Chang Hwa Commercial Bank, Ltd.

Financial Statements for the
Three Months Ended March 31, 2018 and 2017 and
Independent Auditors' Review Report

Deloitte.

勤業眾信

勤業眾信聯合會計師事務所
10596 台北市民生東路三段156號12樓

Deloitte & Touche
12th Floor, Hung Tai Financial Plaza
156 Min Sheng East Road, Sec. 3
Taipei 10596, Taiwan

Tel :+886 (2) 2545-9988
Fax:+886 (2) 4051-6888
www.deloitte.com.tw

INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying balance sheets of Chang Hwa Commercial Bank, Ltd. (the "Bank") as of March 31, 2018 and 2017, and the related statements of comprehensive income, changes in equity and cash flows for the three months then ended, and the related notes to the financial statements, including a summary of significant accounting policies (collectively referred to as 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 Accounting Standards 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying financial statements do not give a true and fair view of the financial position of the Bank as of March 31, 2018 and 2017 and of its financial performance and its cash flows for the three months then ended March 31, 2018 and 2017 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 Accounting Standards 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

The engagement partners on the reviews resulting in this independent auditors' review report are Tza Li Gung and Tung Feng Lee.

Deloitte & Touche
Taipei, Taiwan
Republic of China

May 15, 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 review such financial statements are those generally applied in the Republic of China.

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

CHANG HWA COMMERCIAL BANK, LTD.

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	March 31, 2018 (Reviewed)		December 31, 2017 (Audited)		March 31, 2017 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Cash and cash equivalents (Notes 4, 6 and 39)	$ 45,345,134	2	$ 74,835,132	4	$ 35,729,065	2
Due from the Central Bank and call loans to banks (Notes 4, 6 and 39)	172,291,903	8	165,015,057	8	206,705,416	10
Financial assets at fair value through profit or loss (Notes 4 and 7)	9,208,528	1	13,552,513	1	24,968,955	1
Financial assets at fair value through other comprehensive income (Notes 4 and 8)	85,083,777	4	-	-	-	-
Financial assets for hedging (Notes 4 and 15)	227,362	-	-	-	-	-
Derivative financial assets for hedging (Notes 4 and 15)	-	-	243,372	-	176,553	-
Investments in debt instruments at amortized cost (Notes 4, 5, 9 and 40)	260,028,625	13	-	-	-	-
Receivables, net (Notes 4, 11 and 12)	26,178,418	1	24,670,023	1	18,784,879	1
Current tax assets (Notes 4 and 33)	119,086	-	135,714	-	55,337	-
Loans, net (Notes 4, 5, 12, 38 and39)	1,368,570,176	66	1,377,040,660	68	1,342,762,347	68
Available-for-sale financial assets, net (Notes 4, 13 and 40)	-	-	73,175,886	3	76,981,030	4
Held-to-maturity financial assets, net (Notes 4, 5, 14 and 40)	-	-	237,412,046	12	212,711,679	11
OTHER FINANCIAL ASSETS, NET						
Financial assets at cost (Notes 4 and 16)	-	-	4,167,009	-	4,167,009	-
Investments in debt instrument without active market (Notes 4 and 17)	-	-	64,609	-	79,849	-
Other miscellaneous financial assets (Notes 4, 18 and 40)	58,716,477	3	27,015,755	1	15,398,057	1
Other financial assets, net	58,716,477	3	31,247,373	1	19,644,915	1
Property and equipment, net (Notes 4 and 19)	20,570,760	1	20,639,732	1	20,736,980	1
Investment property, net (Notes 4 and 20)	13,746,194	1	13,747,787	1	13,752,337	1
Intangible assets, net (Notes 4 and 21)	396,020	-	436,176	-	411,172	-
Deferred tax assets (Notes 4 and 33)	3,818,966	-	3,175,050	-	2,894,396	-
Other assets, net (Notes 22, 35 and 40)	2,148,690	-	931,879	-	2,313,775	-
TOTAL	$ 2,066,450,116	100	$ 2,036,258,400	100	$ 1,978,628,836	100
LIABILITIES AND EQUITY						
Deposits from the Central Bank and banks (Notes 4, 23 and 39)	$ 136,291,380	7	$ 108,151,867	5	$ 115,919,496	6
Financial liabilities at fair value through profit or loss (Notes 4 and 7)	11,827,999	1	12,309,330	1	19,187,401	1
Securities sold under repurchase agreements (Note 4)	3,145,460	-	3,118,536	-	3,237,819	-
Payables (Notes 4, 24 and 31)	23,171,680	1	34,849,855	2	30,026,673	2
Current tax liabilities (Notes 4 and 33)	1,449,842	-	954,609	-	888,133	-
Deposits and remittances (Notes 4, 25 and 39)	1,680,942,525	81	1,672,079,784	82	1,610,400,285	82
Bank notes payable (Notes 4 and 26)	39,526,097	2	41,739,657	2	41,667,657	2
Other financial liabilities (Notes 4 and 27)	4,004,164	-	3,662,600	-	3,560,048	-
Reserve for liabilities (Notes 4, 5 and 29)	5,035,800	-	4,758,835	-	4,418,500	-
Deferred tax liabilities (Notes 4 and 33)	7,208,709	1	7,019,970	1	7,016,589	-
Other liabilities (Notes 4, 28 and 35)	2,439,488	-	2,665,793	-	2,711,176	-
Total liabilities	1,915,043,144	93	1,891,310,836	93	1,839,033,777	93
EQUITY (Notes 4, 31 and 33)						
Capital						
Common stock	94,130,007	4	94,130,007	5	89,647,626	4
Retained earnings						
Legal reserve	27,410,736	1	27,410,736	1	23,784,945	1
Special reserve	12,080,950	1	12,080,950	1	12,020,521	1
Unappropriated earnings	14,860,790	1	11,779,842	-	14,836,977	1
Other equity	2,924,489	-	(453,971)	-	(695,010)	-
Total equity	151,406,972	7	144,947,564	7	139,595,059	7
TOTAL	$ 2,066,450,116	100	$ 2,036,258,400	100	$ 1,978,628,836	100

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

CHANG HWA COMMERCIAL BANK, LTD.

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

	For the Three Months Ended March 31			
	2018		2017	
	Amount	%	Amount	%
INTEREST INCOME (Notes 4, 32 and 39)	$ 9,177,916	117	$ 8,280,729	111
INTEREST EXPENSES (Notes 32 and 39)	(3,408,244)	(43)	(2,817,466)	(38)
NET INCOME OF INTEREST	5,769,672	74	5,463,263	73
NET NON-INTEREST INCOME (LOSS)				
Net service fee income (Notes 4 and 32)	1,226,474	16	1,364,683	18
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss (Notes 4, 7 and 32)	745,965	9	753,461	10
Realized gain (loss) on available-for-sale financial assets (Notes 4 and 32)	-	-	145,907	2
Realized gain (loss) on financial assets at fair value through other comprehensive income (Notes 4 and 32)	8,352	-	-	-
Foreign exchange gain (loss) (Notes 4 and 37)	(3,877)	-	(334,122)	(4)
Net other non-interest income (loss) (Note 15)	76,279	1	58,241	1
Net non-interest income (loss)	2,053,193	26	1,988,170	27
NET REVENUE AND GAINS	7,822,865	100	7,451,433	100
BAD DEBT EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION (Notes 4 and 12)	(340,541)	(4)	(432,578)	(5)
OPERATING EXPENSE				
Employee benefits expenses (Notes 4 and 32)	(2,575,574)	(33)	(2,367,295)	(32)
Depreciation and amortization expense (Notes 4 and 32)	(179,130)	(2)	(176,605)	(2)
Other general and administrative expense	(1,065,590)	(14)	(1,026,065)	(14)
Total operating expense	(3,820,294)	(49)	(3,569,965)	(48)
INCOME BEFORE INCOME TAX	3,662,030	47	3,448,890	47
INCOME TAX EXPENSE (Notes 4 and 33)	(233,332)	(3)	(582,152)	(8)
NET INCOME	3,428,698	44	2,866,738	39

(Continued)

CHANG HWA COMMERCIAL BANK, LTD.

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

	For the Three Months Ended March 31			
	2018		2017	
	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will not be reclassified to profit or loss, net of tax:				
Revaluation gains (losses) on investments in equity instruments measured at fair value through other comprehensive income	$ 259,782	3	$ -	-
Change in fair value of financial liability attributable to change in credit risk of liability	784	-	-	-
Items that will be reclassified to profit or loss, net of tax:				
Exchange differences on translation (Note 4)	(250,209)	(3)	(1,231,914)	(17)
Unrealized gains (losses) on valuation of available-for-sale financial assets (Note 4)	-	-	292,237	4
Gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	(86,250)	(1)	-	-
Income tax related to items that will be reclassified to profit or loss (Notes 4 and 33)	12,755	-	144,473	2
Other comprehensive loss, net of tax	(63,138)	(1)	(795,204)	(11)
TOTAL COMPREHENSIVE INCOME	$ 3,365,560	43	$ 2,071,534	28
EARNINGS PER SHARE (Note 34)				
Basic	$ 0.36		$ 0.30	
Diluted	$ 0.36		$ 0.30	

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

CHANG HWA COMMERCIAL BANK, LTD.

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

	Equity Attributable to Owners of the Bank									
						Other Equity				
	Capital Stock		Retained Earnings							
	Stocks (Thousand)	Amount	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Unrealized Gains (Losses) on Financial Assets Measured at Fair Value Through Other Comprehensive Income	Changes in Fair Value of Financial Liability Attributable to Change in Credit Risk of Liability	Total Equity
BALANCE, JANUARY 1, 2017	8,964,762	$ 89,647,626	$ 23,784,945	$ 12,020,521	$ 11,970,239	$ (8,125)	$ 108,319	$ -	$ -	$ 137,523,525
Net income for the three months ended March 31, 2017	-	-	-	-	2,866,738	-	-	-	-	2,866,738
Other comprehensive income (loss) for the three months ended March 31, 2017, net of tax	-	-	-	-	-	(1,083,064)	287,860	-	-	(795,204)
Total comprehensive income (loss) for the three months ended March 31, 2017	-	-	-	-	2,866,738	(1,083,064)	287,860	-	-	2,071,534
BALANCE, MARCH 31, 2017	8,964,762	$ 89,647,626	$ 23,784,945	$ 12,020,521	$ 14,836,977	$ (1,091,189)	$ 396,179	$ -	$ -	$ 139,595,059
BALANCE, JANUARY 1, 2018	9,413,001	$ 94,130,007	$ 27,410,736	$ 12,080,950	$ 11,779,842	$ (1,251,858)	$ 797,969	$ -	$ (82)	$ 144,947,564
Effect of retrospective application	-	-	-	-	(347,750)	-	(797,969)	4,239,567	-	3,093,848
BALANCE, JANUARY 1, 2018 AS RESTATED	9,413,001	94,130,007	27,410,736	12,080,950	11,432,092	(1,251,858)	-	4,239,567	(82)	148,041,412
Net income for the three months ended March 31, 2018	-	-	-	-	3,428,698	-	-	-	-	3,428,698
Other comprehensive income (loss) for the three months ended March 31, 2018, net of tax	-	-	-	-	-	(240,506)	-	176,584	784	(63,138)
Total comprehensive income (loss) for the three months ended March 31, 2018	-	-	-	-	3,428,698	(240,506)	-	176,584	784	3,365,560
BALANCE, MARCH 31, 2018	9,413,001	$ 94,130,007	$ 27,410,736	$ 12,080,950	$ 14,860,790	$ (1,492,364)	$ -	$ 4,416,151	$ 702	$ 151,406,972

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

CHANG HWA COMMERCIAL BANK, LTD.

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

	For the Three Months Ended March 31	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before income tax	$ 3,662,030	$ 3,448,890
Non-cash (income and gains) or expenses and losses		
Expected credit loss recognized on trade receivables	340,541	-
Provision for bad debt expense and guarantee liability	-	432,578
Depreciation expense	130,090	133,887
Amortization expense	49,040	42,718
Interest income	(9,177,916)	(8,280,729)
Interest expense	3,408,244	2,817,466
Net (gain) loss on financial assets or liabilities at fair value through profit or loss	(422,521)	1,474,094
Gain on disposal of investments	(8,352)	(145,907)
Unrealized foreign exchange gain	(323,444)	(2,227,555)
Other adjustments	25,028	21,983
Changes in operating assets and liabilities		
Decrease in due from the Central Bank	3,182,358	4,037,625
Decrease in financial assets at fair value through profit or loss	3,349,138	9,437,391
(Increase) decrease in receivables	(755,575)	1,513,830
Decrease in loans	8,123,583	24,094,414
Increase in financial assets at fair value through other comprehensive income	(8,890,332)	-
Decrease in available-for-sale financial assets	-	704,006
Increase in investments in debt instruments at amortized cost	(13,303,873)	-
Increase in held-to-maturity financial assets	-	(7,847,138)
(Increase) decrease in other financial assets	(31,700,723)	3,449,362
Increase in other assets	(1,210,525)	(1,788,030)
Decrease in deposits from the Central Bank and banks	(150,087)	(3,235,914)
Increase (decrease) in deposits and remittances	8,862,741	(14,029,532)
Decrease in payables	(12,049,245)	(4,166,461)
(Decrease) increase in financial liabilities at fair value through profit or loss	(3,716,445)	2,066,471
Decrease in reserve for liabilities	(141,530)	(124,611)
Increase in other financial liabilities	341,564	841,084
Decrease in other liabilities	(220,447)	(578,883)
Cash (outflow) inflow generated from operations	(50,596,658)	12,091,039
Interest received	8,926,663	7,886,344
Interest paid	(3,043,480)	(2,454,484)
Income taxes paid	(109,295)	(202,802)
Net cash flows (used in) generated from operating activities	(44,822,770)	17,320,097

(Continued)

CHANG HWA COMMERCIAL BANK, LTD.

