income Tax Treatments”	January 1, 2019

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

Note 2: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

1) 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.

2) IFRIC 23 “Uncertainty Over Income Tax Treatments”

IFRIC 23 clarifies that when there is uncertainty over income tax treatments, the Bank should assume that the taxation authority will have full knowledge of all related information when making related examinations. If the Bank concludes that it is probable that the taxation authority will accept an uncertain tax treatment, the Bank should determine the taxable profit, tax bases, unused tax losses, unused tax credits or tax rates consistently with the tax treatments used or planned to be used in its income tax filings. If it is not probable that the taxation authority will accept an uncertain tax treatment, the Bank should make estimates using either the most likely amount or the expected value of the tax treatment, depending on which method the entity expects to better predict the resolution of the uncertainty. The Bank has to reassess its judgments and estimates if facts and circumstances change.

On initial application, the Bank shall apply IFRIC 23 either retrospectively to each prior reporting period presented, if this is possible without the use of hindsight, or retrospectively with the cumulative effect of the initial application of IFRIC 23 recognized at the date of initial application.

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.

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

1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

3) Level 3 inputs are unobservable inputs for an asset or liability.

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 and Equipment

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

Property 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 and equipment when completed and ready for intended use.

Freehold land is not depreciated.

Depreciation of property 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 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 is 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.

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 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.

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 estimates are 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, 2017 and 2016 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	
	2017	2016
Cash on hand	$ 10,579,908	$ 11,036,052
Checks for clearing	18,097,350	17,454,559
Due from banks	44,672,316	15,083,232
Foreign currencies on hand	1,485,558	1,625,487
	$ 74,835,132	$ 45,199,330

b. Due from Central Bank and call loans to banks

	December 31	
	2017	2016
Call loans to banks	$ 97,983,126	$ 122,778,375
Reserve for checking accounts	18,418,622	25,184,329
Reserve for demand accounts	42,558,656	39,605,276
Reserve for foreign deposits	438,550	401,760
Others	5,616,103	6,855,483
	$ 165,015,057	$ 194,825,223

7. FINANCIAL INSTRUMENTS AT FVTPL

Financial Assets at FVTPL

	December 31	
	2017	2016
Financial assets designated as at FVTPL		
Interest rate-linked combination instruments	$ 5,325,880	$ 5,448,301
Derivative financial assets (not applying hedge accounting)		
Futures	182,565	77,803
Forward exchange contracts	220,037	221,512
Interest rate swaps	713,446	1,464,398
Cross-currency swaps	544,088	922,514
Currency swaps	1,507,886	3,340,446
Currency call option premiums	182,600	346,116
Non-derivative financial assets		
Investments in bills	3,026,213	20,970,079
Mutual funds	-	190,941
Government bonds	1,849,798	1,700,629
Corporate bonds	-	16,285
	8,226,633	29,250,723
	$ 13,552,513	$ 34,699,024

The par values of bonds and notes provided for transactions with repurchase agreements were $1,176,200 thousand and $982,300 thousand as of December 31, 2017 and 2016, respectively.

Financial Liabilities at FVTPL

	December 31	
	2017	**2016**
Financial liabilities designated as at FVTPL		
Unsecured U.S. dollar-denominated bank notes	$ 8,759,276	$ 12,606,694
Derivative financial liabilities (not applying hedge accounting)		
Forward contracts	49,782	259,933
Interest rate swaps	685,128	1,415,178
Cross-currency swaps	305,686	1,104,589
Currency swaps	2,325,169	2,357,964
Currency put option premiums	184,289	348,788
	3,550,054	5,486,452
	$ 12,309,330	$ 18,093,146

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

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

2) Note B, 20-year term, US$100,000 thousand, issued at par value with no interest payment, callable 3 years after issue date with interest payment, maturity: 2034.12.18. The note was redeemed on December 19, 2017.

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.

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

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

	December 31	
	2017	**2016**
Currency swaps	$ 317,193,943	$ 363,182,300
Currency options	43,390,297	117,144,777
Forward exchange contracts	18,480,944	27,481,811
Interest rate swaps	389,538,301	412,196,722
Cross-currency swaps	13,063,953	52,851,494

8. RECEIVABLES, NET

	December 31 2017	December 31 2016
Accounts receivable	$ 14,277,857	$ 8,990,029
Revenue receivables	3,471	3,316
Interest receivables	3,549,809	3,395,881
Acceptance receivables	4,262,347	5,589,590
Credit card receivables	1,783,596	1,766,729
Settlement prices	440,397	426,554
Settlement price receivables	285,538	582,536
Other receivables	648,341	98,657
Less allowance for receivables	(581,333)	(573,031)
	$ 24,670,023	$ 20,280,261

Refer to Note 9 for the movements of allowance for receivables.

9. LOANS, NET

a. The details of loans are as follows:

	December 31 2017	December 31 2016
Negotiated	$ 5,010,733	$ 6,139,403
Overdraft	1,441,350	1,531,820
Short-term loans	363,295,585	358,167,831
Receivable amount for margin loans	368,478	259,931
Medium-term loans	454,955,547	467,363,994
Long-term loans	564,200,949	546,771,155
Delinquent loans	4,134,997	3,148,731
	1,393,407,639	1,383,382,865
Less allowance for loan losses	(16,366,979)	(16,122,975)
	$ 1,377,040,660	$ 1,367,259,890

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

	For the Year Ended December 31, 2017			
	Receivables	Loans	Other Financial Assets	Total
Balance, January 1, 2017	$ 573,031	$ 16,122,975	$ 25,937	$ 16,721,943
Recovery of loans written off	5,483	2,616,196	14,129	2,635,808
Provision for loan losses	84,997	320,358	418,114	823,469
Loans written off	(49,251)	(2,481,007)	(50,099)	(2,580,357)
Others	(32,927)	(211,543)	619	(243,851)
Balance, December 31, 2017	$ 581,333	$ 16,366,979	$ 408,700	$ 17,357,012

	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

The delinquent loans of which the accrual of interest income was stopped internally as of December 31, 2017 and 2016 were $4,134,997 thousand and $3,148,731 thousand, respectively. The interest income on delinquent loans not accrued in the years ended December 31, 2017 and 2016 were $110,404 thousand and $84,386 thousand, respectively.

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

c. Details of provision for loan losses for the years ended December 31, 2017 and 2016 were as follows:

	For the Year Ended December 31	
	2017	2016
Provision for receivable and loan (including delinquent loan) losses	$ 823,469	$ 1,039,592
(Reversal) provision for guarantees	(32,284)	98,452
	$ 791,185	$ 1,138,044

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

Receivables

Item		Total Receivable December 31, 2017	Total Receivable December 31, 2016
Objective evidence of impairment	Individual assessment of impairment	$ 830,674	$ 438,101
	Combined assessment of impairment	62,617	50,980
None objective evidence of impairment	Combined assessment of impairment	24,358,065	20,364,211
Total		$ 25,251,356	$ 20,853,292

Item		Total Allowance December 31, 2017	Total Allowance December 31, 2016
Objective evidence of impairment	Individual assessment of impairment	$ 369,671	$ 398,440
	Combined assessment of impairment	33,122	18,182
None objective evidence of impairment	Combined assessment of impairment	178,540	156,409
Total		$ 581,333	$ 573,031

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, 2017	December 31, 2016
Objective evidence of impairment	Individual assessment of impairment	$ 9,579,673	$ 9,219,054
	Combined assessment of impairment	3,487,746	3,690,862
None objective evidence of impairment	Combined assessment of impairment	1,380,340,220	1,370,472,949
Total		$ 1,393,407,639	$ 1,383,382,865

Item		Total Allowance	
		December 31, 2017	December 31, 2016
Objective evidence of impairment	Individual assessment of impairment	$ 4,077,983	$ 3,322,891
	Combined assessment of impairment	743,558	1,032,540
None objective evidence of impairment	Combined assessment of impairment	11,545,438	11,767,544
Total		$ 16,366,979	$ 16,122,975

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	
	2017	2016
Domestic quoted stocks	$ 3,643,572	$ 2,993,065
Government bonds	16,108,800	27,813,944
Corporate bonds	18,564,075	12,418,531
Bank notes	32,409,743	31,719,418
Bonds issued by international organizations	879,046	229,325
Investment in bills	1,570,650	1,650,583
	$ 73,175,886	$ 76,824,866

The par values of bonds provided for transactions with repurchase agreements were $1,784,800 thousand and $1,813,100 thousand as of December 31, 2017 and 2016, respectively.

Government bonds placed as deposits in courts were $281,100 thousand and $421,200 thousand as of December 31, 2017 and 2016, respectively. Government bonds placed as operating deposits were all $330,000 thousand as of December 31, 2017 and 2016. Government bonds placed as reserve fund for trust compensation were all $170,000 thousand as of December 31, 2017 and 2016. Government bonds pledged for call loans from banks were all $5,000,000 thousand as of December 31, 2017 and 2016.

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

11. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2017	2016
Investment in bills	$ 227,528,720	$ 190,725,273
Bank notes	1,972,932	2,645,392
Corporate bonds	7,910,394	10,524,271
Government bonds	-	969,605
	$ 237,412,046	$ 204,864,541

The overseas branches' bonds as collateral for operations as of December 31, 2017 and 2016 were $449,428 thousand, $519,687 thousand, respectively.

Certificate of deposits placed as reserves for clearing at the Central Bank were all $36,000,000 thousand as of December 31, 2017 and 2016. 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, 2017 and 2016.

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

12. DERIVATIVE FINANCIAL ASSETS FOR HEDGING

	December 31	
	2017	2016
Derivative financial assets under hedge accounting		
Fair value hedges - interest rate swaps	$ 243,372	$ 86,265

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 December 31, 2017 and 2016 were $8,200,000 thousand and $5,200,000 thousand, respectively.

