The Shanghai Commercial & Savings Bank, Ltd.

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Shareholders
The Shanghai Commercial & Savings Bank, Ltd.

Opinion

We have audited the accompanying financial statements of The Shanghai Commercial & Savings Bank, Ltd. (the Bank), which comprised the balance sheets as of December 31, 2017 and 2016, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2017. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters related to the individual financial statements for the year ended December 31, 2017 are described as follows:

<u>Allowance for Credit Losses on Discounts and Loans</u>

The Bank primarily engages in the crediting business. As of December 31, 2017, the balance of discounts and loans amounted to $640,191,635 thousand, which was significant to the financial statements for the year ended December 31, 2017. The Bank conducted its impairment assessment on discounts and loans following the requirement of International Accounting Standard (IAS) No. 39 as well as with reference to the related regulations. The Bank's management periodically assessed the impairment on its loans portfolios, and the impairment was then determined by estimating the future cash flows from the loan portfolios. Refer to Notes 4, 5, 11 and 34 to the financial statements for disclosures related to impairment on loan portfolios. As the cash flow forecasts involved management's critical judgments in accounting estimations and the underlying assumptions, we then determined the impairment on loan portfolios as a key audit matter.

In response to the abovementioned key audit matters, we have performed the following procedures:

1. Understood and tested the Bank's internal control procedures that were relevant to loan impairment assessment.

2. For loans individually assessed, made selections to assess the reasonableness of management's estimations on future cash flows from borrowers and fair value of collateral.

3. For loans collectively assessed, verified whether the underlying assumptions and critical parameters (loss given default and probability of default) adopted by the impairment model were consistent with the actual situation and then performed the impairment calculation.

<u>Measurements of Deferred Income Taxes</u>

As of December 31, 2017, the balances of deferred income tax liabilities and assets amounted to $8,435,684 thousand and $575,209 thousand, respectively, and deferred income tax expense for the year then ended amounted to $524,771 thousand, which were significant to the financial statements for the year ended December 31, 2017. The management measured the deferred tax following the requirement of IAS No. 12. The management periodically assessed and realizability and reversal timing of all temporary differences to recognize the deferred income tax assets and liabilities. Refer to Notes 4, 5 and 29 to financial statement for disclosures regarding deferred taxes. As the realizability and reversal of temporary differences involved management's critical judgments in accounting estimations and the underlying assumptions, we determined the measurement of deferred income taxes as a key audit matter.

In response to the abovementioned key audit matters, we have performed the following procedures:

1. Evaluated the financial forecasts and underlying assumptions used by management supporting the realizability of deductible temporary differences, and calculated the deferred income tax assets recognized;

2. Assessed the completeness and expected reversal timings of all taxable temporary differences, and calculated the deferred income tax liabilities recognized.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, IAS, SIC endorsed and issued into effect by the FSC of the Republic of China, and for such internal control as management determines is necessary to ensure the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the

Bank’s financial reporting process.

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shih-Tsung Wu and Chun-Hung Chen.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 24, 2018

Notice to Readers

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

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

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

BALANCE SHEETS
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
Cash and cash equivalents (Notes 6 and 31)	$ 33,056,025	3	$ 26,214,049	3
Due from the Central Bank and call loans to banks, net (Notes 7 and 31)	85,249,801	8	74,414,215	8
Financial assets at fair value through profit or loss (Note 8)	1,241,777	-	9,567,774	1
Securities purchased under resale agreements (Note 9)	195,061	-	-	-
Receivables, net (Notes 10 and 31)	7,192,157	1	7,511,562	1
Current income tax assets (Note 29)	37,267		37,267	
Discounts and loans, net (Notes 11 and 31)	630,998,058	58	582,835,116	58
Available-for-sale financial assets, net (Notes 12 and 32)	153,412,275	14	163,926,680	16
Held-to-maturity financial assets (Notes 13 and 31)	103,444,933	9	62,225,661	6
Equity-method investments (Note 14)	60,883,586	6	63,220,196	6
Other financial assets, net (Note 15)	635	-	1,570	-
Properties, net (Note 16)	12,124,251	1	12,423,357	1
Deferred income tax assets (Note 29)	575,209	-	617,761	-
Other assets, net (Notes 17 and 29)	2,469,098	-	2,618,225	-
Total	$ 1,090,880,133	100	$ 1,005,613,433	100
LIABILITIES AND EQUITY				
Due to the Central Bank and banks (Notes 18 and 31)	$ 8,331,836	1	$ 13,080,686	1
Financial liabilities at fair value through profit or loss (Note 8)	317,780	-	459,106	-
Securities sold under repurchase agreements (Note 19)	29,792,067	3	10,186,212	1
Payables (Notes 20 and 31)	20,561,446	2	19,246,698	2
Current income tax liabilities (Note 29)	796,857	-	691,677	-
Deposits and remittances (Notes 21 and 31)	850,155,101	78	789,785,025	79
Bank debentures (Note 22)	45,150,000	4	38,150,000	4
Other financial liabilities (Note 23)	3,048,417	-	3,280,387	-
Provisions (Note 24)	1,132,371	-	1,002,978	-
Deferred income tax liabilities (Note 29)	8,435,684	1	8,759,584	1
Other liabilities (Notes 25 and 31)	748,775	-	737,576	-
Total liabilities	968,470,334	89	885,379,929	88
Equity (Note 27)				
Share capital				
Ordinary shares	40,791,031	4	40,791,031	4
Capital surplus	4,655,555	-	4,647,655	-
Retained earnings				
Legal reserve	44,117,426	4	40,592,926	4
Special reserve	7,538,888	1	7,480,146	1
Unappropriated earnings	21,066,873	2	18,465,441	2
Total retained earnings	72,723,187	7	66,538,513	7
Other equity	4,323,170	-	8,339,449	1
Treasury shares	(83,144)	-	(83,144)	-
Total equity	122,409,799	11	120,233,504	12
Total	$ 1,090,880,133	100	$ 1,005,613,433	100