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

	For the Three Months Ended March 31	
	2018	**2017**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	$ (65,119)	$ (85,425)
Acquisition of investment property	(65)	-
Acquisition of intangible assets	(9,155)	(30,871)
Net cash flows used in investing activities	(74,339)	(116,296)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in due to the Central Bank and banks	28,289,600	(20,007,172)
Proceeds from issuing bank notes	-	10,200,000
Repayments of bank notes	(2,200,000)	-
Increase in securities sold under repurchase agreement	26,924	282,838
Net cash flows generated from (used in) financing activities	26,116,524	(9,524,334)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(250,209)	(1,231,914)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(19,030,794)	6,447,553
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	172,818,258	167,977,705
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 153,787,464	$ 174,425,258

	March 31	
	2018	**2017**
Reconciliation of cash and cash equivalents		
Cash and cash equivalents in the balance sheets	$ 45,345,134	$ 35,729,065
Call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 permitted by the Financial Supervisory Commission	108,442,330	138,696,193
Cash and cash equivalents at end of period	$ 153,787,464	$ 174,425,258

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 stocks 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.

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

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Bank's board of directors on May 15, 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

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

1) IFRS 9 "Financial Instruments" and related amendments

IFRS 9 supersedes IAS 39 "Financial Instruments: Recognition and Measurement", with consequential amendments to IFRS 7 "Financial Instruments: Disclosures" and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively starting from January 1, 2018. IFRS 9 is not applicable to items that have already been derecognized as of December 31, 2017.

Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Bank has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Bank's financial assets and financial liabilities as of January 1, 2018.

	Measurement Category		Carrying Amount		
Financial Asset	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
Cash and cash equivalents	Loans and receivables	Amortized cost	$ 74,835,132	$ 74,835,132	
Due from the Central Bank and call loans to banks	Loans and receivables	Amortized cost	165,015,057	165,015,057	
Financial assets at fair value through profit or loss	Measured as at FVTPL	Measured as at FVTPL	8,226,633	-	
	Designated as at FVTPL	Designated as at FVTPL	5,325,880	179,831	
		Mandatorily at FVTPL	-	8,405,593	
		Amortized cost	-	4,452,000	
Derivative financial assets for hedging	Derivative financial assets for hedging	Financial assets for hedging	243,372	243,372	
Receivables	Loans and receivables	Amortized cost	24,670,023	25,185,100	
Loans	Loans and receivables	Amortized cost	1,377,040,660	1,377,040,660	
Available-for-sale financial assets	Available-for-sale financial assets	Measured as at FVTPL	73,175,886	-	
		Measured as at FVTOCI	-	68,264,217	
		Amortized cost	-	4,897,819	
Held-to-maturity financial assets	Held-to-maturity financial assets	Measured as at FVTPL	237,412,046	-	
		Amortized cost	-	237,405,546	
Other financial assets	Measured at cost	Measured as at FVTPL	4,167,009	-	
		Measured as at FVTOCI	-	7,678,042	
	Debt investments without active market	Amortized cost	64,609	-	
		Measured as at FVTOCI	-	69,301	
	Other miscellaneous financial assets	Other miscellaneous financial assets	27,015,755	27,015,755	
Refundable deposits	Loans and receivables	Amortized cost	638,048	638,048	
			$ 1,997,830,110	$ 2,001,325,473	

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	$ 13,552,513	$ -	$ -	$ 13,552,513	$ -	$ -	
Less: Reclassification to amortized cost (IFRS 9) (including revoked fair value options)	-	(4,452,000)	-	(4,452,000)	-	-	
Reclassification to interest receivables	-	(515,089)	-	(515,089)	-	-	
	13,552,513	(4,967,089)	-	8,585,424	-	-	
FVTOCI	-	-	-	-	-	-	
Debt instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	64,740,835	(120,190)	64,620,645	(46,063)	(74,127)	
Add: Reclassification from debt investments without active market (IAS 39)	-	64,609	4,692	69,301	-	4,692	
Equity instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	3,543,972	99,600	3,643,572	99,600	-	
Add: Reclassification from measured at cost (IAS 39)	-	4,167,009	3,511,033	7,678,042	-	3,511,033	
	-	72,516,425	3,495,135	76,011,560	53,537	3,441,598	
Amortized cost	-	-	-	-	-	-	
Add: Reclassification from available-for-sale	-	4,900,941	(3,122)	4,897,819	(3,122)	-	
Add: Reclassification from FVTPL (IAS 39) (including revoked fair value options)	-	4,452,000	-	4,452,000	-	-	
Add: Reclassification from held-to-maturity (IAS 39)	-	237,412,046	(6,500)	237,405,546	(6,500)	-	
	-	246,764,987	(9,622)	246,755,365	(9,622)	-	
	$ 13,552,513	$ 314,314,323	$ 3,485,513	$ 331,352,349	$ 43,915	$ 3,441,599	

a) Listed bank notes classified as at fair value through profit or loss under IAS 39 were classified as 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 stocks, emerging market stocks, and unlisted stocks classified as available-for-sale under IAS 39 were designated as at fair value through other comprehensive income (FVTOCI) under IFRS 9 and the fair value gains or losses accumulated in other equity were transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.

   Investments in unlisted stocks previously measured at cost were remeasured at fair value under IFRS 9.

c) Debt investments classified as available-for-sale, held-to-maturity financial assets, debt investments without active market and at amortized cost under IAS 39 were classified as at: (1) 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; (2) FVTOCI 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; (3) FVTPL under IFRS 9, 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 (4) FVTPL under IFRS 9, because on initial recognition, the contractual cash flows are not solely payments of principal and interest on the principal outstanding.

Hedge accounting

Due to the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, all derivative and non-derivative financial assets and financial liabilities which are designated as hedging instruments are presented as financial assets and financial liabilities for hedging starting from January 1, 2018.

2) Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"

The amendments clarify 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 amendments also stipulate 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.

b. 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 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
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 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
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: The FSC permits the election for early adoption of the amendments starting from 2018.

Note 3: On December 19, 2017, the FSC announced that IFRS 16 will take effect starting from January 1, 2019.

Note 4: The Bank shall apply these amendments to plan amendments, curtailments or settlements occurring on or after 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 assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the statements of cash flows, cash payments for the principal portion of lease liabilities 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 IAS 34 as endorsed and issued into effect by the FSC. Disclosure information included in these financial statements is less than the disclosure information required in a complete set of annual financial statements.

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:

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

b. 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

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

Other Significant Accounting Policies

Except for the following, for the summary of other significant accounting policies, refer to the Bank's financial statements for the year ended December 31, 2017.

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.

   1) Measurement categories

      <u>2018</u>

      Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost and investments in debt instruments and equity instruments at FVTOCI.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such as financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are subsequently measured 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 37.

b) Financial assets at amortized cost

Financial assets that meet the following conditions are subsequently measured at amortized cost:

i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and

ii. Financial assets that have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets.

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

c) Investments in debt instruments at FVTOCI

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

i. The financial asset is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and

ii. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

d) Investments in equity instruments at FVTOCI

On initial recognition, the Bank may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Bank's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

2017

Financial assets are classified into the following categories: Financial assets at FVTPL, held-to-maturity investments, available-for-sale financial assets and loans and receivables.

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at FVTPL.

A financial asset may be designated as at FVTPL 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 FVTPL.

Financial assets at FVTPL 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 dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 37.

Investments in equity instruments under financial assets at FVYPL 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 instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and presented as a separate line item as financial assets measured 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 the carrying amount and the fair value is recognized in profit or loss.

b) Held-to-maturity investments

Corporate bonds and foreign bonds, which have credit ratings above a specific credit rating and which the Bank has a 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 FVTPL.

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 such investments are disposed of or are 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 as a separate line item as financial assets measured 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 the carrying amount and the fair value of such financial assets is recognized in other comprehensive income. Any impairment losses are recognized in profit and loss.

d) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments without active market and other receivables) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are 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

2018

The Bank recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) and investments in debt instruments that are measured at FVTOCI.

The Bank always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables, lease receivables and contract assets. For all other financial instruments, the Bank recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Bank recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

2017

Financial assets, other than those at FVTPL, 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, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

Financial assets at amortized cost, such as loans and trade receivables, 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 with 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 defaults on receivables.

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

For a financial asset 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 on which 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 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 such an investment can be objectively related to an event occurring after the recognition of the impairment loss.

For a financial asset measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of its 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 a 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 trade receivables 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.

Before 2018, 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 which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through 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.

The 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, issuance or cancellation of the Bank's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

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

a) Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when such financial liabilities are either held for trading or designated as at FVTPL.

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.

A financial liability may be designated as at FVTPL 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 has performance 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 FVTPL.

For a financial liability designated as at FVTPL, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and 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 dividends paid on such 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 liability is derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in the fair value of the liability are presented in profit or loss. Fair value is determined in the manner described in Note 37.

b) Financial guarantee contracts

<u>2018</u>

Financial guarantee contracts issued by the Bank, if not designated as at FVTPL, are subsequently measured at the higher of:

i. The amount of the loss allowance reflecting expected credit losses; and

ii. The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the revenue recognition policies.

2017

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 and the amount initially recognized less the cumulative amortization recognized.

2) Derecognition of financial liabilities

The difference between the carrying amount of a 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 on which 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 hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of derivative financial instrument is negative, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) 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 host contracts are not measured at FVTPL.

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 hedges.

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.

Before 2018, hedge accounting was discontinued prospectively when the Bank revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. Starting from 2018, the Bank discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. 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 on which the hedge accounting is discontinued. The adjustment is based on a recalculated effective interest rate at the date on which amortization begins and will be amortized fully upon maturity of the financial instrument.

Employee Benefits

Retirement benefits

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

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 revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

Estimated Impairment of Financial Assets - 2018

The provision for impairment of trade receivables, investments in debt instruments and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Bank uses judgment in making these assumptions and in selecting the inputs for the impairment calculation, which are based on the Bank's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Notes 8, 9, 11 and 29. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

Estimated Impairment of Trade Receivables and Loans - 2017

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

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

a. Cash and cash equivalents

	March 31, 2018	December 31, 2017	March 31, 2017
Cash on hand	$ 12,329,800	$ 10,579,908	$ 11,342,736
Checks for clearing	4,286,487	18,097,350	11,080,592
Due from banks	27,191,845	44,672,316	11,929,921
Foreign currencies on hand	1,537,002	1,485,558	1,375,816
	$ 45,345,134	$ 74,835,132	$ 35,729,065

Refer to the statement of cash flows for the cash and cash equivalents reconciliation information as of March 31, 2018 and 2017. Cash and cash equivalents as of December 31, 2017 as shown in the statement of cash flows can be reconciled to the related items in the balance sheets as follows:

	December 31, 2017
Cash and cash equivalents	$ 74,835,132
Call loans to banks	97,983,126
	$ 172,818,258

b. Due from Central Bank and call loans to banks

	March 31, 2018	December 31, 2017	March 31, 2017
Call loans to banks	$ 108,442,330	$ 97,983,126	$ 138,696,193
Reserve for checking accounts	15,986,843	18,418,622	20,475,411
Reserve for demand accounts	41,633,834	42,558,656	40,574,733
Reserve for foreign deposits	462,860	438,550	411,010
Others	5,766,036	5,616,103	6,548,069
	$ 172,291,903	$ 165,015,057	$ 206,705,416

Cash and cash equivalents are assessed for impairment using approach similar to those used for investments in debt instruments (Refer to Note 10). The Bank considers its cash and cash equivalents to have low credit risk so its credit loss evaluation is on a 12-month expected credit loss basis.

7. FINANCIAL INSTRUMENTS AT FVTPL

Financial Assets at FVTPL

	March 31, 2018	December 31, 2017	March 31, 2017
Financial assets designated at FVTPL			
Interest rate-linked combination instruments	$ 175,259	$ 5,325,880	$ 5,454,340
Financial assets held for trading			
Derivative financial assets (not applying hedge accounting)			
Futures	-	182,565	150,150
Forward exchange contracts	-	220,037	422,351
Interest rate swaps	-	713,446	1,207,130
Cross-currency swaps	-	544,088	1,144,628
Currency swaps	-	1,507,886	2,582,075
Currency call option premiums	-	182,600	610,074
Non-derivative financial assets			
Investment in bills	-	3,026,213	11,584,903
Domestic listed stock	-	-	87,094
Mutual funds	-	-	20,558
Government bonds	-	1,849,798	1,705,652
	-	8,226,633	19,514,615
Financial assets mandatorily classified at FVTPL			
Derivative financial assets (not under hedge accounting)			
Futures	184,292	-	-
Forward exchange contracts	150,888	-	-
Interest rate swaps	817,551	-	-
Cross-currency swaps	202,151	-	-
Currency swaps	1,280,867	-	-
Currency call option premiums	197,599	-	-
Non-derivative financial assets			
Investment in bills	4,496,107	-	-
Domestic listed stock	122,138	-	-
Government bonds	1,405,127	-	-
Corporate bonds	176,549	-	-
	9,033,269	-	-
	$ 9,208,528	$ 13,552,513	$ 24,968,955

The par values of bonds and notes provided for transactions with repurchase agreements were $840,434 thousand, $1,176,200 thousand and $734,800 thousand as of March 31, 2018, December 31, 2017 and March 31, 2017, respectively.

Financial Liabilities at FVTPL

	March 31, 2018	December 31, 2017	March 31, 2017
Financial liabilities designated at FVTPL	$ 8,426,766	$ 8,759,276	$ 12,010,286
Financial assets held for trading			
Derivative financial liabilities (not applying hedge accounting)			
Forward contracts	55,617	49,782	82,606
Interest rate swaps	884,371	685,128	1,041,635
Cross-currency swaps	386,355	305,686	1,325,747
Currency swaps	1,876,026	2,325,169	3,764,670
Currency put option premiums	198,864	184,289	613,413
Non-derivative financial liabilities			
Margin traded government bonds - short	-	-	349,044
	3,401,233	3,550,054	7,177,115
	$ 11,827,999	$ 12,309,330	$ 19,187,401

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

   1) 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.

   2) 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 three months ended March 31, 2018 and 2017 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of the Bank is to minimize risks due to changes in fair value and cash flows.