The fixed-to-floating interest swaps were designated and effective fair value hedge instruments. During the years ended December 31, 2017 and 2016, the swaps were effective in hedging the fair value exposure to interest rate movements and as a result the carrying amount of the fixed-rate borrowings was adjusted by $239,657 thousand and $75,226 thousand as of December 31, 2017 and 2016, respectively; these amounts were included in profit or loss at the same time that the fair value of the interest rate swap was included in profit or loss.

The information of hedging transaction was as follows:

a. Hedging type: Fair value hedging.

b. Hedging objective: To minimize risks of the Bank from the variation of fair value due to fluctuation of interest rate, by converting fixed-rate note to floating-rate note.

c. Hedging method: By signing interest rate swap contract.

d. Hedging effect: The actual offset result is within 80%-125%, which has met the hedging accounting criterion suggested in IFRSs. The realized gain or loss from hedging tools were $221,516 thousand and $(64,613) thousand for the years ended December 31, 2017 and 2016, respectively, and the realized gain or loss from fair-value hedging were $(164,431) thousand and $108,354 thousand, accounted for as other non-interest net income and losses, for the years ended December 31, 2017 and 2016, respectively.

13. FINANCIAL ASSETS CARRIED AT COST

	December 31	
	2017	**2016**
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. DEBT INVESTMENTS WITHOUT ACTIVE MARKET

	December 31	
	2017	**2016**
Beneficiary securities and asset based securities	$ 64,609	$ 88,555

15. OTHER MISCELLANEOUS FINANCIAL ASSETS

	December 31	
	2017	**2016**
Time deposits with original maturity more than 3 months	$ 26,806,884	$ 18,652,054
Inward remittance	3,210	11,953
Delinquent loans reclassified from other accounts (excluding loans)	465,961	43,094
Call loans to securities company	148,400	161,100
Less allowance for loan losses	(408,700)	(25,937)
	$ 27,015,755	$ 18,842,264

The market rates of time deposits with original maturity more than 3 months were 1.85%-5.40% and 0.98%-3.60% for the years ended December 31, 2017 and 2016, respectively. Refer to Note 37 for information relating to other miscellaneous financial assets pledged as security.

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

16. PROPERTY AND EQUIPMENT

	Freehold Land	Buildings	Machinery Equipment	Transportation Equipment	Miscellaneous Equipment	Leasehold Improvement	Leased Assets	Construction in Progress and Prepayment for Building and Equipment	Total
Cost									
Balance at January 1, 2017	$ 14,657,121	$ 9,108,129	$ 4,652,958	$ 708,565	$ 1,430,509	$ 945,920	$ 4,253	$ 53,494	$ 31,560,949
Additions	-	59,058	144,484	25,107	48,689	63,351	422	89,664	430,775
Disposals	-	(44,876)	(132,906)	(12,909)	(28,117)	(33,801)	-	-	(252,609)
Reclassification	-	1,297	8,087	3,667	196	155	(3,668)	(20,940)	(11,206)
Effect of foreign currency exchange differences	-	(16,155)	(4,529)	(829)	(2,878)	(7,632)	-	(2,089)	(34,112)
Balance at December 31, 2017	$ 14,657,121	$ 9,107,453	$ 4,668,094	$ 723,601	$ 1,448,399	$ 967,993	$ 1,007	$ 120,129	$ 31,693,797
Accumulated depreciation and impairment									
Balance at January 1, 2017	$ -	$ 4,113,645	$ 3,986,898	$ 570,966	$ 1,273,907	$ 811,544	$ 2,166	$ -	$ 10,759,126
Depreciation expense	-	179,282	216,242	44,651	47,604	44,436	222	-	532,437
Disposals	-	(22,365)	(131,159)	(12,756)	(27,627)	(33,357)	-	-	(227,264)
Reclassification	-	-	-	2,037	-	-	(2,039)	-	(2)
Effect of foreign currency exchange differences	-	(771)	(2,392)	(449)	(2,116)	(4,504)	-	-	(10,232)
Balance at December 31, 2017	$ -	$ 4,269,791	$ 4,069,589	$ 604,449	$ 1,291,768	$ 818,119	$ 349	$ -	$ 11,054,065
Carrying amounts at December 31, 2017	$ 14,657,121	$ 4,837,662	$ 598,505	$ 119,152	$ 156,631	$ 149,874	$ 658	$ 120,129	$ 20,639,732
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	$ 53,494	$ 20,801,823

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, 2017	$ 14,096,088
Additions	390
Balance at December 31, 2017	$ 14,096,478

(Continued)

	Completed Investment Property
Accumulated depreciation and impairment	
Balance at January 1, 2017	$ 342,107
Depreciation expense	6,584
Balance at December 31, 2017	$ 348,691
Carrying amounts at December 31, 2017	$ 13,747,787
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

(Concluded)

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 values of the Bank's investment properties were $26,269,911 thousand and $28,823,698 thousand as of December 31, 2017 and 2016, respectively. The fair value valuation was not performed by independent qualified professional valuers; the Bank used the valuation method that market participants would use in determining the fair value and the valuation was arrived at by reference to market evidence of transaction prices for similar properties.

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

	For the Year Ended December 31	
	2017	2016
Rental incomes	$ 185,103	$ 187,085
Direct operating expenses	$ 110,422	$ 120,816

18. INTANGIBLE ASSETS

	Computer Software
Cost	
Balance at January 1, 2017	$ 423,465
Additions	181,941
Amortization	(179,725)
Reclassification	11,206
Effect of foreign currency exchange differences	(711)
Balance at December 31, 2017	$ 436,176
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

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

19. OTHER ASSETS

	December 31	
	2017	2016
Refundable deposits	$ 638,049	$ 284,790
Assumed collateral and residuals	23,462	23,462
Less: Accumulated impairment	(23,462)	(23,462)
Prepayments	293,649	245,534
Others	181	260
	$ 931,879	$ 530,584

20. DUE TO CENTRAL BANK AND BANKS

	December 31	
	2017	2016
Due to Central Bank	$ 22,509	$ 25,087
Due to banks	27,976,541	27,576,736
Bank overdraft	841,014	294,424
Call loans from banks	77,517,520	109,034,973
Deposits transferred from the Postal Bureau	1,794,283	2,231,362
	$ 108,151,867	$ 139,162,582

21. PAYABLES

	December 31	
	2017	2016
Checks issued to payees for clearing	$ 18,412,071	$ 18,236,396
Accounts payable	1,789,193	1,411,016
Accrued expenses	2,461,012	2,567,345
Interest payable	2,094,269	1,700,411
Acceptances	4,339,412	6,186,691
Others	5,753,898	3,733,112
	$ 34,849,855	$ 33,834,971

22. DEPOSITS AND REMITTANCES

	December 31	
	2017	2016
Checking deposits	$ 42,033,779	$ 42,574,915
Demand deposits	412,119,333	394,963,376
Time deposits	373,331,138	351,997,282
Negotiable certificates of deposit	6,747,936	6,209,967
Savings deposits	835,498,391	827,332,235
Remittances	2,349,207	1,352,042
	$ 1,672,079,784	$ 1,624,429,817

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

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

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

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

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

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

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

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

Bank Note, Interest Rate and Maturity Date	December 31 2017	December 31 2016
Hedged financial liabilities at fair value		
103-1 Note A, 7-year terms, interest payable annually, interest rate 1.70%, maturity date: April 16, 2021	$ 2,200,000	$ 2,200,000
103-1 Note B, 10-year terms, interest payable annually, interest rate 1.85%, maturity date: April 16, 2024	3,000,000	3,000,000
105-1 Note A, 7-year terms, interest payable annually, interest rate 1.09%, maturity date: September 27, 2023	1,000,000	-
105-1 Note B, 10-year terms, interest payable annually, interest rate 1.20%, maturity date: September 27, 2026	2,000,000	-
Valuation adjustment	239,657	75,226
	8,439,657	5,275,226
Non-hedged bank notes payable		
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
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	2,000,000	3,000,000
105-1 Note B, 10-year terms, interest payable annually, interest rate 1.20%, maturity date: September 27, 2026	1,300,000	3,300,000
106-1 Note A, 7-year terms, interest payable annually, interest rate 1.50%, maturity date: March 29, 2024	1,530,000	-
106-1 Note B, 10-year terms, interest payable annually, interest rate 1.85%, maturity date: March 29, 2027	8,670,000	-
	33,300,000	26,100,000
	$ 41,739,657	$ 31,375,226

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

24. OTHER FINANCIAL LIABILITIES

	December 31	
	2017	2016
Principal structured products	$ 3,040,687	$ 2,410,781
Appropriations for loan funds	621,529	307,807
Lease payables	384	376
	$ 3,662,600	$ 2,718,964

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	
	2017	2016
Unearned revenue	$ 753,160	$ 899,770
Guarantee deposits	1,894,206	2,387,785
Deferred income	18,427	23,328
	$ 2,665,793	$ 3,310,883

26. RESERVE FOR LIABILITIES

	December 31	
	2017	2016
Reserve for employee benefits	$ 4,254,235	$ 3,985,854
Reserve for guarantee liabilities	504,600	538,370
	$ 4,758,835	$ 4,524,224

	Reserve for Guarantee Liabilities
Balance, January 1, 2017	$ 538,370
Reversal of provisions	(32,284)
Bad debts written off	(619)
Exchange differences	(867)
Balance, December 31, 2017	$ 504,600
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

a. For the details of the reserve for employee benefits, refer to Note 27.

b. Under guidelines of Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, reserve for guarantees was allocated based on the status of the loan collateral 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	
	2017	**2016**
Present value of defined benefit obligation	$ 9,553,277	$ 9,375,700
Fair value of plan assets	(6,698,414)	(6,748,672)
Deficit	2,854,863	2,627,028
Others	14,075	13,211
Net defined benefit liability	$ 2,868,938	$ 2,640,239