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

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

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

	2017		2016	
	Amount	%	Amount	%
Interest revenue	$ 17,518,700	81	$ 16,357,577	79
Interest expenses	5,737,068	26	5,441,859	26
Net interest (Notes 28 and 31)	11,781,632	55	10,915,718	53
Net revenue other than interest				
Service fee income, net (Notes 28 and 31)	2,369,451	11	2,433,675	12
Gains on financial assets and liabilities at fair value through profit or loss (Note 28)	992,123	5	600,909	3
Realized gains on available-for-sale financial assets (Note 12)	696,708	3	1,190,296	6
Foreign exchange gains (losses), net	(29,405)	-	582,318	3
Share of profit of subsidiaries, associates and joint ventures, net	5,447,400	25	4,721,013	23
Other net revenues (Note 31)	317,061	1	156,865	-
Total net revenue other than interest	9,793,338	45	9,685,076	47
Net revenue	21,574,970	100	20,600,794	100
Bad debt expenses (Note 11)	599,928	3	599,988	3
Operating expenses				
Personnel (Notes 4, 26, 28 and 31)	3,817,711	18	3,670,151	18
Depreciation and amortization (Note 28)	452,861	2	491,192	2
Other general and administrative (Note 31)	2,296,218	10	2,223,182	11
Total operating expenses	6,566,790	30	6,384,525	31
Profit before income tax	14,408,252	67	13,616,281	66
Income tax expense (Notes 4 and 29)	(2,023,025)	(10)	(1,867,949)	(9)
Net income	12,385,227	57	11,748,332	57

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THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

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

	2017		2016	
	Amount	**%**	**Amount**	**%**
Other comprehensive income (loss)				
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	$ (98,336)	-	$ (86,308)	(1)
Share of the other comprehensive loss of subsidiaries, associates and joint ventures	(279)	-	(15,179)	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	16,717	-	14,674	-
	(81,898)	-	(86,813)	(1)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translating foreign operations	(4,999,726)	(23)	(1,260,499)	(6)
Unrealized gain (loss) on available-for-sale financial assets	883,890	4	(1,591,605)	(8)
Share of the other comprehensive income (loss) of subsidiaries, associates and joint ventures accounted for using the equity method	(689,845)	(3)	1,908,547	9
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 30)	789,402	3	267,482	2
	(4,016,279)	(19)	(676,075)	(3)
Other comprehensive loss for the period, net of income tax	(4,098,177)	(19)	(762,888)	(4)
Total comprehensive income for the period	$ 8,287,050	38	$ 10,985,444	53
Earnings per share (Note 31)				
Basic	$3.04		$2.89	
Diluted	$3.04		$2.89	