The nominal principal amounts of outstanding derivative contracts as of March 31, 2018, December 31, 2017 and March 31, 2017 were as follows:

	March 31, 2018	December 31, 2017	March 31, 2017
Currency swaps	$ 313,471,343	$ 317,193,943	$ 315,102,332
Currency options	26,686,175	43,390,297	101,941,738
Forward exchange contracts	21,700,006	18,480,944	27,227,860
Interest rate swaps	405,030,237	389,538,301	444,542,324
Cross-currency swaps	8,789,948	13,063,953	35,796,432

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	March 31, 2018
Investments in equity instruments designated at FVTOCI	
Domestic listed stocks	$ 4,069,446
Domestic unquoted stocks	7,939,739
	12,009,185
Investments in debt instruments designated at FVTOCI	
Government bonds	27,666,978
Corporate bonds	15,514,741
Bank notes	27,395,678
Bonds issued by international organizations	875,893
Beneficiary and asset based securities	59,780
Investment in bills	1,561,522
	73,074,592
	$ 85,083,777

A part of investments in equity instruments are designated as at FVTOCI which are for strategic investment and not held for trading. As of March 31, 2018, investments in equity instruments at FVTOCI are as below:

	March 31, 2018
Common stock - Taiwan Power Co.	$ 2,194,614
Common stock - Taiwan Assets Management Co., Ltd.	1,725,000
Common stock - Taiwan Stock Exchange Co.	1,608,435
Common stock - Taiwan Sugar Co.	1,197,642
Others	5,283,494
	$ 12,009,185

a. Refer to Note 10 for information relating to their credit risk management and impairment.

b. The par value of bonds provided for transactions with repurchase agreement was $2,084,500 thousand as of March 31, 2018.

c. Government bonds placed as deposits in courts amounted to $377,100 thousand, government bonds placed as operating deposits amounted to $330,000 thousand, government bonds placed as a reserve fund for trust compensation amounted to $170,000 thousand, government bonds pledged for call loans from banks amounted to $5,000,000 thousand and the overseas branches' bonds provided as collateral for operations were $149,770 thousand as of March 31, 2018. Refer to Note 40 for information relating to investments in debt instruments at FVTOCI pledged as security.

9. INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST

	March 31, 2018
Investment in bills	$ 240,675,581
Bank notes	7,786,759
Corporate bonds	9,157,838
Government bonds	2,408,447
	$ 260,028,625

a. Refer to Note 10 for information relating to their credit risk management and impairment.

b. The overseas branches' bonds provided as collateral for operations as of March 31, 2018 were in the amount of $290,476 thousand.

c. Certificates of deposit placed as reserves for clearing at the Central Bank amounted to $36,000,000 thousand as of March 31, 2018. Certificates of deposit which were issued by the Central Bank and pledged for call loans from banks amounted to $300,000 thousand as of March 31, 2018.

d. Refer to Note 40 for information relating to investments in debt instruments at amortized cost pledged as security.

10. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified as at FVTOCI and as at amortized cost.

March 31, 2018

	At FVTOCI	At Amortized Cost	Total
Gross carrying amount	$ 72,941,732	$ 260,037,234	$ 332,978,966
Less: Allowance for impairment loss	132,860	(8,609)	124,251
Amortized cost	-	$ 260,028,625	-
Adjustment to fair value	$ 73,074,592		$ 333,103,217

The Bank only invests in debt instruments that are rated the equivalent of investment grade or higher and are assessed as having low credit impairment. The credit rating information is supplied by independent rating agencies. The Bank's exposure and the external credit ratings are continuously monitored and assessed for whether there has been a significant increase in credit risk since the last period to the reporting date.

The Bank considers the historical default rates of each credit rating supplied by external rating agencies to estimate 12-month or lifetime expected credit losses. The Bank's current credit risk grading framework comprises the following categories:

Category	Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount as of March 31, 2018
Stage 1	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12-month ECL	0.00%-49.40%	$ 332,706,280
Stage 2	There has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired	0.28%-88.49%	138,252
Stage 3	There is evidence indicating that the asset is credit-impaired	Lifetime ECL - credit-impaired	40.51%-92.69%	134,434
Write-off	There is evidence indicating that the debtor is experiencing severe financial difficulty and the Bank has no realistic prospect of recovery	Amount is written off	100%	-
				$ 332,978,966

The allowance for impairment loss of investments in debt instruments designated at FVTOCI and at amortized cost as of January 1, 2018 and March 31, 2018 grouped by credit rating is reconciled as follows:

	Credit Rating			
Allowance for Impairment Loss	**Performing (12-month ECL)**	**Doubtful (Lifetime ECL - Not Credit-impaired)**	**Defaulted (Lifetime ECL - Credit-impaired)**	**Total**
Balance at January 1, 2018 per IAS 39	$ -	$ -	$ -	$ -
Adjustment on initial application of IFRS 9	9,623	-	-	9,623
Balance at January 1, 2018 per IFRS 9	9,623	-	-	9,623
Derecognition	(516)	-	-	(516)
Change in exchange rates or others	(498)	-	-	(498)
Balance at March 31, 2018	$ 8,609	$ -	$ -	$ 8,609

11. RECEIVABLES, NET

a. Details of receivables

	March 31, 2018	December 31, 2017	March 31, 2017
Accounts receivable	$ 13,837,406	$ 14,277,857	$ 8,503,259
Revenue receivables	1,362	3,471	1,471
Interest receivables	4,319,901	3,549,809	3,421,339
Acceptance receivables	4,833,045	4,262,347	4,783,314
Credit card receivables	1,820,338	1,783,596	1,782,248
Settlement prices	371,877	440,397	366,564
Settlement price receivables	316,352	285,538	386,230
Other receivables	1,265,297	648,341	92,037
Less allowance for receivables	(587,160)	(581,333)	(551,583)
	$ 26,178,418	$ 24,670,023	$ 18,784,879

b. Allowance for receivables

1) Movements in the allowance for receivables

	For the Three Months Ended March 31, 2018					
	12-Month Expected Credit Losses	**Lifetime Expected Credit Losses**	**Realized Credit Impairment**	**Loss Recognized Based on IFRS 9**	**Recognized Impairment Difference Based on Regulations of the Procedures For Banking Institutions to Evaluate Assets And Deal With Non-Performing Loans and Bad Debts**	**Total**
Receivables						
Beginning balance	$ 28,087	$ 2,515	$ 340,490	$ 371,092	$ 210,241	$ 581,333
Changes from financial instruments recognized at the beginning of the period:						
Transfers to lifetime expected credit losses	(15)	507	(13)	479	-	479
Transfers to credit-impaired financial assets	(3)	(18)	1,574	1,553	-	1,553
Transfers to 12-months expected credit losses	(1,028)	(19)	(4)	(1,051)	-	(1,051)
Financial assets derecognized for the period	(21,862)	(542)	(2,340)	(24,744)	-	(24,744)
Purchase or originated financial assets	20,373	740	2,973	24,086	-	24,086
Recognized impairment difference based on the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing Loans and Bad Debts	-	-	-	-	9,065	9,065
Doubtful debts written off	-	-	(4,877)	(4,877)	-	(4,877)
Balance collected after doubtful debts	-	-	1,316	1,316	-	1,316
Ending balance	$ 25,552	$ 3,183	$ 339,119	$ 367,854	$ 219,306	$ 587,160

2) Movements in the total carrying amount of receivables

	For the Three Months Ended March 31, 2018			
	12-Month Expected Credit Losses	Significant Increase in Risk Due to Lifetime Expected Credit Losses	Credit Impairment Due to Lifetime Expected Credit Losses	Total
Beginning balance	$ 24,699,197	$ 158,023	$ 394,136	$ 25,251,356
Changes from financial instruments recognized at the beginning of the period:				
Transfers to lifetime expected credit loss	(11,643)	(9,675)	(134)	(21,452)
Transfers to credit-impaired financial assets	(1,349)	(1,791)	4,982	1,842
Transfers to 12-month expected credit losses	(153,680)	(1,923)	(32)	(155,635)
Purchase or originated financial assets	1,433,588,358	33,773	13,236	1,433,635,367
Doubtful debts written off	-	-	(4,877)	(4,877)
Derecognized	(1,431,856,695)	(75,932)	(8,396)	(1,431,941,023)
Ending balance	$ 26,264,188	$ 102,475	$ 398,915	$ 26,765,578

Refer to Note 12 for the movements in the allowance for receivables as of the three months ended March 31, 2017.

12. LOANS, NET

a. Details of loans

	March 31, 2018	December 31, 2017	March 31, 2017
Negotiated	$ 3,927,348	$ 5,010,733	$ 5,679,308
Overdrafts	1,427,684	1,441,350	1,423,360
Short-term loans	368,572,679	363,295,585	354,011,462
Receivable amount for margin loans	348,486	368,478	282,064
Medium-term loans	448,399,747	454,955,547	444,264,967
Long-term loans	558,495,417	564,200,949	548,862,029
Delinquent loans	3,960,068	4,134,997	4,075,552
	1,385,131,429	1,393,407,639	1,358,598,742
Less allowance for loan losses	(16,561,253)	(16,366,979)	(15,836,395)
	$ 1,368,570,176	$ 1,377,040,660	$ 1,342,762,347

The delinquent loans of which the accrual of interest income was stopped internally as of March 31, 2018, December 31, 2017 and March 31, 2017 amounted to $3,960,068 thousand, $4,134,997 thousand and $4,075,552 thousand, respectively. The interest income on delinquent loans not accrued for the three months ended March 31, 2018 and 2017 was $26,433 thousand and $27,204 thousand, respectively.

The Bank did not write off any loans without a legal claims process during the three months ended March 31, 2018 and 2017.

b. Allowance for loans

1) Movements in the allowance for loans

	For the Three Months Ended March 31, 2018					
	12-Month Expected Credit Losses	Lifetime Expected Credit Losses	Realized Credit Impairment	Loss Recognized Based on IFRS 9	Recognized Impairment Difference Based on Regulations of the Procedures For Banking Institutions to Evaluate Assets And Deal With Non-Performing Loans and Bad Debts	Total
Loans						
Beginning balance	$ 1,757,974	$ 1,239,981	$ 5,076,651	$ 8,074,606	$ 8,292,373	$ 16,366,979
Changes from financial instruments recognized at the beginning of the period:						
Transfers to lifetime expected credit losses	(8,301)	139,769	(1,791)	129,677	-	129,677
Transfers to credit-impaired financial assets	(1,323)	(18,309)	(209,665)	(229,297)	-	(229,297)
Transfers to 12-month expected credit losses	170,062	(45,314)	(1,576)	123,172	-	123,172
Financial assets derecognized for the period	(499,463)	(103,185)	(1,001,893)	(1,604,541)	-	(1,604,541)
Purchased or originated financial assets	519,888	258,802	1,424,258	2,202,948	-	2,202,948
Recognized impairment difference based on the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing Loans and Bad Debts	-	-	-	-	(309,857)	(309,857)
Doubtful debts written off	-	-	(358,782)	(358,782)	-	(358,782)
Balance collected after doubtful debts	-	-	240,954	240,954	-	240,954
Ending balance	$ 1,938,837	$ 1,471,744	$ 5,168,156	$ 8,578,737	$ 7,982,516	$ 16,561,253

2) Movements in the total carrying amount of loans

	For the Three Months Ended March 31, 2018			
	12-Month Expected Credit Losses	Significant Increase in Risk Due to Lifetime Expected Credit Losses	Credit Impairment Due to Lifetime Expected Credit Losses	Total
Beginning balance	$ 1,334,668,075	$ 45,871,466	$ 12,868,098	$ 1,393,407,639
Changes from financial instruments recognized at the beginning of the period:				
Transfers to lifetime expected credit losses	(4,628,300)	(629,537)	(17,409)	(5,275,246)
Transfers to credit-impaired financial assets	(671,556)	(563,437)	(640,675)	(1,875,668)
Transfers to 12-month expected credit losses	(26,145,500)	(1,504,961)	(14,818)	(27,665,279)
Purchase or originated financial assets	278,437,021	11,961,648	3,272,228	293,670,897
Doubtful debts written off	-	-	(358,782)	(358,782)
Derecognized	(255,158,304)	(9,704,794)	(1,909,034)	(266,772,132)
Ending balance	$ 1,326,501,436	$ 45,430,385	$ 13,199,608	$ 1,385,131,429

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

c. Details of provision for loan losses for the three months ended March 31, 2018 and 2017

	For the Three Months Ended March 31	
	2018	2017
Provision for receivable and loan (including delinquent loan) losses	$ 394,786	$ 413,691
Reversal for loan commitments	(122,534)	-
Provision for guarantee liability	68,289	18,887
	$ 340,541	$ 432,578

d. Details of receivables and the allowance for loan accounts as of December 31, 2017 and March 31, 2017

Receivables

Item		Total Receivables	
		December 31, 2017	March 31, 2017
Objective evidence of impairment	Individual assessment of impairment	$ 830,674	$ 446,663
	Combined assessment of impairment	62,617	56,200
None objective evidence of impairment	Combined assessment of impairment	24,358,065	18,833,599
Total		$ 25,251,356	$ 19,336,462

Item		Total Allowance	
		December 31, 2017	March 31, 2017
Objective evidence of impairment	Individual assessment of impairment	$ 369,671	$ 391,576
	Combined assessment of impairment	33,122	20,540
None objective evidence of impairment	Combined assessment of impairment	178,540	139,467
Total		$ 581,333	$ 551,583

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	March 31, 2017
Objective evidence of impairment	Individual assessment of impairment	$ 9,579,673	$ 9,254,256
	Combined assessment of impairment	3,487,746	4,055,691
None objective evidence of impairment	Combined assessment of impairment	1,380,340,220	1,345,288,795
Total		$ 1,393,407,639	$ 1,358,598,742

Item		Total Allowance	
		December 31, 2017	March 31, 2017
Objective evidence of impairment	Individual assessment of impairment	$ 4,077,983	$ 3,186,651
	Combined assessment of impairment	743,558	1,061,572
None objective evidence of impairment	Combined assessment of impairment	11,545,438	11,588,172
Total		$ 16,366,979	$ 15,836,395

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

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2017	March 31, 2017
Domestic quoted stocks	$ 3,643,572	$ 3,160,968
Government bonds	16,108,800	28,666,932
Corporate bonds	18,564,075	11,043,951
Bank notes	32,409,743	31,657,339
Bonds issued by international organizations	879,046	883,882
Investment in bills	1,570,650	1,567,958
	$ 73,175,886	$ 76,981,030

The par values of bonds provided for transactions with repurchase agreements were $1,784,800 thousand and $2,264,900 thousand as of December 31, 2017 and March 31, 2017, respectively.