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, 2017	$ 9,375,700	$ 6,748,672	$ 2,627,028
Service cost			
Current service cost	253,991	-	253,991
Net interest cost	139,505	102,529	36,976
Recognized in profit or loss	393,496	102,529	290,967
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(36,790)	36,790
Actuarial loss - changes in financial assumptions	194,662	-	194,662
Actuarial loss - experience adjustments	189,873	-	189,873
Recognized in other comprehensive income	384,535	(36,790)	421,325
Contributions from the employer	-	484,457	(484,457)
Benefits paid	(600,454)	(600,454)	-
Balance at December 31, 2017	$ 9,553,277	$ 6,698,414	$ 2,854,863
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 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

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	
	2017	**2016**
Discount rate(s)	1.30%	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	
	2017	**2016**
Discount rate(s)		
0.25% increase	$ (242,396)	$ (242,143)
0.25% decrease	$ 251,978	$ 251,948
Expected rate(s) of salary increase		
0.25% increase	$ 249,592	$ 250,063
0.25% decrease	$ (241,345)	$ (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	
	2017	**2016**
The expected contributions to the plan for the next year	$ 318,000	$ 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	
	2017	**2016**
Present value of defined benefit obligation	$ 1,385,297	$ 1,345,615
Less: Fair value of defined benefit plan assets	-	-
Assets and liabilities at the end of the reporting period	$ 1,385,297	$ 1,345,615

2) Analysis of defined benefit obligation

	December 31	
	2017	**2016**
All or part of defined benefit obligation contributed	$ -	$ -
Defined benefit obligation not contributed	1,385,297	1,345,615
	$ 1,385,297	$ 1,345,615

3) Movements of the present value of defined benefit obligation

	For the Year Ended December 31	
	2017	**2016**
Balance, January 1	$ 1,345,615	$ 1,303,262
Interest cost	51,068	49,466
Actuarial gains and losses	262,100	254,520
Benefits paid	(273,486)	(261,633)
Balance, December 31	$ 1,385,297	$ 1,345,615

4) Movements of the fair value of plan assets

	For the Year Ended December 31	
	2017	**2016**
Balance, January 1	$ -	$ -
Contribution by employers	273,486	261,633
Benefits paid	(273,486)	(261,633)
Balance, December 31	$ -	$ -

5) Details of gains and losses recognized in expenses

	For the Year Ended December 31	
	2017	**2016**
Interest cost	$ 51,068	$ 49,466
Actuarial gains and losses	262,100	254,520
	$ 313,168	$ 303,986

6) Main actuarial assumptions

	For the Year Ended December 31	
	2017	**2016**
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%

(Continued)

	For the Year Ended December 31	
	2017	2016
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%	1.30%-1.36%

(Concluded)

28. EQUITY

a. Capital stock

Common stock

	December 31	
	2017	2016
Number of stocks authorized (in thousands)	11,000,000	9,000,000
Stocks authorized	$ 110,000,000	$ 90,000,000
Number of stocks issued and fully paid (in thousands)	9,413,001	8,964,762
Stocks issued	$ 94,130,007	$ 89,647,626

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

As of January 1, 2016, the Bank's authorized and registered capital was $90,000,000 thousand divided into 9,000,000 thousand shares at $10 par value; the total paid-in capital was $84,573,232 thousand. In August 2017, the Bank increased its registered capital by $20,000,000 thousand. In August 2017 and 2016, the Bank resolved capitalization of earnings and increased its paid-in capital by $4,482,381 thousand and $5,074,394 thousand, respectively. The amount of the Bank's authorized and registered capital at December 31, 2017 and 2016 were $110,000,000 thousand and $90,000,000 thousand divided into 11,000,000 thousand shares and 9,000,000 thousand shares and, also at those dates, the amounts of total paid-in capital were $94,130,007 thousand and $89,647,626 thousand, divided into 9,413,001 thousand outstanding shares and 8,964,762 thousand outstanding shares, respectively, at $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 Bank'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 after amendment, refer to Note 29f, "Employee benefits expenses".

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

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

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

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

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

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

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

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

The appropriations of earnings for 2016 and 2015 were approved in the shareholders' meetings on June 16, 2017 and June 8, 2016, respectively. The appropriations of earnings and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	2016	**2015**	**2016**	**2015**
Legal reserve	$ 3,625,791	$ 3,493,001	$ -	$ -
Special reserve	60,429	-	-	-
Dividends of common stock - cash	3,765,202	2,960,063	0.42	0.35
Dividends of common stock - stock	4,482,381	5,074,394	0.50	0.60

The appropriation of earnings, the bonus to employees, and the remuneration to directors and supervisors for 2017 are subject to the resolution of the shareholders' meeting to be held in June 2018.

c. Special reserve

	December 31	
	2017	2016
Special reserves appropriated following first-time adoption of IFRSs	$ 11,778,829	$ 11,778,829
Others	302,121	241,692
	$ 12,080,950	$ 12,020,521

29. NET INCOME

a. Net interest income

	For the Year Ended December 31	
	2017	2016
Interest income		
Loans	$ 27,779,438	$ 27,051,838
Due from and call loans to banks	3,655,264	2,370,374
Investment in marketable securities	3,001,990	3,034,108
Others	166,223	133,206
	34,602,915	32,589,526
Interest expense		
Deposits	(9,617,848)	(9,168,024)
Due to the Central Bank and call loans from banks	(1,585,683)	(1,026,528)
Others	(742,514)	(668,205)
	(11,946,045)	(10,862,757)
Net interest income	$ 22,656,870	$ 21,726,769

b. Net service fee and commission income

	For the Year Ended December 31	
	2017	2016
Service fee and commission income		
Fees from import and export	$ 338,965	$ 358,054
Remittance fees	487,286	478,993
Loan and guarantee fees	618,752	813,301
Fees from trustees	827,425	549,278
Fees from trustee business	260,514	251,794
Fees from insurance agency	2,164,726	2,969,205
Others	1,048,575	974,800
	5,746,243	6,395,425
Service fee and commission		
Interbank fees	(144,862)	(138,493)
Fees from trustees	(34,256)	(23,062)
Management fees	(91,775)	(85,803)
Fees from insurance agency	(185,151)	(227,301)
Others	(491,581)	(508,994)
	(947,625)	(983,653)
Net service fee and commission income	$ 4,798,618	$ 5,411,772

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

	For the Year Ended December 31	
	2017	**2016**
Disposal gains (losses) on financial assets and liabilities at FVTPL		
Stocks and beneficiary certificates	$ 32,845	$ 2,208
Bonds	13,504	68,323
Bills	5	15
Derivative financial instruments	2,325,997	2,274,771
Net interest expense	(229,366)	(178,798)
Stock dividends and bonus	4,379	2,317
	2,147,364	2,168,836
Valuation gains (losses) on financial assets and liabilities at FVTPL		
Stocks and beneficiary certificates	(18,672)	(2,314)
Bonds	(13,934)	(187,526)
Bills	887	13,645
Derivative financial instruments	227,297	78,689
	195,578	(97,506)
	$ 2,342,942	$ 2,071,330

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

	For the Year Ended December 31	
	2017	**2016**
Stock dividends and bonus	$ 129,984	$ 143,823
Disposal gains		
Stock	119,157	150,405
Bonds	331,360	171,662
	580,501	465,890
Disposal losses		
Stock	(4,519)	(33,396)
Bonds	(11,516)	(269)
	(16,035)	(33,665)
	$ 564,466	$ 432,225

e. Depreciation and amortization expenses

	For the Year Ended December 31	
	2017	**2016**
Property and equipment	$ 532,437	$ 550,887
Investment property	6,584	6,627
Intangible assets and other deferred assets	179,805	160,386
	$ 718,826	$ 717,900

f. Employee benefits expenses

	For the Year Ended December 31	
	2017	**2016**
Short-term benefits	$ 9,524,952	$ 9,459,706
Post-employment benefits		
Defined contribution plans	169,344	155,443
Defined benefit plans	290,967	302,131
High-yield savings account for employees	313,168	303,986
Other post-employment benefits	238,675	218,842
Termination benefits	70,768	109,008
	$ 10,607,874	$ 10,549,116

g. Employees' compensation and remuneration of directors

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, 2017 and 2016 which have been approved by the Company's board of directors on February 12, 2018 and February 24, 2017, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2017	**2016**
Employees' compensation	5.00%	5.00%
Remuneration of directors	0.40%	0.40%

Amount

	For the Year Ended December 31	
	2017	**2016**
	Cash	**Cash**
Employees' compensation	$ 749,711	$ 745,076
Remuneration of directors	59,977	59,606

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.

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

Because of a change in the accounting estimate, on March 17, 2016, the Bank held a board of directors' meeting and approved the employees' compensation and remuneration of directors paid for 2015 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 to 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.

30. INCOME TAX

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

	For the Year Ended December 31	
	2017	**2016**
Current tax		
In respect of the current year	$ 1,904,730	$ 1,573,811
Adjustments for prior years	(19,224)	3,517
Deferred tax		
In respect of the current year	(313,503)	124,262
Adjustments for prior years	133,790	-
Non-deductible tax of overseas branches	385,320	295,479
Income tax expense recognized in profit or loss	$ 2,091,113	$ 1,997,069

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

	For the Year Ended December 31	
	2017	**2016**
Profit before tax	$ 14,184,219	$ 14,083,041
Income tax expense calculated at the statutory rate	2,411,317	2,394,117
Nondeductible expenses in determining taxable income	835	4,250
Overseas' branch's additional income of deferred tax effect	122,990	127,480
Tax-exempt income	(903,142)	(837,488)
Non-deductible tax of overseas branches	385,320	295,479
Adjustments for prior years' tax	(19,224)	3,517
Others	93,017	9,714
Income tax expense recognized in profit or loss	$ 2,091,113	$ 1,997,069

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.