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

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

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

			Retained Earnings (Note 27)			Other Equity				
	Share Capital (Note 28)	Capital Surplus (Note 28)	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Cash Flow Hedges	Treasury Shares (Note 28)	Total Equity
Balance at January 1, 2016	$ 39,991,207	$ 4,639,910	$ 37,023,528	$ 7,480,146	$ 17,171,825	$ 3,707,655	$ 5,307,869	$ -	$ (83,144)	$ 115,238,996
Appropriation of 2015 earnings										
Legal reserve	-	-	3,569,398	-	(3,569,398)	-	-	-	-	-
Cash dividends	-	-	-	-	(5,998,681)	-	-	-	-	(5,998,681)
Share dividends	799,824	-	-	-	(799,824)	-	-	-	-	-
Change in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	7,745	-	-	-	-	-	-	-	7,745
Net profit for the year ended December 31, 2016	-	-	-	-	11,748,332	-	-	-	-	11,748,332
Other comprehensive income (loss) for the year ended December 31, 2016, net of income tax	-	-	-	-	(86,813)	(1,265,381)	589,306	-	-	(762,888)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	11,661,519	(1,265,381)	589,306	-	-	10,985,444
Balance at December 31, 2016	40,791,031	4,647,655	40,592,926	7,480,146	18,465,441	2,442,274	5,897,175	-	(83,144)	120,233,504
Appropriation of 2016 earnings										
Legal reserve	-	-	3,524,500	-	(3,524,500)	-	-	-	-	-
Special reserve	-	-	-	58,742	(58,742)	-	-	-	-	-
Cash dividends	-	-	-	-	(6,118,655)	-	-	-	-	(6,118,655)
Change in capital surplus from investments in associates and joint ventures accounted for using the equity method	-	7,900	-	-	-	-	-	-	-	7,900
Net profit for the year ended December 31, 2017	-	-	-	-	12,385,227	-	-	-	-	12,385,227
Other comprehensive loss for the year ended December 31, 2017, net of income tax	-	-	-	-	(81,898)	(4,006,743)	(9,536)	-	-	(4,098,177)
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	12,303,329	(4,006,743)	(9,536)	-	-	8,287,050
Balance at December 31, 2017	$ 40,791,031	$ 4,655,555	$ 44,117,426	$ 7,538,888	$ 21,066,873	$ (1,564,469)	$ 5,887,639	$ -	$ (83,144)	$ 122,409,799

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

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

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

	2017	2016
Cash flows from operating activities		
Net profit before income tax	$ 14,408,252	$ 13,616,281
Adjustments to reconcile net profit to net cash provided by operating activities		
Depreciation expenses	193,933	219,410
Amortization expenses	258,928	271,782
Bad debt expenses	599,928	599,988
Losses on financial assets and liabilities at fair value through profit or loss	(292,032)	196,559
Interest expenses	5,737,068	5,441,859
Dividend income	(150,737)	(166,925)
Interest revenue	(17,518,700)	(16,357,577)
Share of profit of subsidiaries, associates and joint ventures	(5,447,400)	(4,721,013)
(Gains) losses on disposal of properties and equipment, net	(248,858)	11,123
Other adjustments	(47,375)	(4,433)
Changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank and call loans to banks	6,141,437	(1,342,920)
Decrease in financial assets at fair value through profit or loss	8,374,962	15,518,277
Decrease in receivables	56,922	166,360
Increase in discounts and loans	(48,356,423)	(5,947,529)
Decrease (increase) in available-for-sale financial assets	10,769,132	(23,850,433)
Increase (decrease) in held-to-maturity financial assets	(41,219,149)	19,915,653
Decrease in other financial assets	935	30,699
Decrease (increase) in due to the Central Bank and banks	(4,748,850)	521,230
Increase (decrease) in financial liabilities at fair value through profit or loss	101,741	(94,206)
Increase in securities sold under repurchase agreements	19,605,855	3,865,536
Increase in payables	1,070,489	2,343,368
Increase (decrease) in deposits and remittances	60,370,076	(8,364,226)
Decrease in other financial liabilities	(231,970)	(699,586)
Increase in employee benefits provision	138,053	119,975
Increase (decrease) in other liabilities	21,466	(30,998)
Cash generated from operations	9,587,683	1,258,254
Interest received	18,270,626	16,768,274
Dividends received	2,340,857	2,536,285
Interest paid	(5,492,809)	(5,638,441)
Income tax paid	(1,413,686)	(1,500,471)
Net cash generated from operating activities	23,292,671	13,423,901
Cash flows from investing activities		
Acquisition of properties	(78,496)	(89,528)
Proceeds from disposal of properties	431,093	856
Increase in refundable deposits	-	(164,125)

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THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

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

	2017	2016
Decrease in refundable deposits	$ 23,890	$ -
Increase in other assets	(133,691)	(272,683)
Net cash generated from (used in) investing activities	242,796	(525,480)
Cash flows from financing activities		
Issuance of bank debentures	10,000,000	-
Repayment of bank debentures	(3,000,000)	-
Decrease in guarantee deposits received	(8,563)	(21,392)
Payment of cash dividends	(6,118,655)	(5,998,681)
Net cash generated from (used in) financing activities	872,782	(6,020,073)
Effects of exchange rate changes on the balance of cash held in foreign currencies	(394,354)	(114,643)
Net increase in cash and cash equivalents	24,013,895	6,763,705
Cash and cash equivalents at the beginning of the year	62,310,721	55,547,016
Cash and cash equivalents at the end of the year	$ 86,324,616	$ 62,310,721