Government bonds placed as deposits in courts were $281,100 thousand and $435,600 thousand as of December 31, 2017 and March 31, 2017, respectively. Government bonds placed as operating deposits were all $330,000 thousand as of December 31, 2017 and March 31, 2017. Government bonds placed as reserve fund for trust compensation were all $170,000 thousand as of December 31, 2017 and March 31, 2017. Government bonds pledged for call loans from banks were all $5,000,000 thousand as of December 31, 2017 and March 31, 2017.

Refer to Note 40 for information relating to available-for-sale financial assets pledged as security.

14. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31, 2017	March 31, 2017
Investment in bills	$ 227,528,720	$ 199,330,242
Bank notes	1,972,932	2,349,988
Corporate bonds	7,910,394	10,514,046
Government bonds	-	517,403
	$ 237,412,046	$ 212,711,679

The overseas branches' bonds provided as collateral for operations as of December 31, 2017 and March 31, 2017 amounted to $449,428 thousand and $490,483 thousand, respectively.

Certificates of deposit placed as reserves for clearing at the Central Bank amounted to $36,000,000 thousand as of both December 31, 2017 and March 31, 2017. Certificates of deposit which were issued by the Central Bank and pledged for call loans from banks amounted to $300,000 thousand as of both December 31, 2017 and March 31, 2017.

Refer to Note 40 for information relating to held-to-mature financial assets pledged as security.

15. DERIVATIVE FINANCIAL ASSETS FOR HEDGING

	March 31, 2018	December 31, 2017	March 31, 2017
Financial assets under hedge accounting			
Fair value hedges - interest rate swaps	$ 227,362	$ -	$ -
Derivative financial assets under hedge accounting			
Fair value hedges - interest rate swaps	-	243,372	176,553
	$ 227,362	$ 243,372	$ 176,553

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 that the interest rate swaps are highly effective hedging instruments. The respective, nominal principal amount of the Bank's outstanding interest rate swaps as of March 31, 2018, December 31, 2017 and March 31, 2017 was $8,200,000 thousand. The maturity period is from April 19, 2021 to September 27, 2026.

The fixed-to-floating interest swaps were designated and effective fair value hedge instruments. During the three months ended March 31, 2018 and 2017, 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 $226,097 thousand, $239,657 thousand and $167,657 thousand as of March 31, 2018, December 31, 2017 and March 31, 2017, 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 transactions is as follows:

a. Hedging type: Fair value hedging.

b. Hedging objective: To minimize the Bank's risks from changes in fair value due to fluctuating interest rates, by converting fixed-rate notes to floating-rate notes.

c. Hedging method: By signing interest rate swap contracts, which pay floating rates (interest rate rage: 0.6580%-0.6581%) and charge fixed rates (interest rate rage: 1.2900%-1.6075%).

d. Hedging effect: The results of hedging are all in the line with the effective range of hedge accounting as defined by IFRSs. The realized gain or loss from hedging tools was $1,060 thousand and $103,571 thousand for the three months ended March 31, 2018 and 2017, respectively, and the realized gain or loss from fair-value hedging was a gain of $13,560 thousand and a loss of $(92,431) thousand, accounted for as other non-interest net income and losses, for the three months ended March 31, 2018 and 2017, respectively.

16. FINANCIAL ASSETS AT COST

	December 31, 2017	March 31, 2017
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.

17. INVESTMENTS IN DEBT INSTRUMENT WITHOUT ACTIVE MARKET

	December 31, 2017	March 31, 2017
Beneficiary securities and asset based securities	$ 64,609	$ 79,849

18. OTHER MISCELLANEOUS FINANCIAL ASSETS

	March 31, 2018	December 31, 2017	March 31, 2017
Time deposits with original maturity more than 3 months	$ 58,554,504	$ 26,806,884	$ 15,186,668
Inward remittance	1,678	3,210	17,175
Delinquent loans reclassified from other accounts (excluding loans)	452,336	465,961	70,875
Call loan to security brokers	145,500	148,400	151,900
Less allowance for bad debts	(437,541)	(408,700)	(28,561)
	$ 58,716,477	$ 27,015,755	$ 15,398,057

The market rates of time deposits with original maturity more than 3 months were 2.00%-5.00% and 1.64%-5.40% for the three months ended March 31, 2018 and 2017, respectively. The time deposits were classified as investments in debt instrument without active market under IAS 39. Refer to Note 3 for information relating to their reclassification and comparative information for 2017.

Refer to Note 12 for the movement of the allowance for bad debts of other financial assets.

Refer to Note 40 for information relating to other miscellaneous financial assets pledged as security.

19. 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, 2018	$ 14,657,121	$ 9,107,453	$ 4,668,094	$ 723,601	$ 1,448,399	$ 967,993	$ 1,007	$ 120,129	$ 31,693,797
Additions	-	6,963	7,871	1,785	4,598	892	486	42,524	65,119
Disposals	-	(-)	(34,523)	(809)	(923)	(-)	-	-	(36,255)
Reclassification	-	-	-	445	-	878	(445)	(878)	(-)
Effect of foreign currency exchange differences	-	(4,829)	(985)	(146)	(534)	(1,428)	-	(327)	(8,249)
Balance at March 31, 2018	$ 14,657,121	$ 9,109,587	$ 4,640,457	$ 724,876	$ 1,451,540	$ 968,335	$ 1,048	$ 161,448	$ 31,714,412
Accumulated depreciation and impairment									
Balance at January 1, 2018	$ -	$ 4,269,791	$ 4,069,589	$ 604,449	$ 1,291,768	$ 818,119	$ 349	$ -	$ 11,054,065
Depreciation expense	-	44,962	49,781	10,905	11,225	11,518	41	-	128,432
Disposals	-	(-)	(34,424)	(809)	(923)	(-)	-	-	(36,156)
Reclassification	-	-	-	247	-	-	(247)	-	(-)
Effect of foreign currency exchange differences	-	(609)	(500)	(90)	(421)	(1,069)	-	-	(2,689)
Balance at March 31, 2018	$ -	$ 4,314,144	$ 4,084,446	$ 614,702	$ 1,301,649	$ 828,568	$ 143	$ -	$ 11,143,652
Carrying amounts at March 31, 2018	$ 14,657,121	$ 4,795,443	$ 556,011	$ 110,174	$ 149,891	$ 139,767	$ 905	$ 161,448	$ 20,570,760
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	-	2,561	24,540	3,999	10,048	16,109	422	27,746	85,425
Disposals	-	-	(27,130)	(3,557)	(11,040)	(21,938)	-	-	(63,665)
Reclassification	-	-	-	2,168	-	-	(2,168)	-	-
Effect of foreign currency exchange differences	-	(11,133)	(3,201)	(663)	(2,328)	(5,531)	-	(1,573)	(24,429)
Balance at March 31, 2017	$ 14,657,121	$ 9,099,557	$ 4,647,167	$ 710,512	$ 1,427,189	$ 934,560	$ 2,507	$ 79,667	$ 31,558,280
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	-	44,672	53,979	11,248	11,712	10,543	90	-	132,244
Disposals	-	-	(27,021)	(3,499)	(10,579)	(21,574)	-	-	(62,673)
Reclassification	-	-	-	1,205	-	-	(1,205)	-	-
Effect of foreign currency exchange differences	-	(327)	(1,679)	(361)	(1,760)	(3,270)	-	-	(7,397)
Balance at March 31, 2017	$ -	$ 4,157,990	$ 4,012,177	$ 579,559	$ 1,273,280	$ 797,243	$ 1,051	$ -	$ 10,821,300
Carrying amounts at March 31, 2017	$ 14,657,121	$ 4,941,567	$ 634,990	$ 130,953	$ 153,909	$ 137,317	$ 1,456	$ 79,667	$ 20,736,980

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

20. INVESTMENT PROPERTY

	March 31, 2018	December 31, 2017	March 31, 2017
Completed investment property	$ 13,746,194	$ 13,747,787	$ 13,752,337

Except for depreciation recognized, the Bank had no significant additions, disposals, and impairment of investment property during the three months ended March 31, 2018 and 2017. The investment property 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 property were $26,269,911 thousand, $26,269,911 thousand and $28,823,698 thousand as of March 31, 2018, December 31, 2017 and March 31, 2017, 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 property for the three months ended March 31, 2018 and 2017 were as follows:

	For the Three Months Ended March 31	
	2018	**2017**
Rental incomes	$ 46,971	$ 45,429
Direct operating expenses	$ 27,568	$ 29,875

21. INTANGIBLE ASSETS

	March 31, 2018	**December 31, 2017**	**March 31, 2017**
Computer software	$ 396,020	$ 436,176	$ 411,172

Except for amortization recognized, the Bank had no significant additions, disposals, and impairment of intangible assets during the three months ended March 31, 2018 and 2017.

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

22. OTHER ASSETS

	March 31, 2018	**December 31, 2017**	**March 31, 2017**
Refundable deposits	$ 1,555,029	$ 638,049	$ 1,152,505
Assumed collateral and residuals	23,462	23,462	23,462
Less: Accumulated impairment	(23,462)	(23,462)	(23,462)
Prepayments	593,476	293,649	1,161,029
Others	185	181	241
	$ 2,148,690	$ 931,879	$ 2,313,775

23. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	March 31, 2018	December 31, 2017	March 31, 2017
Deposits from the Central Bank	$ 23,382	$ 22,509	$ 23,127
Deposits from banks	28,151,234	27,976,541	24,494,361
Overdrafts on banks	1,002,922	841,014	1,038,829
Call loans from banks	105,645,212	77,517,520	88,283,396
Deposits transferred from Chunghwa Post Co., Ltd.	1,468,630	1,794,283	2,079,783
	$ 136,291,380	$ 108,151,867	$ 115,919,496

24. PAYABLES

	March 31, 2018	December 31, 2017	March 31, 2017
Checks issued to payees for clearing	$ 7,944,954	$ 18,412,071	$ 14,650,074
Accounts payable	1,346,303	1,789,193	2,958,633
Accrued expenses	1,680,212	2,461,012	1,647,232
Accrued interests	2,465,339	2,094,269	2,058,574
Acceptances	5,087,576	4,339,412	5,141,720
Others	4,647,296	5,753,898	3,570,440
	$ 23,171,680	$ 34,849,855	$ 30,026,673

25. DEPOSITS AND REMITTANCES

	March 31, 2018	December 31, 2017	March 31, 2017
Checking account deposits	$ 31,577,416	$ 42,033,779	$ 31,373,852
Demand deposits	406,943,185	412,119,333	397,190,140
Time deposits	402,355,588	373,331,138	350,141,590
Negotiable certificates of deposit	6,483,320	6,747,936	7,138,077
Savings account deposits	832,719,989	835,498,391	823,680,877
Remittances	863,027	2,349,207	875,749
	$ 1,680,942,525	$ 1,672,079,784	$ 1,610,400,285

26. 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	March 31, 2018	December 31, 2017	March 31, 2017
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	$ 2,200,000
103-1 Note B, 10-year terms, interest payable annually, interest rate 1.85%, maturity date: April 16, 2024	3,000,000	3,000,000	3,000,000
105-1 Note A, 7-year terms, interest payable annually, interest rate 1.09%, maturity date: September 27, 2023	1,000,000	1,000,000	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	2,000,000	2,000,000
Valuation adjustment	226,097	239,657	167,657
	8,426,097	8,439,657	8,367,657
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	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	1,100,000
100-2, 10-year terms, interest payable annually, floating rate, maturity date: April 18, 2021	6,700,000	6,700,000	6,700,000
103-1 Note B, 10-year terms, interest payable annually, interest rate 1.85%, maturity date: April 16, 2024	2,300,000	2,300,000	2,300,000

(Continued)

Bank Note, Interest Rate and Maturity Date	March 31, 2018	December 31, 2017	March 31, 2017
103-1 Note C, 10-year terms, interest payable annually, floating rate, maturity date: April 16, 2024	$ 2,500,000	$ 2,500,000	$ 2,500,000
105-1 Note A, 7-year terms, interest payable annually, interest rate 1.09%, maturity date: September 27, 2023	2,000,000	2,000,000	2,000,000
105-1 Note B, 10-year terms, interest payable annually, interest rate 1.20%, maturity date: September 27, 2026	1,300,000	1,300,000	1,300,000
106-1 Note A, 7-year terms, interest payable annually, interest rate 1.50%, maturity date: March 29, 2024	1,530,000	1,530,000	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	8,670,000	8,670,000
	31,100,000	33,300,000	33,300,000
	$ 39,526,097	$ 41,739,657	$ 41,667,657

(Concluded)

The Bank engaged in derivative transactions as hedging tools for the 103-1 Note A, 103-1 Note B, 105-1 Note A and 105-1 Note B fixed interest rate bank notes to avoid fair value risks due to changes in interest rates. The interest rate swaps nominal principal was accounted as hedging derivative financial assets. (Refer to Note 15).

27. OTHER FINANCIAL LIABILITIES

	March 31, 2018	December 31, 2017	March 31, 2017
Principal received on structured notes	$ 3,319,436	$ 3,040,687	$ 3,239,738
Appropriations for loans	683,932	621,529	319,681
Lease payable	796	384	629
	$ 4,004,164	$ 3,662,600	$ 3,560,048

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

28. OTHER LIABILITIES

	March 31, 2018	December 31, 2017	March 31, 2017
Advance receipts	$ 711,721	$ 753,160	$ 842,850
Guarantee deposits	1,707,051	1,894,206	1,842,943
Deferred revenue	20,716	18,427	25,383
	$ 2,439,488	$ 2,665,793	$ 2,711,176

29. RESERVE FOR LIABILITIES

	March 31, 2018	December 31, 2017	March 31, 2017
Reserve for employee benefits	$ 4,117,506	$ 4,254,235	$ 3,862,140
Reserve for guarantee liabilities	568,046	504,600	556,052
Reserve for loan commitments	349,851	-	-
Others	397	-	308
	$ 5,035,800	$ 4,758,835	$ 4,418,500

a. For the details of the reserve for employee benefits, refer to Note 30.