In February 2018, it was announced by the President of the ROC that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. Deferred tax assets and deferred tax liabilities recognized as at December 31, 2017 are expected to be adjusted and would increase by $538,752 thousand and $31,270 thousand, respectively, in 2018.

As the status of 2018 appropriations of earnings is uncertain, the potential income tax consequences of 2017 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2017	**2016**
Deferred tax		
In respect of the current year:		
Translation of foreign financial statements	$ (139,968)	$ (141,140)
Fair value changes of available-for-sale financial assets	11,758	5,370
Actuarial losses on defined benefit plan	(71,625)	(41,395)
Total income tax benefit recognized in other comprehensive income	$ (199,835)	$ (177,165)

c. Current tax assets and liabilities

	For the Year Ended December 31	
	2017	**2016**
Current tax assets		
Tax refund receivable	$ -	$ 45,926
Others	135,714	10,763
	$ 135,714	$ 56,689
Current tax liabilities		
Income tax payable	$ 954,609	$ 550,984

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, 2017

	Opening Balance	**Recognized in Profit or Loss**	**Recognized in Other Comprehensive Income**	**Closing Balance**
Deferred tax assets				
Temporary differences				
Doubtful debts	$ 1,581,916	$ 362,450	$ -	$ 1,944,366
Others	865,818	304,999	59,867	1,230,684
	$ 2,447,734	$ 667,449	$ 59,867	$ 3,175,050

	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	515,509	487,737	(139,968)	863,278
	$ 6,672,201	$ 487,737	$ (139,968)	$ 7,019,970

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

e. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Generated on and after January 1, 1998	$ 11,779,842	$ 11,970,239
Shareholder-imputed credits account	$ 1,124,577	$ 1,132,836

	For the Year Ended December 31	
	2017 (Expected)	2016
Creditable ratio for distribution of earnings	Note	9.39%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, related information for 2017 is not applicable.

f. Income tax assessments

The Bank's income tax returns through 2015 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 15, 2017. The basic and diluted after-tax earnings per share of 2016 were adjusted retrospectively as follows:

Unit: NT$ Per Share

	For the Year Ended December 31, 2016	
	Before Adjusted Retrospectively	After Adjusted Retrospectively
Basic earnings per share	$ 1.35	$ 1.28
Diluted earnings per share	$ 1.34	$ 1.28

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

	For the Year Ended December 31	
	2017	2016
Net profit for the year	$ 12,093,106	$ 12,085,972

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

	For the Year Ended December 31	
	2017	2016
Weighted average number of common stocks in computation of basic earnings per share	9,413,001	9,413,001
Effect of potentially dilutive common stocks:		
Employees' compensation issued	52,094	52,388
Weighted average number of common stocks used in the computation of diluted earnings per share	9,465,095	9,465,389

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, houses and cars with lease terms between 3 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, houses and cars at the expiration of the lease periods.

As of December 31, 2017 and 2016, refundable deposits paid under operation leases amounted to $43,272 thousand and $39,579 thousand, respectively.

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

	December 31	
	2017	**2016**
Not later than 1 year	$ 594,797	$ 607,978
Later than 1 year and not later than 5 years	1,275,879	1,222,420
Later than 5 years	362,369	302,443
	$ 2,233,045	$ 2,132,841

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, 2017 and 2016, refundable deposits received under operation leases amounted to $55,014 thousand and $51,430 thousand, respectively.

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

	December 31	
	2017	**2016**
Not later than 1 year	$ 229,761	$ 230,985
Later than 1 year and not later than 5 years	504,391	551,598
Later than 5 years	78,584	77,655
	$ 812,736	$ 860,238

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

Item \ Period			December 31, 2017	December 31, 2016
Self-owned capital	Common equity Tier I		$ 128,325,492	$ 121,271,653
	Other Tier I capital		1,853,200	2,332,643
	Tier II capital		58,525,280	43,971,841
	Self-owned capital		188,703,972	167,576,137
Risk-weighted assets	Credit risk	Standardized approach	1,318,331,599	1,330,834,716
		IRB	-	-
		Securitization	12,922	17,711
	Operation risk	Basic indicator approach	-	-
		Standardized approach/optional standard	53,616,863	50,906,050
		Advanced internal rating based approach	-	-
	Market price risk	Standardized approach	19,542,238	13,292,788
		Internal model approach	-	-
	Total		1,391,503,622	1,395,051,265
Capital adequacy ratio			13.56%	12.01%
Common equity Tier I to risk-weighted assets ratio			9.22%	8.69%
Tier I capital to risk-weighted assets ratio			9.36%	8.86%
Leverage ratio			5.96%	5.76%

Note 1: The ratios are calculated in accordance with the Regulations Governing the Capital 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			
	2017		2016	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets				
Held-to-maturity investments	$ 237,412,046	$ 237,479,324	$ 204,864,541	$ 204,960,525
Debt investments without active market	64,609	69,302	88,555	91,914
Financial liabilities				
Bond payables	41,739,657	42,798,376	31,375,226	31,824,888

2) Fair value hierarchy

Fair value hierarchy as at December 31, 2017

	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Held-to-maturity investments	$ 237,479,324	$ 3,496,314	$ 233,983,010	$ -
Debt investments without active market	69,302	-	69,302	-
Financial liabilities				
Bond payables	42,798,376	-	8,439,657	34,358,719

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
Debt investments without active market	91,914	-	91,914	-
Financial liabilities				
Bond payables	31,824,888	-	7,275,226	24,549,662

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, 2017			
	Total	Level 1	Level 2	Level 3
Non-derivative financial products				
Assets				
Financial assets at FVTPL	$ 10,201,891	$ 6,207,079	$ 3,994,812	$ -
Trading assets	4,876,011	1,239,990	3,636,021	-
Bond investments	1,849,798	1,239,990	609,808	-
Others	3,026,213	-	3,026,213	-
Financial assets designated upon initial recognition as at fair value through profit or loss	5,325,880	4,967,089	358,791	-
Available-for-sale financial assets	73,175,886	45,906,930	27,268,956	-
Stock investments	3,643,572	3,643,572	-	-
Bond investments	67,961,664	40,692,708	27,268,956	-
Others	1,570,650	1,570,650	-	-
Liabilities				
Financial liabilities at FVTPL	8,759,276	-	8,759,276	-
Derivative financial products				
Assets				
Financial assets at FVTPL	3,350,622	182,565	3,168,057	-
Other financial assets				
Hedging derivative financial instruments	243,372	-	243,372	-
Liabilities				
Financial liabilities at FVTPL	3,550,054	-	3,550,054	-

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	-

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

2) Definition for the hierarchy classifications of fair value measurements

a) Level 1

Level 1 inputs are quoted prices unadjusted in active markets for identical financial instruments. An active market indicates the market that is in conformity with all of the following conditions: The products in the market are identical; it is easy to find a knowledgeable and willing transaction counterparty; and price information is available to the public.

The fair values of the Bank and its subsidiaries' investments in listed stocks, beneficiary certificates, on-the-run Taiwan central government bonds and derivative instruments with quoted market prices are included in Level 1.

b) Level 2

Level 2 inputs are inputs other than quoted prices with reference to an active market that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair values of the Bank's investments in off-the-run government bonds, corporate bonds, bank debentures, convertible bonds and most derivative bank debentures issued by the Bank are included in Level 2.

c) Level 3

The input parameters used are not based on observable market data. (Unobservable input parameters are those such as option pricing models using historical volatility which cannot represent the expected value of all market participants.) The fair values of the Bank's investments in derivatives and equity investments without an active market are included in Level 3.

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

a) Determination of fair value

A quoted market price is used as the fair value when a financial instrument has an active market. Such market prices are provided by the Stock Exchange Corporation, Bloomberg and Reuters, which are all the foundation of fair values for listed equity securities and debt instruments with a quoted market price in an active market.

If the market quotation from the Stock Exchange Corporation, commission merchants, underwriters or pricing service institutions can be frequently and readily obtained and the price represents actual and frequent at arm's length transactions, then a financial instrument is deemed to have an active market. If the above conditions are not met, the market is deemed inactive. In general, a significant price variance between the purchase price and selling price or a significantly increasing price variance are both indicators of an inactive market.

In addition to the above financial instruments with an active market, other financial instruments at fair value are assessed by valuation techniques or by referencing counterparties with other financial instruments at fair value with similar conditions and characteristics in actual practice, including market information obtained by exercising valuation models at the balance sheet date (such as yield curves used by TPEx and TAIBIR (page 02) secondary market fixing rates used by the Taiwan Depository & Clearing Corporation).

When a financial instrument has no standardized valuation and has a greater level of complexity, such as interest rate swaps, currency swaps and options, the Bank and its subsidiaries usually adopt the valuation generally accepted by market users. The inputs used for these financial instruments' valuations are usually observable information in the market.