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. Except for provision, the reserve for guarantees of the Bank had no significant changes for the nine months ended March 31, 2018 and 2017.

30. RETIREMENT BENEFIT PLANS

Employee benefits expenses in respect of the Bank's defined benefit retirement plans were calculated using the prior year's actuarially determined pension cost discount rate as of December 31, 2017 and 2016 and the amount were $80,227 thousand and $113,423 thousand for the three months ended March 31, 2018 and 2017, respectively.

31. EQUITY

a. Capital

Common stock

	March 31, 2018	December 31, 2017	March 31, 2017
Number of stocks authorized (in thousands)	11,000,000	11,000,000	9,000,000
Stocks authorized	$ 110,000,000	$ 110,000,000	$ 90,000,000
Number of stocks issued and fully paid (in thousands)	9,413,001	9,413,001	8,964,762
Stocks issued	$ 94,130,007	$ 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, 2017, 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 $89,647,626 thousand. In August 2017, the Bank increased its registered capital by $20,000,000 thousand. In August 2017, the Bank resolved capitalization of earnings and increased its paid-in capital by $4,482,381 thousand. The amount of the Bank's authorized and registered capital at December 31, 2017 were $110,000,000 thousand divided into 11,000,000 thousand shares and, also at those dates, the amounts of total paid-in capital were $94,130,007 thousand divided into 9,413,001 thousand outstanding shares, at $10 par value.

b. Distribution of earnings and dividend policy

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 stockholders' meeting for distribution of dividends and bonus to stockholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors after amendment, refer to Note 32h, "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 stockholders' 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.

The appropriations of earnings for 2017 and 2016 were proposed by the board of directors on April 23, 2018 and approved in the stockholders' meetings on June 16, 2017, respectively. The appropriations of earnings and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (NT$)**	
	2017	**2016**	**2017**	**2016**
Legal reserve	$ 3,627,932	$ 3,625,791	$ -	$ -
Special reserve	60,466	60,429	-	-
Dividends of common stock - cash	4,235,850	3,765,202	0.45	0.42
Dividends of common stock - stock	3,765,200	4,482,381	0.40	0.50

The appropriation of retained earnings for 2017 are subject to the resolution of the stockholders' meeting to be held on June 8, 2018.

c. Special reserve

	March 31, 2018	December 31, 2017	March 31, 2017
Special reserves appropriated following first-time adoption of IFRSs	$ 11,778,829	$ 11,778,829	$ 11,778,829
Others	302,121	302,121	241,692
	$ 12,080,950	$ 12,080,950	$ 12,020,521

32. NET INCOME

a. Net income of interest

	For the Three Months Ended March 31	
	2018	2017
Interest income		
Loans	$ 7,107,415	$ 6,766,003
Due from and call loans to banks	1,163,865	771,190
Investment in marketable securities	838,941	713,988
Others	67,695	29,548
	9,177,916	8,280,729
Interest expense		
Deposits	(2,663,479)	(2,306,869)
Due to central bank and call loans from banks	(550,294)	(358,736)
Others	(194,471)	(151,861)
	(3,408,244)	(2,817,466)
Net income of interest	$ 5,769,672	$ 5,463,263

b. Net service fee income

	For the Three Months Ended March 31	
	2018	2017
Service fee income		
Fees from import and export	$ 88,373	$ 89,575
Remittance fees	121,936	121,086
Loan fees	156,545	141,254
Fees from trust	285,074	161,231
Fees from trust business	71,049	62,563
Fees from insurance agency	475,542	776,721
Others	276,307	233,456
	1,474,826	1,585,886

(Continued)

	For the Three Months Ended March 31	
	2018	2017
Service charge		
Interbank fees	$ (38,206)	$ (36,295)
Fees from trust	(10,970)	(9,437)
Custodian fees	(27,231)	(18,705)
Fees from insurance agency	(37,619)	(44,160)
Others	(134,326)	(112,606)
	(248,352)	(221,203)
Net service fee income	$ 1,226,474	$ 1,364,683

(Concluded)

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

	For the Three Months Ended March 31	
	2018	2017
Disposal gains (losses) on financial assets or liabilities measured at FVTPL		
Stocks and beneficiary certificates	$ (1,352)	$ 21,022
Bonds	3,480	(694)
Bills	11	-
Derivative financial instruments	745,725	378,375
Net loss of interest	(79,291)	(51,374)
	668,573	347,329
Valuation gains (losses) on financial assets or liabilities measured at FVTPL		
Stocks and beneficiary certificates	(2,628)	(17,567)
Bonds	248,448	4,552
Bills	(68)	294
Derivative financial instruments	(168,360)	418,853
	77,392	406,132
	$ 745,965	$ 753,461

d. Realized gain (loss) on financial assets at fair value through other comprehensive income

	For the Three Months Ended March 31, 2018
Disposal gains	
Bonds	$ 8,366
Disposal losses	
Bonds	(14)
	$ 8,352

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

	For the Three Months Ended March 31, 2017
Disposal gains	
Stock	$ 38,782
Bonds	111,907
	150,689
Disposal losses	
Stock	(4,519)
Bonds	(263)
	(4,782)
	$ 145,907

f. Depreciation and amortization expense

	For the Three Months Ended March 31	
	2018	2017
Property and equipment	$ 128,432	$ 132,244
Investment property	1,658	1,643
Intangible assets and other deferred assets	49,040	42,718
	$ 179,130	$ 176,605

g. Employee benefits expenses

	For the Three Months Ended March 31	
	2018	2017
Short-term employee benefits	$ 2,322,254	$ 2,119,698
Post-employment benefits		
Defined contribution plans	43,714	13,704
Defined benefit plans	80,227	109,446
High-yield savings account for employees	126,395	122,421
Other post-employment benefits	2,122	2,026
Termination benefits	862	-
	$ 2,575,574	$ 2,367,295

h. 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 three months ended March 31, 2018 and 2017, were as follows:

Accrual rate

	For the Three Months Ended March 31	
	2018	**2017**
Employees' compensation	5.00%	4.00%
Remuneration of directors	0.40%	0.30%

Amount

	For the Three Months Ended March 31	
	2018	**2017**
	Cash	**Cash**
Employees' compensation	$ 192,000	$ 144,000
Remuneration of directors	15,300	11,200

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

The appropriations of employees' compensation and remuneration of directors for 2017 and 2016 having been resolved by the board of directors on February 12, 2018 and February 24, 2017, respectively, were as below:

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

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, 2017 and 2016.

Information on the employees' compensation and remuneration of directors resolved by the Bank's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

33. INCOME TAX

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

	For the Three Months Ended March 31	
	2018	**2017**
Current tax		
In respect of the current period	$ 579,844	$ 539,951
Deferred tax		
In respect of the current period	136,549	42,201
Adjustments to deferred tax attributable to changes in tax rates and laws	(483,061)	-
Income tax expense recognized in profit or loss	$ 233,332	$ 582,152

The Income Tax Act in the ROC was amended in 2018 and the corporate income tax rate was adjusted from 17% to 20% effective in 2018. The effect of the change in tax rate on deferred tax income to be recognized in profit or loss is recognized in full in the period in which the change in tax rate occurs. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

b. Income tax recognized in other comprehensive income

	For the Three Months Ended March 31	
	2018	**2017**
Deferred tax		
Effect of change in tax rate	$ (24,422)	$ -
In respect of the current year:		
Translation of foreign financial statements	16,648	(148,849)
Fair value changes of available-for-sale financial assets	-	4,376
Unrealized gains of financial assets at fair value through other comprehensive income	(4,981)	-
Total income tax benefit recognized in other comprehensive income	$ (12,755)	$ (144,473)

c. Income tax assessments

The Bank’s income tax returns through 2015 had been examined and cleared by the tax authority.

34. 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 2017 were adjusted retrospectively as follows:

Unit: NT$ Per Share

	For the Three Months Ended March 31, 2017	
	Before Adjusted Retrospectively	**After Adjusted Retrospectively**
Basic earnings per share	$ 0.32	$ 0.30
Diluted earnings per share	$ 0.32	$ 0.30

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

	For the Three Months Ended March 31	
	2018	**2017**
Net profit for the period	$ 3,428,698	$ 2,866,738

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

	For the Three Months Ended March 31	
	2018	**2017**
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	40,653	34,890
Weighted average number of common stocks used in the computation of diluted earnings per share	9,453,654	9,447,891

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.

35. 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 March 31, 2018, December 31, 2017 and March 31, 2017, refundable deposits paid under operation leases amounted to $43,731 thousand, $43,272 thousand and $38,181 thousand, respectively.

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

	March 31, 2018	December 31, 2017	March 31, 2017
Not later than 1 year	$ 572,964	$ 594,797	$ 467,315
Later than 1 year and not later than 5 years	1,137,555	1,275,879	1,304,409
Later than 5 years	335,784	362,369	317,669
	$ 2,046,303	$ 2,233,045	$ 2,089,393

b. The Bank as lessor

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

As of March 31, 2018, December 31, 2017 and March 31, 2017, refundable deposits received under operation leases amounted to $55,350 thousand, $55,014 thousand and $50,013 thousand, respectively.

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

	March 31, 2018	December 31, 2017	March 31, 2017
Not later than 1 year	$ 238,901	$ 229,761	$ 169,519
Later than 1 year and not later than 5 years	523,821	504,391	560,136
Later than 5 years	82,454	78,584	77,442
	$ 845,176	$ 812,736	$ 807,097

36. CAPITAL RISK MANAGEMENT

The description of the goals and procedures of the capital risk management of the Bank is the same as the description in the Bank's financial statements for the year ended December 31, 2017.

37. FINANCIAL INSTRUMENTS

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

Fair value of financial instruments not carried at fair value

March 31, 2018

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets at amortized cost	$ 260,028,625	$ 8,603,188	$ 251,461,802	$ -	$ 260,064,990
Financial liabilities					
Bank notes payable	39,526,097	-	8,426,097	31,937,546	40,363,643

December 31, 2017

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Investments in debt instrument without active market	$ 64,609	$ -	$ 69,302	$ -	$ 69,302
Held-to-maturity investments	237,412,046	3,496,314	233,983,010	-	237,479,324
Financial liabilities					
Bank notes payable	41,739,657	-	8,439,657	34,358,719	42,798,376

March 31, 2017

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Investments in debt instrument without active market	$ 64,609	$ -	$ 69,302	$ -	$ 69,302
Held-to-maturity investments	212,711,669	3,672,353	11,320,314	197,810,000	212,802,667
Financial liabilities					
Bank notes payable	41,667,657	-	8,367,657	34,247,698	42,615,355

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	March 31, 2018			
	Total	Level 1	Level 2	Level 3
Non-derivative financial products				
Assets				
Financial assets at FVTPL	$ 6,375,180	$ 122,138	$ 6,253,042	$ -
Financial assets mandatorily classified at FVTPL	6,199,921	122,138	6,077,783	-
Stocks and mutual funds	122,138	122,138	-	-
Bond investments	1,581,676	-	1,581,676	-
Others	4,496,107	-	4,496,107	-
Financial assets designated at fair value through profit or loss	175,259	-	175,259	-
Financial assets at fair value through other comprehensive income	85,083,777	40,877,754	44,206,023	-
Stock	12,009,185	4,069,446	-	7,939,739
Bond investments	71,453,290	35,187,006	36,266,284	-
Others	1,621,302	1,621,302	-	-
Liabilities				
Financial liabilities at FVTPL	8,426,766	-	8,426,766	-
Derivative financial products				
Assets				
Financial assets at FVTPL	2,833,348	184,292	2,649,056	-
Other financial assets				
Financial assets for hedging	227,362	-	277,362	-
Liabilities				
Financial liabilities at FVTPL	3,401,233	-	3,401,233	-

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

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

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

Financial Assets	Financial Assets at Fair Value Through Other Comprehensive Income Equity Instrument
Beginning balance	$ 7,678,043
Realized gains on other comprehensive income (unrealized gain on financial assets at fair value through other comprehensive income)	261,696
Ending balance	$ 7,939,739

3) 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.

4) 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. Unlisted stocks: The fair value is referenced from related financial information or estimated using the market price and parameters of listed companies which have similar service attributes.

ix. 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.

x. 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.

xi. 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 stockholder 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 March 31, 2018 and 2017, the Bank's VaR factors based on historical simulation method were as follows:

	For the Three Months Ended March 31, 2018			
	Average	**Highest**	**Lowest**	**Ending Balance**
Exchange VaR	$ 106,325	$ 128,486	$ 93,161	$ 104,621
Interest rate VaR	7,446	12,614	4,620	5,586
Equity securities VaR	2,668	3,527	-	3,110
Value at risk	$ 116,439	$ 144,627	$ 97,781	$ 113,317

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

2) Primary foreign currencies

The significant foreign-currency financial assets and liabilities as of March 31, 2018, December 31, 2017 and March 31, 2017 were as follows:

(Foreign Currencies/New Taiwan Dollars in Thousands)

	March 31, 2018		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 7,722,935	29.1000	$ 224,737,409
GBP	77,177	40.7800	3,147,278
AUD	1,078,448	22.3450	24,097,921
HKD	1,676,715	3.7070	6,215,583
SGD	62,182	22.2000	1,380,440
CAD	98,652	22.5700	2,226,576
ZAR	2,541,371	2.4500	6,226,359
JPY	54,065,112	0.2739	14,808,434
EUR	397,523	35.8600	14,255,175
RMB	19,089,541	4.6460	88,690,007
Non-monetary items			
USD	182,180	29.1000	5,301,438

(Continued)

	March 31, 2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial liabilities</u>			
Monetary items			
USD	$ 10,074,286	29.1000	$ 293,161,723
GBP	69,356	40.7800	2,828,338
AUD	977,697	22.3450	21,846,639
HKD	1,384,142	3.7070	5,131,014
CAD	97,024	22.5700	2,189,832
ZAR	2,671,901	2.4500	6,546,157
JPY	59,662,672	0.2739	16,341,606
EUR	419,560	35.8600	15,045,422
RMB	15,662,646	4.6460	72,768,653
Non-monetary items			
USD	303,153	29.1000	8,821,752

(Concluded)

(Foreign Currencies/New Taiwan Dollars in Thousands)

	December 31, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
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
<u>Financial liabilities</u>			
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

(Foreign Currencies/New Taiwan Dollars in Thousands)

	March 31, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 7,361,049	30.3800	$ 223,628,669
GBP	93,226	37.9600	3,538,859
AUD	970,369	23.2350	22,546,524
HKD	1,074,513	3.9090	4,200,271
CAD	106,871	22.7800	2,434,521
ZAR	2,954,286	2.2600	6,676,686
JPY	51,932,670	0.2712	14,084,140
EUR	522,887	32.4500	16,967,683
RMB	17,297,520	4.4110	76,299,361
Non-monetary items			
USD	192,712	30.3800	5,854,591
Financial liabilities			
Monetary items			
USD	9,334,646	30.3800	283,586,545
GBP	91,703	37.9600	3,481,046
AUD	928,552	23.2350	21,574,906
HKD	969,835	3.9090	3,791,085
CAD	105,858	22.7800	2,411,445
ZAR	2,904,731	2.2600	6,564,692
JPY	52,976,582	0.2712	14,367,249
EUR	521,830	32.4500	16,933,384
RMB	16,000,238	4.4110	70,577,050
Non-monetary items			
USD	414,990	30.3800	12,607,396

For the three months ended March 31, 2018 and 2017, net foreign exchange losses were $(3,877) thousand and $(334,122) 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)

<u>2018</u>

i) A determined signification increase in credit risk since initial recognition.

At the end of every reporting period, the Bank evaluates the risk of default on credit assets occurring over their expected lifetime to determine whether the credit risk has increased significantly since their initial recognition.

For this credit risk evaluation, the Bank considers corroborative information (including forward-looking information) which indicates a significant increase in credit risk since initial recognition of the credit assets. The key indicators include:

- Quantitative indicators

  <u>A change in internal credit rating</u>

  The Bank classifies each type of credit asset into three categories according to credit quality, internal credit rating and external credit rating (refer to the following table). A financial instrument is determined as having a significant increase in credit risk since initial recognition if its internal credit rating is at the level of 16-18 or if the scoring of a housing loan debtor is lower than 340.

Credit Quality	Internal Credit Rating	External Credit Rating (Moody's)
Normal	1	Aaa
	2	Aa1
	3	Aa2
	4	Aa3
	5	A1
	6	A2
	7	A3
	8	Baa1
	9	Baa2
	10	Baa3
	11	Ba1
	12	Ba2
	13	Ba3
	14	B1
	15	B2
	16	B3
	17	Caa1
Non-performing	18	Caa2
	19	Caa3
	20	D
	21	D

- Qualitative indicators

  A credit account is rated as ordinary-delinquent in accordance with the Bank's "Detailed Rules for the Processing of Ordinary-delinquent Accounts".

  The result of the credit review shows that the credit application and the loan application are inconsistent.

ii) Definition of the credit-impaired financial assets

A credit account that meets one of the following conditions is classified under Stage 3 (Credit-impaired):

- The debtor's payment of the principal or interest is past due for more than 3 months from the end of the credit term; or the Bank has already petitioned or withdrawn the debtor's collateral.

- The case has been agreed to be repaid in installments and is exempt from being listed as an overdue loan.

- The case was negotiated and adopted in accordance with the debt negotiation mechanism set by the Association of Banks in 2006.

- The case has been negotiated and agreed upon in accordance with "The Statute for Consumer Debt Clearance" (excluding secured debt fulfilled under the original contractual conditions).

- The case is ruled to undergo restructuring or liquidation by the court.

- The case is ruled to be restricted by the court.

- The case is declared bankrupt by the court.

- The case involves credit accounts of a debtor, excluding credit card accounts, which is partly transferred to class A and B non-performing loans (excluding the sixth item of class B: The credit account is totally guaranteed and the interest payment is not past due during the inheritance period after the death of the debtor and the collateral provider), as well as overdue loans or bad debt loans.

- The case is an enterprise account which has applied for relief from the Ministry of Economic Affairs.

- The case involves a credit account which has an internal credit rating at the level of 19-21.

- The case is a mortgage loan credit account of the Bank which has no rating score.

- The case is a credit account which is determined as Stage 3 by the internal or external auditors, or the risk management department of the Bank.

iii) Write-off policy

The financial assets will be totally or partially written off are considered uncollectible according to "The Write-off Process of Overdue Loans and Accounting Guidelines".

For financial assets that have been written off, the Bank continues to engage in enforcement activity to attempt to recover the financial assets which are due.

iv) Expected credit loss measurement

The Bank classifies credit assets into the following nine categories by the credit risk characteristics of the respective debtor's industry and organization size:

<table>
<tr><th>Business</th><th>Combination</th><th>Credit Risk Characteristics</th></tr>
<tr><td rowspan="6">Corporate banking loans</td><td>Government</td><td rowspan="9">No significant increase in credit risk, significant increase in credit risk, credit impairment.</td></tr>
<tr><td>Large enterprise</td></tr>
<tr><td>Small enterprise</td></tr>
<tr><td>Legal person/group</td></tr>
<tr><td>Overseas credit account</td></tr>
<tr><td>Other groups</td></tr>
<tr><td rowspan="3">Individual banking loans</td><td>Individual-residential loan group</td></tr>
<tr><td>Individual-other groups (unsecured)</td></tr>
<tr><td>Individual-other groups (secured)</td></tr>
</table>

The Bank measures the expected credit loss as follows:

- Stage 1, no significant increase in credit risk

  The Bank measures the loss allowance for Stage 1 financial instruments at an amount equal to the 12-month ECL based on past loss experience. The ECL is the difference between the respective asset's EAD carrying amount and the present value of its estimated future cash flows, estimated at the forward-looking adjusted PD and discounted at the effective interest rate.

- Stage 2, significant increase in credit risk

  The Bank measures the loss allowance for Stage 2 financial instruments at an amount equal to the lifetime ECL. The ECL is the difference between the respective asset's EAD carrying amount and the present value of its computed outcome which is discounted at the effective interest rate. The computed outcome is the product of the unpaid principal for each year end over instruments expected lifetime, the forward-looking adjusted PD, and the LGD.

- Stage 3, credit impairment

  The Bank measures the loss allowance for Stage 3 financial instruments at an amount equal to the lifetime ECL. The ECL is the difference between the asset's EAD carrying amount and the present value of its estimated future cash flows, estimated assuming the credit impairment situation is given and discounted at effective interest rate.

  The PD is the probability that a credit account will default in next 12 months according to the past impairment cases.

  The PD and LGD are used to measure the impairment loss for financial assets in the credit business. The PD for Stage 3 financial instruments is determined as 100%. The PD for Stages 1 and 2 are based on the categories and the remaining lifetime for each credit account. The credit accounts are divided into groups by remaining lifetimes. The PD of each group is determined as the PD of each credit quality stage. The Bank shall update the probability of default at least once a year.

  The LGD is one minus the present value of the annual recovery rate. The annual recovery rate refers to the annual recovery amount of principal (including litigation expenses) and interest over non-performing loans plus accrued interest and litigation expenses.

  The EAD is the total expected exposure amount of default which includes the unsecured line of credit.

  The exposure amount of impairment-tested off-balance sheet assets (e.g. guarantees, letters of credit issued yet unused, irrevocable loan commitments issued, and revocable loan commitments issued) is converted into the equivalent exposure amount of on-balance sheet assets through a credit conversion factor ("CCF"). The CCF is determined according to the standardized approach of the Capital Adequacy Ratio as either 0%, 20%, 50% or 100% by referring to the respective off-balance sheet item's characteristics.

v) Forward-looking information

The Bank classifies credit assets as either corporate banking - domestic, corporate banking - overseas, corporate banking - Singapore branch or individual banking business. The forward-looking adjusted PD for each the above categories is estimated using the domestic economic growth rate, global economic growth rate, Southeast Asia economic growth rate and the domestic unemployment rate, respectively, and is adjusted based on the reasonableness of each rate's predicted trend.

Macroeconomic indicators are provided by the Bank's Research Design Division of the Product Development Department after the indicators have been announced by the relevant data source institution. The International Operations Department reviews the adequacy of the exposure amount of the Singapore branch and the Southeast Asia economic growth rate that it uses, which shall be updated at least once a year. The Department of Budget is the institution from which the domestic economic growth rate and domestic unemployment rate are sourced. The International Monetary Fund is the institution from which the global economic growth rate and the Southeast Asia economic growth rate are sourced.

As of March 31, 2018, the relevant economic factors and their respective effects on the recognition and the measurement of ECL are as follows:

	PD/Judgment of Significant Increase in Credit Risk	**L G D**	**EAD (CCF)**
Relevant economic factors	Economic growth rate, unemployment rate	None	None

For the Bank's internal credit review process of its banking business, the Bank considers forward-looking information such as industry trends, operations, external assessments of counterparties' financial positions, and other relevant factors such as the PD. A change in an internal credit rating is a quantitative indicator for judging a significant increase in credit risk. The measurement of ECL is grouped by credit risk rating.

A change in an external credit rating announced by international credit rating institutions (e.g. S&P and Moody's) is one of the quantitative indicators for judging a significant increase in the credit risk of financial assets at amortized cost and investments in debt instruments at FVTOCI. The measurement of ECL is calculated using the PD and LGD announced periodically by international credit rating institutions. The international credit rating institutions consider forward-looking information when establishing credit ratings. Thus, when the Bank measures ECL using such credit ratings it holds that an adequate evaluation of the forward-looking information, which was used by the institutions for establishing such credit rating, is inherent therein.

The total amount of undiscounted ECL at the time of initial recognition of the credit impaired financial assets - loans which were purchased or originated is as follows:

	March 31, 2018
Loans	$ 1,686,340

2017

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 judgment 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 instruments and derivative 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:

March 31, 2018

		Maximum Exposure to Credit Risk Mitigated by			
	Carrying Amount	Collateral	Master Netting Arrangement	Other Credit Enhancements	Total
Loan	$ 1,368,570,176	$ 906,775,846	$ -	$ -	$ 906,775,846
Financial assets at FVTPL	9,208,528	3,448,272	-	-	3,448,272
Investments in debt instruments designated at FVTOCI	73,074,592	2,818,325	-	-	2,818,325
Investments in debt instruments at amortized cost	260,028,625	1,328,057	-	-	1,328,057

Carrying amount of financial assets with maximum exposure is as follow:

	Loans			
	March 31, 2018			
	Stage 1 12-month Expected Credit Losses	**Stage 2 Lifetime Expected Credit Losses**	**Stage 3 Lifetime Expected Credit Losses**	**Total**
Credit rating				
Level 1-15	$ 830,041,743	$ 272,002	$ -	$ 830,313,745
Level 16-18	-	43,844,067	3,278,155	47,122,222
Level 19-21	-	-	7,794,429	7,794,429
No rating	496,459,693	1,314,316	2,127,024	499,901,033
Total carrying amount	1,326,501,436	45,430,385	13,199,608	1,385,131,429
Expected credit losses	1,938,836	1,471,744	5,168,157	8,578,737
Recognized impairment based on the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing Loans and Bad Debts				7,982,517
				$ 16,561,254

	Guarantee Payments			
	March 31, 2018			
	Stage 1 12-month Expected Credit Losses	**Stage 2 Lifetime Expected Credit Losses**	**Stage 3 Lifetime Expected Credit Losses**	**Total**
Carrying amount	$ 43,517,674	$ 590,304	$ 261,259	$ 44,369,237
Expected credit losses	108,474	15,029	82,231	205,734

	Loan Commitments			
	March 31, 2018			
	Stage 1 12-month Expected Credit Losses	**Stage 2 Lifetime Expected Credit Losses**	**Stage 3 Lifetime Expected Credit Losses**	**Total**
Carry amount - non-cancellable	$ 70,674,431	$ 1,542,840	$ 91,547	$ 72,308,818
Carry amount - cancellable	550,455,455	9,066,747	788,556	560,310,758
	$ 621,129,886	$ 10,609,587	$ 880,103	$ 632,619,576
Expected credit losses - non-cancellable	$ 73,479	$ 15,309	$ 17,036	$ 105,824
Expected credit losses - cancellable	242,233	147	1,647	244,027
	$ 315,712	$ 15,456	$ 18,683	$ 349,851

December 31, 2017

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	**Master Netting Arrangement**	**Other Credit Enhancements**	**Total**
Loans	$ 907,832,465	$ -	$ -	$ 907,832,465
Financial assets at FVTPL	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

March 31, 2017

	Maximum Exposure to Credit Risk Mitigated by: Collateral	Master Netting Arrangement	Other Credit Enhancements	Total
Loans	$ 877,380,387	$ -	$ -	$ 877,380,387
Financial assets at FVTPL	5,605,022	-	-	5,605,022
Available-for-sale financial assets	2,888,074	-	-	2,888,074
Held-to-maturity financial assets	1,799,916	-	-	1,799,916

d) Maximum exposure to credit risk

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

As of March 31, 2018, December 31, 2017 and March 31, 2017, 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	March 31, 2018	December 31, 2017	March 31, 2017
Unused loan commitments (excluding credit card)	$ 72,308,817	$ 82,204,969	$ 85,889,842
Credit card credit commitment	340,693	333,092	359,319
Unused issued letters of credit	25,093,589	24,509,270	24,169,900
Guarantees in guarantee business	44,369,237	40,993,464	45,312,938

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:

Industry Type	March 31, 2018: Carrying Amount	Percentage of Item (%)
Financial and insurance	$ 61,449,156	4
Manufacturing	348,886,016	25
Wholesale and retail	120,492,774	9
Real estate and leasing	103,611,612	8
Service	42,187,957	3
Individuals	455,019,124	33
Others	253,484,790	18
	$ 1,385,131,429	

Industry Type	December 31, 2017 Carrying Amount	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	

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

Geographic Location	March 31, 2018 Carrying Amount	Percentage of Item (%)
Asia	$ 1,324,421,907	96
America	43,857,593	3
Europe	15,500,717	1
Others	1,351,212	-
	$ 1,385,131,429	

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

Securities Type	March 31, 2018 Carrying Amount	Percentage of Item (%)
Unsecured	$ 478,355,584	35
Secured		
Properties	751,663,095	54
Others	155,112,750	11
	$ 1,385,131,429	

Securities Type	December 31, 2017 Carrying Amount	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	March 31, 2017 Carrying Amount	Percentage of Item (%)
Unsecured	$ 481,218,355	35
Secured		
Properties	731,357,749	54
Others	146,022,638	11
	$ 1,358,598,742	

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

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

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

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

4) Liquidity risk management

a) The definition of liquidity risk

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

b) Liquidity risk management procedures

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

As of March 31, 2018 and 2017, the ratio of liquidity reserve were 18.36% and 16.83%, respectively. Since the capital and working funds are deemed sufficient to meet the cash flow needs for performance of all contracted obligations, liquidity risk is not considered to be significant.