For financial instruments with greater complexity, the fair value is assessed through the valuation model developed by valuation methods and techniques generally accepted by competitors. These kinds of valuation models are usually applicable for derivative instruments, debt instruments with no quoted market price (including debt instruments of embedded derivatives) or other debt instruments with low market liquidity. Certain inputs used in these valuation models are not observable in the market, and the Bank and its subsidiaries need to make appropriate estimates based on assumptions.

b) The types and nature of the valuation methods for financial instruments used by the Bank and its subsidiaries are as follows:

i. NTD central government bonds: The bond market rate and theoretical interest rate are price-per-hundred conversions announced by TPEx.

ii. NTD corporate bonds and bank notes: The corporate bond reference rate is announced by TPEx, and the Bank uses the appropriate credit rate and the remaining period to calculate the yield rate and convert it to price-per-hundred.

iii. NTD convertible corporate bonds: The closing prices of outright purchase/sale trading are listed on TPEx on the valuation day. If the price is not available, the price is referenced from the outright purchase/sale trading information listed on TPEx.

iv. Securitization instruments: Prices are those quoted from Bloomberg.

v. NTD short-term bills: The TAIBIR (page 02) secondary market fixing rates used by the Taiwan Depository & Clearing Corporation are discounted from future cash flows.

vi. Foreign securities: The latest prices quoted from Bloomberg, Reuters or other systems on the valuation day are used, if there is no available price or valuation, then the price used is that which is quoted from counterparties.

vii. Listed stocks, call/put warrants and depositary receipts: The closing price listed on TWSE or TPEx is adopted.

viii. Beneficiary certificates: Closed-end funds use the closing price in an active market as the fair value and open-end funds use the net asset value of the fund as the fair value.

ix. Derivatives:

i) Call/put warrants and stock index futures: Prices quoted from an active market are deemed the fair values.

ii) Foreign currency forward contracts, currency swaps, interest rate swaps, cross currency swaps and operating deposits of transactions: Discounted future cash flows are adopted.

iii) Options: The Black-Scholes model, binomial tree model and Monte Carlo method are mainly adopted for valuation.

iv) Certain derivatives use the quoted price from counterparties.

x. Mixing Tools: The price from the active market, deal brokers and evaluation models is used.

c) Adjustments for credit risks and the definitions are as follows:

Credit valuation adjustment (CVA) is a measurement for derivatives which are not transacted through the stock market, or for over-the-counter derivatives. CVA reflects the fair value of should a counterparty default and the possibility of not collecting the derivative’s full market value.

CVA is calculated by applying the loss given default (LGD) to the exposure at default (EAD), along with the consideration of the counterparty’s probability of default (PD) (assuming the condition that the Bank does not default).

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 majority of equity securities risk includes domestic public stock, over-the-counter stock, emerging market stock, 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 over-the-counter stocks, index futures and options.

ii. Equity security price risk management purpose

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

iii. Equity security price risk management procedures

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

iv. Measuring methods

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

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

i) Market risk measuring method

i. Value at Risk, “VaR”

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

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

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

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

	For the Year Ended December 31, 2017			
	Average	**Highest**	**Lowest**	**Ending Balance**
Exchange VaR	$ 96,158	$ 115,244	$ 79,370	$ 101,894
Interest rate VaR	6,777	9,060	5,559	7,302
Equity securities VaR	1,832	2,379	-	-
Value at risk	$ 104,767	$ 126,683	$ 84,929	$ 109,196

	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

2) Primary foreign currencies

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

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	December 31, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 7,722,935	29.6800	$ 229,216,711
GBP	77,177	39.9300	3,081,678
AUD	1,078,448	23.1350	24,949,894
HKD	1,676,715	3.7960	6,364,810
SGD	62,182	22.2000	1,380,440
CAD	98,652	23.6300	2,331,147
ZAR	2,541,371	2.3900	6,073,877
JPY	54,065,112	0.2633	14,235,344
EUR	397,523	35.4500	14,092,190
RMB	19,089,541	4.5490	86,838,322
Non-monetary items			
USD	182,180	29.6800	5,407,102
Financial liabilities			
Monetary items			
USD	10,074,286	29.6800	299,004,808
GBP	69,356	39.9300	2,769,385
AUD	977,697	23.1350	22,619,020
HKD	1,384,142	3.7960	5,254,203
CAD	97,024	23.6300	2,292,677
ZAR	2,671,901	2.3900	6,385,843
JPY	59,662,672	0.2633	15,709,182
EUR	419,560	35.4500	14,873,402
RMB	15,662,646	4.5490	71,249,377
Non-monetary items			
USD	303,153	29.6800	8,997,581

(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
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	4.6240	73,628,960
Non-monetary items			
USD	401,490	32.2200	12,936,008

For the years ended December 31, 2017 and 2016, net foreign exchange gains (losses) were $(76,604) thousand and $279,662 thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) 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 collateral and market liquidity risk of the collateral.

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 collateral 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. Collateral

The Bank has a series of measures for credit granting to reduce credit risks. One of the procedures is asking for collateral from the borrowers. To secure the loans, the Bank manages and assesses the collateral following the procedures that suggest the scope of collateralization and valuation of collateral and the process of disposition. In credit contracts, the Bank stipulates the security mechanism for loans and the conditions and terms for collateral 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 collateral 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, 2017

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	**Master Netting Arrangement**	**Other Credit Enhancements (Describe)**	**Total**
Loans	$ 907,832,465	$ -	$ -	$ 907,832,465
Financial assets at fair value through profit or loss	1,628,170	-	-	1,628,170
Available-for-sale financial assets	3,343,666	-	-	3,343,666
Held-to-maturity financial assets	1,049,985	-	-	1,049,985

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

d) Maximum exposure to credit risk

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

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

Financial Instrument Type	**December 31 2017**	**2016**
Unused loan commitments (excluding credit cards)	$ 82,204,969	$ 93,836,687
Credit card credit commitment	333,092	371,718
Unused issued letters of credit	24,509,270	23,053,060
Guarantees in guarantee business	40,993,464	44,626,870

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, 2017	
Industry Type	**Carrying Value**	**Percentage of Item (%)**
Financial and insurance	$ 63,727,242	5
Manufacturing	346,068,730	24
Wholesale and retail	121,573,560	9
Real estate and leasing	106,791,248	8
Service	42,254,353	3
Individuals	460,827,924	33
Others	252,164,582	18
	$ 1,393,407,639	

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

	December 31, 2017	
Geographic Location	**Carrying Value**	**Percentage of Item (%)**
Asia	$ 1,331,401,566	96
America	45,125,881	3
Europe	15,557,266	1
Others	1,322,926	-
	$ 1,393,407,639	

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

Securities Type	December 31, 2017 Carrying Value	Percentage of Item (%)
Unsecured	$ 485,575,174	35
Secured		
Properties	756,683,671	54
Others	151,148,794	11
	$ 1,393,407,639	

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

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, 2017										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
In-balance-sheet items											
Receivables	$ 7,277,403	$ 7,133,960	$ 262,378	$ 9,677,649	$ 24,351,390	$ 6,675	$ 893,291	$ 25,251,356	$ 402,793	$ 178,540	$ 24,670,023
Credit cards	-	-	-	1,767,829	1,767,829	-	27,073	1,794,902	13,470	5,132	1,776,300
Other	7,277,403	7,133,960	262,378	7,909,820	22,583,561	6,675	866,218	23,456,454	389,323	173,408	22,893,723
Loans	312,155,722	775,041,018	178,227,169	112,492,548	1,377,916,457	2,423,763	13,067,419	1,393,407,639	4,821,541	11,545,438	1,377,040,660

(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

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, 2017				
	Neither Past Due Nor Impaired				
	High	Medium	Weak	Non-ratings	Total
Consumer finance	$ 79,446,798	$ 178,875,718	$ 135,582,083	$ 63,257,678	$ 457,162,277
Corporation finance	232,708,924	596,165,300	42,645,086	49,234,870	920,754,180
Total	$ 312,155,722	$ 775,041,018	$ 178,227,169	$ 112,492,548	$ 1,377,916,457

(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

iii. Credit quality analysis of non-credit financial assets

(In Thousands of New Taiwan Dollars)

Item	December 31, 2017										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
Available-for-sale financial assets	$ 73,009,452	$ -	$ -	$ 136,434	$ 73,145,886	$ -	$ 150,000	$ 73,295,886	$ 120,000	$ -	$ 73,175,886
Bonds	67,825,230	-	-	136,434	67,961,664	-	-	67,961,664	-	-	67,961,664
Stocks	3,613,572	-	-	-	3,613,572	-	150,000	3,763,572	120,000	-	3,643,572
Bills	1,570,650	-	-	-	1,570,650	-	-	1,570,650	-	-	1,570,650
Held-to-maturity financial assets	237,412,046	-	-	-	237,412,046	-	-	237,412,046	-	-	237,412,046
Bonds	9,883,326	-	-	-	9,883,326	-	-	9,883,326	-	-	9,883,326
Bills	227,528,720	-	-	-	227,528,720	-	-	227,528,720	-	-	227,528,720
Other financial assets	64,609	-	-	-	64,609	-	137,111 (Note)	201,720	137,111	-	64,609
Securities	64,609	-	-	-	64,609	-	137,111 (Note)	201,720	137,111	-	64,609

Note: Cost on the reclassification date.

(In Thousands of New Taiwan Dollars)

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

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, 2017		
	Past Due Up to One Month	Past Due Over One Month	Total
Loans			
Consumer finance	$ 1,500,703	$ 504,613	$ 2,005,316
Corporation finance	355,843	62,604	418,447

(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

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, 2017 and 2016, the ratio of liquidity reserve is 16.42% and 16.14%, 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, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	$ 28,912,151	$ -	$ -	$ -	$ -	$ 28,912,151
Due from the Central Bank and call loans to other banks	22,398,964	4,242,332	4,522,731	6,415,219	26,437,948	64,017,194
Financial assets at fair value through profit or loss	4,433,958	-	-	-	-	4,433,958
Receivables	19,766,884	730,071	306,194	193,935	108,942	21,106,026
Loans	81,827,276	97,522,019	100,427,241	221,143,186	649,841,523	1,150,761,245
Available-for-sale financial assets	-	-	200,529	-	25,641,718	25,842,247
Held-to-maturity financial assets	135,400,000	11,299,925	1,900,000	26,056,625	22,960,156	197,616,706
Financial assets carried at cost	-	-	-	-	4,167,009	4,167,009
Other maturity funds inflow items	-	-	-	-	14,284,047	14,284,047
	292,739,233	113,794,347	107,356,695	253,808,965	743,441,343	1,511,140,583
Major maturity funds outflows						
Due to the Central Bank and banks	342,687	387,501	193,728	1,021,788	-	1,945,704
Due to the Central Bank and call loans to other banks	5,000	10,000	-	-	-	15,000
Securities sold under repurchase agreements	1,055,027	1,998,018	65,491	-	-	3,118,536
Payables	29,525,996	1,982,198	369,816	1,302,936	1,232,378	34,413,324
Deposits and remittances	118,393,919	126,047,639	134,696,322	191,058,518	697,288,694	1,267,485,092
Bank notes payable	-	2,200,000	-	-	39,300,000	41,500,000
Other maturity funds outflows items	53,280	49,487	64,243	300,450	5,503,024	5,970,484
	149,375,909	132,674,843	135,389,600	193,683,692	743,324,096	1,354,448,140
Gap	$ 143,363,324	$ (18,880,496)	$ (28,032,905)	$ 60,125,273	$ 117,247	$ 156,692,443