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

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

(In Thousands of New Taiwan Dollars)

Item	March 31, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity fund inflows						
Cash and cash equivalents	$ 16,817,216	$ -	$ -	$ -	$ -	$ 16,817,216
Due from the Central Bank and call loans to banks	25,550,844	3,763,264	4,837,455	6,604,673	24,874,505	65,630,741
Financial assets at FVTPL	6,023,372	-	-	-	-	6,023,372
Receivables	19,192,217	793,236	483,516	185,285	116,375	20,770,629
Loans	84,110,801	109,562,482	108,889,461	207,385,622	637,538,369	1,147,486,735
Investments in equity instruments designated at FVTOCI	-	-	-	-	12,009,185	12,009,185
Investments in debt instruments designated at FVTOCI	-	200,152	-	2,211,734	29,212,060	31,623,946
Investments in debt instruments at amortized cost	136,200,000	6,600,000	13,184,959	24,435,727	30,825,289	211,245,975
Other maturity funds inflow items	-	-	-	-	14,272,086	14,272,086
	287,894,450	120,919,134	127,395,391	240,823,041	748,847,869	1,525,879,885
Major maturity fund outflows						
Deposits from the Central Bank and banks	270,948	155,196	786,178	488,725	-	1,710,047
Due to the Central Bank and banks	9,055,000	310,000	-	-	-	9,365,000
Securities sold under repurchase agreements	1,712,208	1,433,252	-	-	-	3,145,460
Payables	19,667,291	1,128,452	1,166,640	752,330	1,812,176	24,526,889
Deposits and remittances	109,577,670	113,957,825	146,876,420	200,533,257	693,155,007	1,264,100,179
Bank notes payable	-	-	-	-	39,300,000	39,300,000
Other maturity fund outflow items	34,590	56,341	57,583	316,447	5,809,944	6,274,905
	140,317,707	117,041,066	148,886,821	202,090,759	740,077,127	1,348,413,480
Gap	$ 147,576,743	$ 3,878,068	$ (21,491,430)	$ 38,732,282	$ 8,770,742	$ 177,466,405

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

(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 fund inflows						
Cash and cash equivalents	$ 28,912,151	$ -	$ -	$ -	$ -	$ 28,912,151
Due from the Central Bank and call loans to banks	22,398,964	4,242,332	4,522,731	6,415,219	26,437,948	64,017,194
Financial assets at FVTPL	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 at cost	-	-	-	-	4,167,009	4,167,009
Other maturity fund 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 fund outflows						
Deposits from the Central Bank and banks	342,687	387,501	193,728	1,021,788	-	1,945,704
Due to the Central Bank and 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 fund outflow 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	March 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	$ 22,512,131	$ -	$ -	$ -	$ -	$ 22,512,131
Due from the Central Bank and call loans to banks	29,599,097	3,568,246	5,139,621	6,674,776	25,911,099	70,892,839
Financial assets at FVTPL	10,815,336	-	-	-	-	10,815,336
Receivables	21,766,717	650,753	340,065	160,578	138,209	23,056,322
Loans	99,091,264	90,963,746	105,559,651	184,813,322	635,354,971	1,115,782,954
Available-for-sale financial assets	-	-	-	-	30,298,519	30,298,519
Held-to-maturity financial assets	140,500,000	8,304,933	1,830,099	10,434,453	11,663,389	172,732,874
Financial assets at cost	-	-	-	-	4,167,009	4,167,009
Other maturity fund inflow items	-	-	-	-	13,903,785	13,903,785
	324,284,545	103,487,678	112,869,436	202,083,129	721,436,981	1,464,161,769
Major maturity fund outflows						
Deposits from the Central Bank and banks	280,640	165,062	793,947	1,067,582	-	2,307,231
Due to the Central Bank and banks	5,000	10,000	-	-	-	15,000
Financial liabilities at FVTPL	349,044	-	-	-	-	349,044
Securities sold under repurchase agreements	1,769,159	1,411,631	57,029	-	-	3,237,819
Payables	25,599,432	982,449	1,119,064	741,389	1,357,584	29,799,918
Deposits and remittances	101,022,313	108,314,600	156,452,354	203,183,147	666,140,572	1,235,112,986
Bank notes payable	-	-	-	2,200,000	39,300,000	41,500,000
Other maturity fund outflow items	14,676	33,771	61,820	209,827	5,366,187	5,686,281
	129,040,264	110,917,513	158,484,214	207,401,945	712,164,343	1,318,008,279
Gap	$ 195,244,281	$ (7,429,835)	$ (45,614,778)	$ (5,318,816)	$ 9,272,638	$ 146,153,490

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

(In Thousands of United States Dollars)

Item	March 31, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity fund inflows						
Cash and cash equivalents	$ 615,908	$ 100,064	$ -	$ -	$ -	$ 715,972
Due from the Central Bank and call loans to banks	1,793,997	890,906	411,405	51,785	3,697	3,151,790
Financial assets at FVTPL	12,090	-	-	-	-	12,090
Receivables	582,978	159,924	244,770	4,156	15,208	1,007,036
Loans	721,122	746,979	451,633	478,113	3,668,212	6,066,059
Investments in debt instruments designated at FVTOCI	271	-	-	23,112	511,032	534,415
Investments in debt instruments at amortized cost	969	-	-	7,995	286,920	295,884
Other maturity fund inflow items	5,000	-	500,000	750,000	38,006	1,293,006
	3,732,335	1,897,873	1,607,808	1,315,161	4,523,075	13,076,252
Major maturity fund outflows						
Deposits from the Central Bank and banks	779,629	70,897	1,340	2,677	85	854,628
Due to the Central Bank and banks	1,609,758	1,025,000	40,000	-	-	2,674,758
Financial liabilities at FVTPL	-	-	-	-	289,580	289,580
Payables	812,721	45,755	3,604	3,062	5,742	870,884
Deposits and remittances	2,265,622	2,523,713	1,308,296	1,621,797	3,250,493	10,969,921
Other maturity fund outflow items	39,071	1,653	159	552	73,103	114,538
	5,506,801	3,667,018	1,353,399	1,628,088	3,619,003	15,774,309
Gap	$ (1,774,466)	$ (1,769,145)	$ 254,409	$ (312,927)	$ 904,072	$ (2,698,057)

Note: The amounts listed above were the position in U.S. 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 fund inflows						
Cash and cash equivalents	$ 953,081	$ 230,010	$ -	$ -	$ -	$ 1,183,091
Due from the Central Bank and call loans to banks	1,632,074	1,043,514	256,031	71,400	3,934	3,006,953
Financial assets at FVTPL	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
Investments in debt instrument without active market	-	-	-	-	2,177	2,177
Other maturity fund 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 fund outflows						
Deposits from the Central Bank and banks	877,668	100,720	991	1,947	85	981,411
Due to the Central Bank and banks	1,447,290	410,000	55,000	-	-	1,912,290
Financial liabilities at FVTPL	-	-	-	-	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 fund outflow 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	March 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity fund inflows						
Cash and cash equivalents	$ 250,060	$ 37,500	$ -	$ -	$ -	$ 287,560
Due from the Central Bank and call loans to banks	1,286,210	1,083,915	866,045	616,284	3,807	3,856,261
Financial assets at FVTPL	264,556	-	-	-	-	264,556
Receivables	417,690	124,264	78,611	2,741	13,214	636,520
Loans	682,145	700,874	514,751	338,326	3,986,907	6,223,003
Available-for-sale financial assets	10,003	-	-	14,182	456,928	481,113
Held-to-maturity financial assets	4,998	-	5,001	18,023	8,003	36,025
Investments in debt instrument without active market	-	-	-	-	2,628	2,628
Other maturity fund inflow items	5,000	-	44,500	-	34,312	83,812
	2,920,662	1,946,553	1,508,908	989,556	4,505,799	11,871,478
Major maturity fund outflows						
Deposits from the Central Bank and banks	678,194	180,899	1,186	2,313	220	862,812
Due to the Central Bank and banks	1,935,729	255,000	40,000	-	-	2,230,729
Financial liabilities at FVTPL	-	-	-	109,894	285,441	395,335
Payables	771,103	23,698	1,881	1,553	4,198	802,433
Deposits and remittances	2,035,077	1,735,807	1,007,687	1,280,300	3,303,744	9,362,615
Other maturity fund outflow items	36,105	407	181	559	61,637	98,889
	5,456,208	2,195,811	1,050,935	1,394,619	3,655,240	13,752,813
Gap	$ (2,535,546)	$ (249,258)	$ 457,973	$ (405,063)	$ 850,559	$ (1,881,335)

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

d) Maturity analysis of derivative financial assets and liabilities

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

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

Item	March 31, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	$ 102,028,017	$ 172,610,623	$ 47,971,645	$ 18,399,986	$ 17,447	$ 341,027,718
Inflows	101,703,452	172,720,123	48,020,692	18,443,332	17,072	340,904,671
Interest rate derivative instruments						
Outflows	1,779,833	4,883,699	-	2,402,640	-	9,066,172
Inflows	1,619,896	4,911,099	-	2,328,000	96,557	8,955,552
Total outflows	$ 103,807,850	$ 177,494,322	$ 47,971,645	$ 20,802,626	$ 17,447	$ 350,093,890
Total inflows	$ 103,323,348	$ 177,631,222	$ 48,020,692	$ 20,771,332	$ 113,629	$ 349,860,223

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

e) Maturity analysis of off-balance-sheet items

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

(In Thousands of New Taiwan Dollars)

Item	March 31, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	$ 53,528,858	$ 2,400,918	$ 2,148,001	$ 3,871,549	$ 10,359,491	$ 72,308,817
Credit card commitments	-	2,544	5,111	3,878	329,160	340,693
Letters of credit issued yet unused	25,015,394	68,211	9,984	-	-	25,093,589
Guarantees	42,324,709	195,245	91,914	1,409,221	348,148	44,369,237
	$ 120,868,961	$ 2,666,918	$ 2,255,010	$ 5,284,648	$ 11,036,799	$ 142,112,336

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

38. OTHER DISCLOSURES OF FINANCIAL INSTITUTION

a. Asset quality

Business Type \ Item			March 31, 2018 Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)	March 31, 2017 Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)
Corporate finance	Secured		$ 1,883,718	$ 458,513,589	0.41%	$ 5,202,501	276.18%	$ 1,947,445	$ 439,155,259	0.44%	$ 4,754,992	244.17%
	Unsecured		666,575	471,598,681	0.14%	5,320,876	798.24%	561,476	473,297,796	0.12%	5,142,699	915.92%
Consumer finance	Mortgage loans (Note d)		1,137,784	276,984,944	0.41%	4,223,937	371.24%	1,011,052	278,183,966	0.36%	4,228,034	418.18%
	Cash cards (Note h)		-	-	-	-	-	-	-	-	-	-
	Credit loans (Note e)		10,418	1,624,530	0.64%	19,793	189.99%	9,189	1,844,102	0.50%	20,917	227.63%
	Others (Note f)	Secured	560,073	174,967,234	0.32%	1,778,521	317.55%	591,247	164,655,228	0.36%	1,674,403	283.20%
		Unsecured	3,790	1,442,451	0.26%	15,625	412.27%	554	1,462,391	0.04%	15,350	2,770.76%
Total			4,262,358	1,385,131,429	0.31%	16,561,253	388.55%	4,120,963	1,358,598,742	0.30%	15,836,395	384.29%

Business Type \ Item	March 31, 2018 Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)	March 31, 2017 Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)
Credit card	$ 5,305	$ 1,763,655	0.30%	$ 21,608	407.31%	$ 6,492	$ 1,713,904	0.38%	$ 21,495	331.10%
No recourse receivable factoring (Note g)	-	12,526,036	-	125,260	-	-	6,412,648	-	64,126	-

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	March 31, 2018		March 31, 2017	
	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)	$ 15	$ 1,570	$ 45	$ 1,978
Negotiated accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing receivables (Note b)	604	17,240	255	14,653
Total	619	18,810	300	16,631

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

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

b. Concentration of credit risk

March 31, 2018			
Rank (Note a)	**Transaction Party (Note b)**	**Loans (Note c)**	**As Proportion of Net Equity (%) (Note d)**
1	A Corporation (railway transportation industry)	$ 26,789,963	17.69
2	B Group (steel smelting industry)	22,014,611	14.54
3	C Group (airline industry)	21,609,306	14.27
4	D Group (synthesis construction industry)	14,964,773	9.88
5	E Group (basic chemical material manufacturing industry)	13,287,957	8.78
6	F Group (real estate development industry)	7,619,400	5.03
7	G Group (steel manufacturing industry)	7,283,566	4.81
8	H Group (financial services industry)	6,386,881	4.22
9	I Group (other computer peripheral equipment manufacturing industry)	6,265,659	4.14
10	J Group (liquid crystal panel and components manufacturing industry)	5,571,815	3.68

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

Note a: Sorted by the balance of loans on March 31, 2018 and 2017, excluding government or state-run business. The number of transaction party which belongs to a group business was included in the balance of group business.