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

(In Thousands of New Taiwan Dollars)

Item	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	$ 28,562,791	$ -	$ -	$ -	$ -	$ 28,562,791
Due from the Central Bank and call loans to other banks	28,590,804	4,105,577	4,208,647	6,431,842	24,518,721	67,855,591
Financial assets at fair value through profit or loss	19,947,216	-	-	-	-	19,947,216
Receivables	26,827,203	442,399	413,230	153,625	101,354	27,937,811
Loans	112,894,443	93,978,294	118,365,113	208,310,194	598,088,284	1,131,636,328
Available-for-sale financial assets	399,839	-	-	-	30,203,961	30,603,800
Held-to-maturity financial assets	139,700,000	5,830,000	3,604,845	5,964,923	9,823,470	164,923,238
Financial assets carried at cost	-	-	-	-	4,167,009	4,167,009
Other maturity funds inflow items	-	-	-	-	13,869,857	13,869,857
	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 United States Dollars)

Item	December 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	$ 953,081	$ 230,010	$ -	$ -	$ -	$ 1,183,091
Due from the Central Bank and call loans to other banks	1,632,074	1,043,514	256,031	71,400	3,934	3,006,953
Financial assets at fair value through profit or loss	194,338	-	-	-	-	194,338
Receivables	486,234	97,299	282,369	11,127	13,972	891,001
Loans	717,742	681,847	568,695	448,186	3,775,783	6,192,253
Available-for-sale financial assets	9,098	4,998	970	12,052	524,918	552,036
Held-to-maturity financial assets	-	-	-	-	17,979	17,979
Debts instrument without active market	-	-	-	-	2,177	2,177
Other maturity funds inflow items	5,000	-	-	300,000	13,694	318,694
	3,997,567	2,057,668	1,108,065	842,765	4,352,457	12,358,522
Major maturity funds outflows						
Due to the Central Bank and banks	877,668	100,720	991	1,947	85	981,411
Due to the Central Bank and call loans to other banks	1,447,290	410,000	55,000	-	-	1,912,290
Financial liabilities at fair value through profit or loss	-	-	-	-	295,124	295,124
Payables	722,271	58,958	2,434	2,679	1,049	787,391
Deposits and remittances	2,240,560	2,287,546	966,947	1,415,605	3,467,837	10,378,495
Other maturity funds outflows items	81,451	1,308	135	544	71,489	154,927
	5,369,240	2,858,532	1,025,507	1,420,775	3,835,584	14,509,638
Gap	$ (1,371,673)	$ (800,864)	$ 82,558	$ (578,010)	$ 516,873	$ (2,151,116)

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

(In Thousands of United States Dollars)

Item	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	$ 402,769	$ 37,800	$ -	$ -	$ -	$ 440,569
Due from the Central Bank and call loans to other banks	1,155,329	793,328	380,862	1,160,917	4,617	3,495,053
Financial assets at fair value through profit or loss	254,130	-	-	-	-	254,130
Receivables	577,954	155,087	80,083	3,868	11,541	828,533
Loans	547,484	821,746	674,675	238,193	3,885,297	6,167,395
Available-for-sale financial assets	-	-	10,005	-	399,931	409,936
Held-to-maturity financial assets	-	10,017	7,992	23,037	2	41,048
Debts instrument without active market	-	-	-	-	2,748	2,748
Other maturity funds inflow items	5,000	-	10,500	15,000	5,615	36,115
	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.

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, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	$ 120,859,728	$ 156,839,908	$ 47,570,615	$ 18,935,732	$ 199,286	$ 344,405,269
Inflows	120,598,473	156,620,802	47,629,827	19,011,186	199,674	344,059,962
Interest rate derivative instruments						
Outflows	2,406,380	1,825,320	6,532,677	2,402,640	-	13,167,017
Inflows	2,794,970	1,998,800	6,423,107	2,374,400	25,672	13,616,949
Total outflows	$ 123,266,108	$ 158,665,228	$ 54,103,292	$ 21,338,372	$ 199,286	$ 357,572,286
Total inflows	$ 123,393,443	$ 158,619,602	$ 54,052,934	$ 21,385,586	$ 225,346	$ 357,676,911

(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

e) Maturity analysis of off-balance-sheet items

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

(In Thousands of New Taiwan Dollars)

Item	December 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	$ 59,747,283	$ 1,782,452	$ 2,911,839	$ 4,235,833	$ 13,527,562	$ 82,204,969
Credit card credit commitment	-	859	4,506	7,684	320,043	333,092
Letters of credit issued yet unused	24,423,176	81,313	4,781	-	-	24,509,270
Guarantees	39,061,752	278,791	201,587	802,013	649,321	40,993,464
	$ 123,232,211	$ 2,143,415	$ 3,122,713	$ 5,045,530	$ 14,496,926	$ 148,040,795

(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

35. OTHER DISCLOSURES OF FINANCIAL INSTITUTION

a. Asset quality

Business Type \ Item			December 31, 2017					December 31, 2016				
			Non-performing Loans (Note a)	**Loans**	**Non-performing Loans Ratio (Note b)**	**Allowance for Loan Losses**	**Coverage Ratio (Note c)**	**Non-performing Loans (Note a)**	**Loans**	**Non-performing Loans Ratio (Note b)**	**Allowance for Loan Losses**	**Coverage Ratio (Note c)**
Corporate finance	Secured		$ 2,328,578	$ 454,069,715	0.51%	$ 5,128,576	220.24%	$ 1,281,512	$ 432,229,261	0.30%	$ 4,639,707	362.05%
	Unsecured		344,885	478,510,307	0.07%	5,125,583	1,486.17%	959,523	506,445,268	0.19%	5,555,562	578.99%
Consumer finance	Mortgage loans (Note d)		1,170,435	281,144,369	0.42%	4,285,924	366.18%	774,431	278,084,284	0.28%	4,224,539	545.50%
	Cash cards (Note h)		-	-	-	-	-	-	-	-	-	-
	Credit loans (Note e)		9,242	1,678,616	0.55%	19,140	207.10%	5,849	1,862,280	0.31%	19,948	341.05%
	Others (Note f)	Secured	335,580	176,589,062	0.19%	1,793,042	534.31%	493,975	163,274,105	0.30%	1,667,738	337.62%
		Unsecured	3,569	1,415,570	0.25%	14,714	412.27%	552	1,487,667	0.04%	15,481	2,804.53%
Total			4,192,289	1,393,407,639	0.30%	16,366,979	390.41%	3,515,842	1,383,382,865	0.25%	16,122,975	458.58%

Business Type \ Item	December 31, 2017					December 31, 2016				
	Non-performing Loans (Note a)	**Loans**	**Non-performing Loans Ratio (Note b)**	**Allowance for Loan Losses**	**Coverage Ratio (Note c)**	**Non-performing Loans (Note a)**	**Loans**	**Non-performing Loans Ratio (Note b)**	**Allowance for Loan Losses**	**Coverage Ratio (Note c)**
Credit card	$ 3,316	$ 1,722,927	0.19%	$ 21,849	658.90%	$ 2,468	$ 1,726,689	0.14%	$ 19,119	774.68%
No recourse receivable factoring (Note g)	-	13,020,691	-	130,207	-	-	7,840,444	-	78,404	-

Note a: Non-performing 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 the 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: Non-performing loans ratio = Non-performing loan ÷ Loans
Non-performing loans of credit card ratio = Non-performing loans of credit cards ÷ Accounts receivable

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

Note d: Mortgage loans are for borrowers to build or repair buildings, allowing the borrowers, their spouses or their 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 cards business.

Business Type \ Item	December 31, 2017		December 31, 2016	
	Non-performing Loans Exempted from Reporting	Non-performing Receivables Exempted from Reporting	Non-performing Loans Exempted from Reporting	Non-performing Receivables Exempted from Reporting
Negotiated loans transacted in accordance with the agreement and exempted from reporting as non-performing loans (Note a)	$ 20	$ 1,675	$ 52	$ 2,105
Negotiated accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing receivables (Note b)	618	17,095	275	13,677
Total	638	18,770	327	15,782

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, 2017			
Rank (Note a)	**Transaction Party (Note b)**	**Loans (Note c)**	**As Proportion of Net Equity (%) (Note d)**
1	A Corporation (railway transportation industry)	$ 26,805,909	18.49
2	B Group (steel smelting industry)	22,245,008	15.35
3	C Group (airline industry)	21,617,109	14.91
4	D Group (synthesis construction industry)	14,923,502	10.30
5	E Group (concrete manufacturing industry)	12,467,788	8.60
6	F Group (real estate development industry)	7,619,400	5.26
7	G Group (steel manufacturing industry)	7,349,275	5.07
8	H Group (other computer peripheral equipment manufacturing industry)	6,785,169	4.68
9	I Group (financial services industry)	6,571,673	4.53
10	J Group (liquid crystal panel and components manufacturing industry)	5,649,402	3.90