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

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

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

c. Interest rate sensitivity

(In Thousands of New Taiwan Dollars; %)

Item	March 31, 2018				
	1-90 Days	**91-180 Days**	**181 Days-1 Year**	**More Than 1 Year**	**Total**
Interest-sensitive assets	$ 1,266,673,518	$ 66,045,606	$ 34,737,548	$ 115,766,877	$ 1,483,223,549
Interest-sensitive liabilities	322,261,606	825,029,848	98,851,488	37,516,544	1,283,659,486
Interest sensitivity gap	944,411,912	(758,984,242)	(64,113,940)	78,250,333	199,564,063
Net equity					121,681,277
Ratio of interest-sensitive assets to liabilities					115,55%
Ratio of interest sensitivity gap to net equity					164.01%

(In Thousands of New Taiwan Dollars; %)

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

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

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

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

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

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

Item	March 31, 2018				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	$ 11,767,516	$ 1,608,932	$ 853,788	$ 294,699	$ 14,524,935
Interest-sensitive liabilities	14,718,045	1,112,514	1,270,449	20,393	17,121,401
Interest sensitivity gap	(2,950,529)	496,418	(416,661)	274,306	(2,596,466)
Net equity					584,687
Ratio of interest-sensitive assets to liabilities					84.83%
Ratio of interest sensitivity gap to net equity					(444.08%)

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

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

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		March 31, 2018	March 31, 2017
Return on total assets	Pretax	0.18%	0.17%
	After tax	0.17%	0.14%
Return on net equity	Pretax	2.47%	2.49%
	After tax	2.31%	2.07%
Profit margin		43.83%	38.47%

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 = $\dfrac{\text{Income after tax}}{\text{Net revenue and gains}}$

Note d: Profitability presented above is cumulative from January 1 to March 31 of 2018 and 2017, respectively.

e. Maturity analysis of assets and liabilities

(In Thousands of New Taiwan Dollars)

	Total	March 31, 2018					
		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	$ 1,669,849,456	$ 129,623,190	$ 179,317,208	$ 202,093,793	$ 142,376,213	$ 246,765,464	$ 769,673,588
Major maturity cash outflows	2,173,232,629	97,160,743	148,326,112	312,056,475	284,051,566	434,787,324	896,850,409
Gap	(503,383,173)	32,462,447	30,991,096	(109,962,682)	(141,675,353)	(188,021,860)	(127,176,821)

(In Thousands of New Taiwan Dollars)

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

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

(In Thousands of U.S. Dollars)

	Total	March 31, 2018				
		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	$ 22,748,449	$ 8,337,117	$ 4,947,075	$ 2,640,782	$ 1,878,559	$ 4,944,916
Major maturity cash outflows	27,541,241	8,814,033	6,096,168	2,883,331	3,662,513	6,085,196
Gap	(4,792,792)	(476,916)	(1,149,093)	(242,549)	(1,783,954)	(1,140,280)

(In Thousands of U.S. Dollars)

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

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

f. Trust accounts

Under Article 3 of the Trust Law, the Bank can offer trust services. The items and amounts of trust accounts as of March 31, 2018 and 2017 were as follows:

	March 31	
	2018	**2017**
Special purpose trust accounts - domestic	$ 28,248,330	$ 23,483,389
Special purpose trust accounts - foreign	74,908,176	75,782,924
Insurance trust	10,649	1,046
Retirement and breeds trust	299,648	318,565
Umbilical-cord-blood trust	10,169,154	8,989,951
Money claim and guarantee trust	73,800	73,800
Marketable securities trust	769,897	3,453,339
Real estate trust	17,833,440	14,797,416
Securities under custody	137,376,164	120,501,571
Other money trust	1,577,514	2,210,661
	$ 271,266,772	$ 249,612,662

39. 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
Artthinking Design Corporation	Its supervisor is the Bank's manager's spouse
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
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 March 31, 2018	$ 28,676,935	2.10
Balance as of December 31, 2017	28,819,698	2.09
Balance as of March 31, 2017	1,129,699	0.08

For the three months ended March 31, 2018 and 2017, interest ranged from 0.00% to 3.67% and from 0.00% to 4.30%, interest revenues were $130,653 thousand and $4,087 thousand, respectively.

	March 31, 2018					
	Ending Balance	**Highest Amount**	**Normal Loans**	**Non-performing Loans**	**Collateral**	**Difference in Terms Between Related Parties and Non-related Parties**
Consumer loans						
29 accounts	$ 13,477	$ 14,264	$ 13,477	$ -	Credit	None
Self-use residential mortgage loans						
207 accounts	1,163,520	1,201,651	1,163,520	-	Real estate	None
Others						
Taiwan High Speed Rail Corporation	26,656,996	26,681,553	26,656,996	-	Credit and station equipment	None
Powertec Energy Corporation	527,972	542,972	527,972	-	Credit	None
Other - corporation 6 accounts (Note 1)	308,705	446,654	308,705	-	Credit and fund guarantee and real estate	None
Other - individual 8 accounts (Note 2)	6,265	7,938	6,265	-	Deposit	None

	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

	March 31, 2017					
	Ending Balance	**Highest Amount**	**Normal Loans**	**Non-performing Loans**	**Collateral**	**Difference in Terms Between Related Parties and Non-related Parties**
Consumer loans						
29 accounts	$ 11,810	$ 12,983	$ 11,810	$ -	Credit	None
Self-use residential mortgage loans						
195 accounts	1,069,065	1,102,177	1,069,065	-	Real estate	None
Others						
Crown Department Company	34,550	35,150	34,550	-	Real estate	None
Artthinking Design Corporation	5,500	5,500	5,500	-	Credit and fund guarantee	None
Other - individual 9 accounts (Note 2)	8,774	10,962	8,774	-	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 March 31, 2018, December 31, 2017 and March 31, 2017. The interest rates and other terms provided to the other related parties are the same as those offered to the public.

2) Guaranteed loans

	March 31, 2018				
	Ending Balance	Highest Amount	Reserve for Guarantee Liabilities	Interest Rate (Per Annum %)	Collateral
Kaohsiung Rapid Transit Corporation	$ 21,800	$ 23,400	$ -	0.50	None
Adimmune Corporation	19,236	19,236	-	1.80	Pledged demand deposit

	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

	March 31, 2017				
	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 March 31, 2018	$ 4,187,554	0.25
Balance as of December 31, 2017	4,376,758	0.26
Balance as of March 31, 2017	3,877,779	0.24

For the three months ended March 31, 2018 and 2017, the interest rates intervals were between 0.00% and 13.00%, respectively; the interest expenses were $13,598 thousand and $12,950 thousand, respectively.

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

4) Call loans to banks and call loans from banks

Call loans to banks

(In Thousands of Original Currencies)

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
			March 31, 2018		
Land Bank	OBU	USD	$ 90,000	1.48-2.10	$ 467
	London Branch	USD	10,000	1.80	14
	Hong Kong Branch	USD	53,000	1.62-2.45	403
Taiwan Business Bank	Kunshan Branch	CNY	40,000	2.79-4.30	65
	Hong Kong Branch	USD	20,000	1.50-2.28	192

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
			December 31, 2017		
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	-

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

Call loans from banks

(In Thousands of Original Currencies)

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
			March 31, 2018		
Land Bank	OBU	USD	$ 20,000	1.48-1.90	$ 52
	OBU	ZAR	7,000	7.30	4
	Los Angeles Branch	USD	20,000	1.44-2.53	89
	London Branch	USD	75,000	1.79-2.42	495
Taiwan Business Bank	OBU	USD	50,000	2.60	11

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

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Revenue
			March 31, 2017		
Land Bank	London Branch	USD	$ 40,000	0.95-1.64	$ 170
Taiwan Business Bank	Singapore Branch	USD	10,000	0.99-1.02	26

5) Due from banks and deposits from banks

Due from banks

(In Thousands of New Taiwan Dollars)

Name	Department	Currency	March 31, 2018 Ending Balance	December 31, 2017 Ending Balance	March 31, 2017 Ending Balance
Land Bank	Domestic banking unit ("DBU")	NTD	$ 44	$ 44	$ 152
Taiwan Business Bank	DBU	NTD	3	77	956

Deposits from banks

(In Thousands of Original Currencies)

Name	Department	Currency	March 31, 2018 Ending Balance	December 31, 2017 Ending Balance	March 31, 2017 Ending Balance
The Export-Import Bank	DBU	NTD	$ 1,259	$ 1,102	$ 524
Taishin International Bank	New York Branch	USD	59	57	49
Land Bank	DBU	NTD	277	277	277

c. Compensation of directors and management personnel

	For the Three Months Ended March 31 2018	For the Three Months Ended March 31 2017
Short-term employee benefits	$ 10,433	$ 10,966
Post-employment benefits	12,763	9,584
	$ 23,196	$ 20,550

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.

40. PLEDGED ASSETS

The summary of the Bank's pledged assets as of March 31, 2018, December 31, 2017 and March 31, 2017 were as follows:

Pledged Assets	Description	March 31, 2018
Investments in debt instruments designated at FVTOCI	Government bonds	$ 6,029,870
Investments in debt instruments at amortized cost	Bonds and certificates of deposit	36,590,476
Time deposits with original maturities of more than 3 months	Time deposits	2,787,600
Refundable deposits	Cash	1,555,029

Pledged Assets	Description	December 31, 2017	March 31, 2017
Available-for-sale financial assets	Government bonds	$ 5,781,100	$ 5,935,600
Held-to-maturity financial assets	Bonds and certificates of deposit	36,749,428	36,790,483
Time deposits with original maturities of more than 3 months	Time deposits	2,729,400	5,513,750
Refundable deposits	Cash	638,049	1,152,505

41. CONTINGENT LIABILITIES AND COMMITMENTS

a. In addition to those mentioned in Note 7, the Bank had the following contingent liabilities and commitments as of March 31, 2018, December 31, 2017 and March 31, 2017:

	March 31, 2018	December 31, 2017	March 31, 2017
Trust liabilities	$ 271,266,772	$ 268,672,867	$ 249,612,662
Unused loan commitments (excluding credit cards)	72,308,817	82,204,969	85,889,842
Credit card credit commitments	340,693	333,092	359,319
Unused issued letters of credit	25,093,589	24,509,270	24,169,900
Guarantees issued in guarantee business	44,369,237	40,993,464	45,312,938
Repayment notes and times deposit held for custody	12,099,754	12,860,366	12,551,349
Liabilities on joint loans	770,173	771,194	513,778

The unrecognized commitments for the acquisition of equipment and intangible assets, as well as the commitments for construction, and security as of March 31, 2018 were $286,349 thousand, $43,194 thousand and $101,103 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.

42. DISCLOSURES UNDER STATUTORY REQUIREMENTS

a. Material transactions

No.	Item	Explanation
1	Accumulated purchases and sales balance of specific investees' marketable security over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2018	None
2	Acquisition of fixed assets over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2018	None
3	Disposal of fixed assets over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2018	None
4	Discount on fees income from related parties over NT$5 million	None
5	Receivables from related parties over NT$300 million or 10% of outstanding capital as of March 31, 2018	None
6	Sale of NPL	None
7	Securitized instruments and related assets which are in accordance with the Statute for Financial Assets Securitization and the Statute for Real Estate Securitization	None
8	Other significant transactions which may affect decisions of the users of the financial statements	None

b. Information on the Bank's Investees

No.	Item	Explanation
1	Investees' names, locations, etc.	None
2	Capital lending to another party	None
3	Endorsement for another party	None
4	Marketable securities held as of March 31, 2018	None
5	Accumulated purchases and sales balance of specific marketable security over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2018	None
6	Acquisition of property, plant and equipment over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2018	None
7	Disposal of property, plant and equipment over NT$300 million or 10% of outstanding capital for the three months ended March 31, 2018	None
8	Receivables from related parties over NT$300 million or 10% of outstanding capital as of March 31, 2018	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

43. 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, Dongguan and Fuzhou branches were merged into bank subsidiary. The subsidiary's working capital is RMB 2,500 million. The subsidiary had been approved by China Banking Regulatory Commission on September 18, 2017.

44. SEGMENT INFORMATION

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

a. Segment revenues and results

	For the Three Months Ended March 31, 2018						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch	Others	Total
Net income of interest	$ 3,358,842	$ 1,400,103	$ 190,320	$ -	$ 820,369	$ 38	$ 5,769,672
Net service fee income	297,843	58,434	(7,311)	770,960	106,548	-	1,226,474
Net income on financial instrument	-	-	737,865	-	33,647	-	771,512
Others	878	-	(30)	-	3,636	50,723	55,207
Net revenue and gains	3,657,563	1,458,537	920,844	770,960	964,200	50,761	7,822,865
Bad debts expense and guarantee liability provision	(90,295)	-	18	-	(250,264)	-	(340,541)
Operating expense	-	-	-	-	-	-	(3,820,294)
Income before income tax	$ 3,567,268	$ 1,458,537	$ 920,862	$ 770,960	$ 713,936	$ 50,761	$ 3,662,030

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

The revenues and results on the segment information reported does not include inter-segment revenues for the three months ended March 31, 2018 and 2017.

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

b. Segment total assets and liabilities

	March 31, 2018						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Oversea Branch	Others	Adjustment	Total
Assets	$ 1,264,204,121	$ -	$ 666,467,183	$ 189,239,958	$ 68,835,912	$ (122,297,058)	$ 2,066,450,116
Liabilities	$ 2,947,957	$ 1,636,001,310	$ 191,909,737	$ 169,973,926	$ 36,507,272	$ (122,297,058)	$ 1,915,043,144

	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

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

TABLE 1

CHANG HWA COMMERCIAL BANK, LTD.

INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE THREE MONTHS ENDED MARCH 31, 2018
(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, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of March 31, 2018	Net Income (Loss) of the Investee (Note 2)	% of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of March 31, 2018	Accumulated Repatriation of Investment Income as of March 31, 2018	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 March 31, 2018	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)	$ 22,711,046

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 stock or capital contributions from local stockholders 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)