December 31, 2016			
Rank (Note a)	**Transaction Party (Note b)**	**Loans (Note c)**	**As Proportion of Net Equity (%) (Note d)**
1	B Group (plastic skin, plate and tube manufacturing industry)	$ 33,300,793	24.21
2	A 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	H Group (computer, peripheral equipment and software wholesale industry)	8,289,270	6.03
7	I Group (financial services industry)	7,857,038	5.71
8	F Group (real estate development industry)	7,689,000	5.59
9	G Group (steel manufacturing industry)	7,539,485	5.48
10	K Group (liquid crystal panel and components manufacturing industry)	7,535,032	5.48

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

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

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

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

c. Interest rate sensitivity

(In Thousands of New Taiwan Dollars; %)

Item	December 31, 2017				
	1-90 Days	**91-180 Days**	**181 Days-1 Year**	**More Than 1 Year**	**Total**
Interest-sensitive assets	$ 1,270,770,531	$ 22,489,278	$ 59,169,751	$ 104,300,232	$ 1,456,729,792
Interest-sensitive liabilities	324,508,645	812,913,896	95,924,122	38,147,580	1,271,494,243
Interest sensitivity gap	946,261,886	(790,424,618)	(36,754,371)	66,152,652	185,235,549
Net equity					116,614,787
Ratio of interest-sensitive assets to liabilities					114.57%
Ratio of interest sensitivity gap to net equity					158.84%

(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%

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, 2017				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	$ 12,433,072	$ 1,238,542	$ 397,649	$ 268,126	$ 14,337,389
Interest-sensitive liabilities	14,279,118	791,260	1,024,437	20,466	16,115,281
Interest sensitivity gap	(1,846,046)	447,282	(626,788)	247,660	(1,777,892)
Net equity					544,284
Ratio of interest-sensitive assets to liabilities					88.97%
Ratio of interest sensitivity gap to net equity					(326.65%)

(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%)

Note a: The amounts listed above include accounts in U.S. dollars only for domestic branches, offshore banking unit ("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, 2017	December 31, 2016
Return on total assets	Pretax	0.70%	0.72%
	After tax	0.60%	0.62%
Return on net equity	Pretax	10.04%	10.55%
	After tax	8.56%	9.05%
Profit margin		39.27%	38.98%

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

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

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

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

e. Maturity analysis of assets and liabilities

(In Thousands of New Taiwan Dollars)

	Total	December 31, 2017					
		Period Remaining until Due Date and Amount Due					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year
Major maturity cash inflows	$ 1,670,505,136	$ 172,902,756	$ 145,384,955	$ 198,751,791	$ 128,146,773	$ 260,833,212	$ 764,485,649
Major maturity cash outflows	2.193,924,065	110,223,411	154,549,943	318,756,912	277,649,621	436,184,304	896,559,874
Gap	(523,418,929)	62,679,345	(9,164,988)	(120,005,121)	(149,502,848)	(175,351,092)	(132,074,225)

(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)

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, 2017				
		Period Remaining until Due Date and Amount Due				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year
Major maturity cash inflows	$ 21,776,559	$ 9,096,294	$ 4,352,376	$ 2,170,210	$ 1,387,555	$ 4,770,124
Major maturity cash outflows	26,962,227	9,264,047	4,872,188	2,799,921	3,570,464	6,455,607
Gap	(5,185,668)	(167,753)	(519,812)	(629,711)	(2,182,909)	(1,685,483)

(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)

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

f. Sale of non-performing loans ("NPL")

(In Thousands of New Taiwan Dollars)

Transaction Date	Counterparty	Composition of NPL	Book Value	Sales Price	Gain on Disposal	Agreement with Added Terms	Relationship
2016.08.02	Deutsche Bank AG, London Branch	International syndication loan (foreign currency unsecured loans debt)	$ -	$ 177,972	$ 177,972	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, 2017 and 2016 were as follows:

	December 31 2017	December 31 2016
Special purpose trust accounts - domestic	$ 28,323,313	$ 24,689,081
Special purpose trust accounts - foreign	75,981,349	76,545,719
Insurance trust	1,047	1,046
Retirement and breeds trust	314,508	327,389
Umbilical-cord-blood trust	9,951,391	8,912,851
Money claim and guarantee trust	73,800	75,000
Marketable securities trust	777,551	3,543,841
Real estate trust	15,762,486	13,598,963
Securities under custody	136,459,615	119,703,445
Other money trust	1,027,807	1,833,292
	$ 268,672,867	$ 249,230,627

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 2017	December 31 2016	Trust Liabilities	December 31 2017	December 31 2016
Bank deposits	$ 3,186,400	$ 4,229,913	Trust capital		
Insurance claims	73,800	75,000	Money trust	$ 115,286,230	$ 112,113,342
Financial assets			Insurance claims	73,800	75,000
Common stocks	1,284,961	3,945,809	Marketable securities trust	774,802	3,467,283
Mutual funds	111,067,224	106,783,085	Real estate trust	15,781,176	13,608,304
Bonds	2,433,959	1,940,611	Securities under custody payable	136,459,615	119,703,445
Interest receivable	-	16,816	Administration payable	-	93
Prepayments	1,609	-	Income taxes payable	-	970
Land	10,194,729	7,695,635	Withholdings	61	-
Buildings	579,169	630,375	Profit and loss	413,707	202,713
Construction in progress	3,391,401	4,209,938			
Securities under custody	136,459,615	119,703,445	Unappropriated retained earnings - realized capital gain/loss	14,517	15,104
			Unappropriated retained earnings - gain on revenue/expense investment	364,232	413,944
			Unappropriated retained earning	(495,273)	(369,571)
Total trust assets	$ 268,672,867	$ 249,230,627	Total trust liabilities	$ 268,672,867	$ 249,230,627

Trust Assets Register

Investments	December 31 2017	December 31 2016
Bank deposits	$ 3,186,400	$ 4,229,913
Insurance claims	73,800	75,000
Financial assets		
Common stocks	1,284,961	3,945,809
Mutual funds	111,067,224	106,783,085
Bonds	2,433,959	1,940,611
Land	10,194,729	7,695,635
Buildings	579,169	630,375
Construction in progress	3,391,401	4,209,938
Others	1,609	16,816
Securities under custody	136,459,615	119,703,445
Total trust assets	$ 268,672,867	$ 249,230,627

Income Statement of Trust

Investments	For the Year Ended December 31 2017	For the Year Ended December 31 2016
Revenue		
Interest income	$ 79,705	$ 66,233
Dividends	212,997	51,430
Rental revenues	94,419	7,211
Gain on mutual funds	15,926	19,074
Foreign exchange gains	759,982	588,327
Realized capital gain - mutual funds	19,364	-
Realized capital gain - quoted stocks	31,446	-
Realized capital gain - bonds	16,674	-
Unrealized capital gain - mutual funds	-	15,911
Unrealized capital gain - quoted stocks	-	116,330
Unrealized capital gain - bonds	-	17,575
	1,230,513	882,091
Expense		
Maintenance	(5,661)	(1,659)
Tax expense	(1,554)	(2,174)
Others	(9,965)	(10,520)
Foreign exchange losses	(757,908)	(546,140)
Realized capital loss - bonds	(7,063)	-
Unrealized capital loss - bonds	-	(21,382)
Realized capital loss - mutual funds	(25,510)	-
Unrealized capital loss - mutual funds	-	(36,685)
Realized capital loss-quoted stocks	(9,145)	-
Unrealized capital loss - quoted stocks	-	(60,818)
	(816,806)	(679,378)
	$ 413,707	$ 202,713

36. RELATED-PARTY TRANSACTIONS

a. Related parties and their relationships with the Bank

Name	Relationship
Director and managers	The Bank's director and managers
Taishin Financial Holding	The Bank's corporate director
Taishin International Bank	Owned by the same parent company
The Export-Import Bank	Its director is the Bank's corporate director
Land Bank	Its director is the Bank's corporate director
Taiwan Business Bank	Its director is the Bank's corporate director
Taiwan High Speed Rail Corporation	Its director is the Bank's corporate director
Powertec Energy Corporation	Its director is the Bank's corporate director
China Airlines Ltd.	Its director is the Bank's corporate director
Ritdisplay Corporation	Its director is the Bank's corporate director
Kaohsiung Rapid Transit Corporation	Its director is the Bank's corporate director
Taiwan Financial Holdings	Its director is the Bank's corporate director
Adimmune Corporation	Its supervisor is the Bank's corporate director
MasterLink Securities Corporation	Its director is the Bank
Crown Department Company	Its director is the Bank's manager's spouse
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, 2017	$ 28,819,698	2.09
Balance as of December 31, 2016	1,221,091	0.09

For the years ended December 31, 2017 and 2016, interest ranged from 0.00% to 3.67% and from 0.00% to 3.57%, interest revenues were $553,550 thousand and $17,364 thousand, respectively.

	December 31, 2017					
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
Consumer loans						
30 accounts	$ 13,370	$ 14,083	$ 13,370	$ -	Credit	None
Self-use residential mortgage loans						
202 accounts	1,173,424	1,219,832	1,173,424	-	Real estate	None
Others						
Taiwan High Speed Rail Corporation	26,624,078	28,573,784	26,624,078	-	Credit and station equipment	None
Powertec Energy Corporation	542,972	557,972	542,972	-	Credit	None
China Airlines Ltd.	100,000	2,232,500	100,000	-	Credit	None
Ritdisplay Corporation	106,490	118,600	106,490	-	Real estate	None
Other - corporation 6 accounts (Note 1)	249,304	758,667	249,304	-	Credit and fund guarantee and real estate	None
Other - individual 9 accounts (Note 2)	10,060	10,280	10,060	-	Deposit	None

	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 2)	10,606	10,683	10,606	-	Foreign currency or deposit	None

Note 1: The balance of every corporate entity is not over $1 billion.

Note 2: The balance of every single entity is not over 1% of the total ending balance.

Loans to managers for mortgage within $8,000 thousand and credit loans within $800 thousand per person all bore interests at 1.26% in December 31, 2017 and 2016. 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, 2017				
	Ending Balance	**Highest Amount**	**Reserve for Guarantee Liabilities**	**Interest Rate (Per Annum %)**	**Collateral**
Kaohsiung Rapid Transit Corporation	$ 23,400	$ 50,280	$ -	0.50	None
Adimmune Corporation	19,236	19,246	-	1.80	Pledged demand deposit

	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, 2017	$ 4,376,758	0.26
Balance as of December 31, 2016	4,002,457	0.25

For the years ended December 31, 2017 and 2016, the interest rates intervals were between 0.00% to 15.00% and 0.00% to 13.00%, respectively; the interest expenses were $84,552 thousand and $53,421 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)

	December 31, 2017				
Name	**Department**	**Currency**	**Ending Balance**	**Interest Rate (Per Annum %)**	**Interest Revenue**
Land Bank	OBU	USD	$ 75,000	1.18-1.93	$ 1,097
	Hong Kong Branch	USD	100,000	0.80-2.28	1,286
Taiwan Business Bank	OBU	USD	60,000	0.70-2.00	267
	Hong Kong Branch	USD	30,000	0.71-2.28	200
	OBU	AUD	3,000	1.30-1.68	-

	December 31, 2016				
Name	**Department**	**Currency**	**Ending Balance**	**Interest Rate (Per Annum %)**	**Interest Revenue**
Land Bank	OBU	USD	$ 55,000	0.44-1.28	$ 528
	Hong Kong Branch	USD	80,000	0.34-1.62	528
Taiwan Business Bank	Hong Kong Branch	USD	16,000	0.33-1.30	137

Call loans from banks

(In Thousands of Original Currencies)

	December 31, 2017				
Name	**Department**	**Currency**	**Ending Balance**	**Interest Rate (Per Annum %)**	**Interest Revenue**
Land Bank	OBU	USD	$ 30,000	0.72-1.85	$ 28
	Hong Kong Branch	USD	85,000	0.95-2.08	804

	December 31, 2016				
Name	**Department**	**Currency**	**Ending Balance**	**Interest Rate (Per Annum %)**	**Interest Revenue**
Land Bank	Singapore Branch	USD	$ 10,000	0.50-1.21	$ 165
	New York Branch	USD	10,000	0.32-1.75	52
	London Branch	USD	75,000	0.41-1.40	351
	Hong Kong Branch	USD	4,000	0.35-1.62	3
Taiwan Business Bank	OBU	CAD	2,800	0.18-0.75	2
	Los Angeles Branch	USD	20,000	0.46-1.60	148

5) Due from banks and due to banks

Due from banks

(In Thousands of New Taiwan Dollars)

			December 31	
			2017	2016
Name	**Department**	**Currency**	**Ending Balance**	**Ending Balance**
Land Bank	Domestic banking unit ("DBU")	NTD	$ 44	$ 3
Taiwan Business Bank	DBU	NTD	77	722

Due to banks

(In Thousands of Original Currencies)

			December 31	
			2017	2016
Name	**Department**	**Currency**	**Ending Balance**	**Ending Balance**
The Export-Import Bank	DBU	NTD	$ 1,102	$ 613
Taishin International Bank	New York Branch	USD	57	47
Land Bank	DBU	NTD	277	277

c. Compensation of directors and management personnel

	For the Year Ended December 31	
	2017	**2016**
Short-term benefits	$ 110,366	$ 110,715
Post-employment benefits	10,905	1,939
	$ 121,271	$ 112,654

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

d. Other

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

37. PLEDGED ASSETS

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

Pledged Assets	Description	December 31 2017	December 31 2016
Available-for-sale financial assets	Government bonds	$ 5,781,100	$ 5,921,200
Held-to-maturity financial assets	Bonds and certificate of deposits	36,749,428	36,819,687
Time deposits with original maturity more than 3 months	Time deposit	2,729,400	5,780,000
Refundable deposits	Cash	638,049	284,790

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, 2017 and 2016:

	December 31 2017	December 31 2016
Trust liabilities	$ 268,672,867	$ 249,230,627
Unused loan commitments (excluding credit cards)	82,204,969	93,836,687
Credit card credit commitments	333,092	371,718
Unused issued letters of credit	24,509,270	23,053,060
Guarantees issued in guarantee business	40,993,464	44,626,870
Repayment notes and times deposit held for custody	12,860,366	12,828,805
Liabilities on joint loans	771,194	512,886

The unrecognized commitments for the acquisition of equipment and intangible assets, as well as the commitments for construction, security and urban renewal as of December 31, 2017 were $337,946 thousand, $20,229 thousand, $134,804 thousand and $8,661 thousand, respectively.

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

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, 2017	None
2	Acquisition of fixed assets over NT$300 million or 10% of outstanding capital for the year ended December 31, 2017	None
3	Disposal of fixed assets over NT$300 million or 10% of outstanding capital for the year ended December 31, 2017	None
4	Discount on fees income from related parties over NT$5 million	None
5	Receivables from related parties over NT$300 million or 10% of outstanding capital as of December 31, 2017	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, 2017	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, 2017	None
6	Acquisition of property, plant and equipment over NT$300 million or 10% of outstanding capital for the year ended December 31, 2017	None
7	Disposal of property, plant and equipment over NT$300 million or 10% of outstanding capital for the year ended December 31, 2017	None
8	Receivables from related parties over NT$300 million or 10% of outstanding capital as of December 31, 2017	None
9	Derivative instrument	None
10	Discount on fees income from related parties over NT$5 million	None
11	Sale of NPL by subsidiary	None
12	Other significant transactions which may affect decisions of the users of the financial statements	None

c. Investment in mainland China: Table 1

40. INFORMATION ON INVESTEES

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	4.01	$ 558,129	$ -	64,152,806	-	64,152,806	4.01
Asia Pacific Broadband Telecom Co.	Taipei City	Type I & type II telecommunications business	0.35	149,700	-	15,000,000	-	15,000,000	0.35
Taiwan High Speed Rail Corporation	Taipei City	High speed rail road	0.79	1,045,750	-	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	-	20,818,473	-	20,818,473	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	-	3,151,802	-	3,151,802	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	-	299,811	-	299,811	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. OTHER DISCLOSURE

On May 13, 2016, the Bank had been approved by the FSC to change the operation units in China by establishing the subsidiary Chang Hwa Commercial Bank, Ltd. (Nanjing), and set up Nanjing branch under the subsidiary. The working capital from the Bank's investments in Kunshan China, Fuzhou and Dongguan branches were merged into Nanjing branch. The subsidiary's working capital is RMB 2,500 million. The subsidiary had been approved by China Banking Regulatory Commission on September 18, 2017.

42. 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, 2017						
	Loans	**Deposits and Remittances**	**Financial Instruments and Investments**	**Wealth Management**	**Overseas Branches**	**Others**	**Total**
Net interest income	$ 13,360,330	$ 5,082,117	$ 808,337	$ -	$ 3,410,882	$ (4,796)	$ 22,656,870
Net service fee and commission income	1,463,307	201,665	(34,511)	2,906,165	261,992	-	4,798,618
Net income on financial instruments	-	-	3,055,975	-	67,981	-	3,123,956
Others	10,484	-	2,845	(344)	4,380	199,910	217,275
Net revenue and gains	14,834,121	5,283,782	3,832,646	2,905,821	3,745,235	195,114	30,796,719
Bad debts expenses and guarantee liability provisions	(14,930)	-	-	-	(776,255)	-	(791,185)
Operating expenses	-	-	-	-	-	-	(15,821,315)
Income before income tax	$ 14,819,191	$ 5,283,782	$ 3,832,646	$ 2,905,821	$ 2,968,980	$ 195,114	$ 14,184,219

	For the Year Ended December 31, 2016						
	Loans	**Deposits and Remittances**	**Financial Instruments and Investments**	**Wealth Management**	**Overseas Branches**	**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

The revenues and results on the segment information reported does not include 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, 2017						
	Loans	**Deposits and Remittances**	**Financial Instruments and Investments**	**Overseas Branches**	**Others**	**Adjustment**	**Total**
Assets	$ 1,274,604,082	$ -	$ 625,178,439	$ 190,521,528	$ 77,852,165	$ (131,897,814)	$ 2,036,258,400
Liabilities	$ 3,909,438	$ 1,623,962,111	$ 176,135,254	$ 171,553,983	$ 47,647,864	$ (131,897,814)	$ 1,891,310,836

	December 31, 2016						
	Loans	**Deposits and Remittances**	**Financial Instruments and Investments**	**Overseas Branches**	**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

CHANG HWA COMMERCIAL BANK, LTD.

INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2017
(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1.

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net Income (Loss) of the Investee (Note 2)	% of Direct or Indirect Investment	Investment Gain (Losses)	Carrying Amount as of December 31, 2017	Accumulated Repatriation of Investment Income as of December 31, 2017	Note
					Outflow	Inflow							
Chang Hwa Commercial Bank, Ltd. Kunshan Branch	Banking	$ 4,716,225 (US$ 155,174)	Note 1.c.	$ 4,716,225 (US$ 155,174)	$ -	$ -	$ 4,716,225 (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	2,476,283 (US$ 81,743)	Note 1.c.	2,476,283 (US$ 81,743)	-	-	2,476,283 (US$ 81,743)	-	-	-	-	-	

2.

Accumulated Outward Remittance for Investment in Mainland China December 31, 2017	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 3)
$ 12,117,289 (US$ 399,558)	$ 12,372,787 (US$ 410,928)	$ 21,742,135

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 the accounting firms in the ROC.

2) Consolidated financial statements audited (reviewed) by the Taiwan-based 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, establish/acquire subsidiaries or acquire shares or capital contributions from local shareholders in mainland China.

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

(Concluded)