Reconciliation of the amounts in the statements of cash flows with the equivalent items reported in the balance sheets at December 31, 2017 and 2016:

	2017	2016
Cash and cash equivalents in balance sheets	$ 33,056,025	$ 26,214,049
Due from the Central Bank and call loans to banks which fall within the definition of cash and cash equivalents under IFRS 7	53,073,530	36,096,672
Securities purchased under resale agreements which fall within the definition of cash and cash equivalents under IFRS 7	195,061	-
Cash and cash equivalents in statements of cash flows	$ 86,324,616	$ 62,310,721

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

1. ORGANIZATION AND OPERATIONS

The Shanghai Commercial & Savings Bank, Ltd. (the Bank) was incorporated in Taiwan and engages in various commercial banking businesses under related laws and regulations.

The Bank has a head office in Taipei, 68 domestic branches three foreign branches located in Hong Kong, Dong Nai (Vietnam) and Singapore, and 3 representative offices located in Thailand, Cambodia and Indonesia.

The operations of the Bank's Trust Department include services related to planning, managing and operating a trust business under the Banking Law and Trust Law.

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

2. AUTHORIZATION OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 24, 2018.

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

a. Initial application of the amendments to IFRS, IAS, IIFRIC, and SIC (collectively, the "IFRSs") endorsed and issued into effect by the FSC

Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed and issued into effect by the FSC. In addition, as a result of the post-implementation review of IFRSs in the Republic of China, the amendments also include an emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

The amendments stipulate that other companies or institutions of which the chairman of the board of directors or president serves as the chairman of the board of directors or the president of the Bank, or is the spouse or second immediate family of the chairman of the board of directors or president of the Bank are deemed to have a substantive related party relationship, unless it can be demonstrated that no control, joint control, or significant influence exists. Furthermore, the amendments require the disclosure of the names of the related parties and the relationships with whom the Bank has significant transactions. If the transactions or balance with a specific related party is 10% or more of the Bank's respective total transactions or balance, such transactions should be separately disclosed by the name of each related party.

The amendments also require additional disclosure if there is a significant difference between the actual operations after business combinations and the expected benefits on the acquisition dates.

When the amendments are applied retrospectively from January 1, 2017, the disclosures of related party transactions and impairment of goodwill are enhanced. Refer to Note 31 for related disclosures.

b. The Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed by the FSC for application starting from 2018

New, Amended or Revised Standards and Interpretations (the "New IFRSs")	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of Investment Property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

Note 2: The amendment to IFRS 12 is applied prospectively to changes in a method of disposal that occur in annual periods beginning on or after January 1, 2017; the amendments to IFRS 28 are effective for annual periods beginning on or after January 1, 2018.

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

- IFRS 9 "Financial Instruments" and related amendments

  Recognition, measurement and impairment of financial assets

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

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

  a) For debt instruments, if they are held within a business model whose objective is to collect contractual cash flows, the financial assets are measured at amortized cost and are assessed for impairment continuously with impairment loss recognized in profit or loss, if any. Interest revenue is recognized in profit or loss by using the effective interest method; and

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

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

The Bank analyzed the current facts and circumstances of its financial assets existing at December 31, 2017 and performed a preliminary assessment of the main impact of IFRS 9 on the classification and measurement of financial assets. Under IFRS 9:

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

b) Mutual funds classified as AFS will be classified as at fair value through profit or loss because the contractual cash flows are not solely payments of principal and interest on the principal outstanding, and they are not equity instruments;

c) Debt investments classified as AFS will be classified as at FVTOCI because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows and sell financial assets; and

d) Debt investments classified as held-to-maturity financial assets and measured at amortized cost will be classified as measured at amortized cost 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.

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

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

The Bank elects not to restate prior periods when applying the requirements for the recognition, measurement and impairment of financial assets under IFRS 9. Cumulative effect by the initial application will recognize in the first application date and will provide the disclosures related to the classification and the adjustment information upon initial application of IFRS 9.

The expected impact to assets, liabilities and equity on January 1, 2018, which retrospectively apply impairment, classification and measurement of financial assets of IFRS 9, as shown below:

	The Book Value On December 31, 2017	**Adjustment By Initial Application**	**The Book Value On January 1, 2018, After Adjustment**
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss	$ 1,241,777	$ 4,310,252	$ 5,552,029
Receivables, net	7,192,157	(14,076)	7,178,081
Discounts and loans, net	630,998,058	(85,168)	630,912,890
AFS financial assets, net	153,412,275	(153,412,275)	-
Financial assets at FVTOCI	-	149,309,478	149,309,478
Held-to-maturity financial assets, net	103,444,933	(103,444,933)	-
Financial assets at amortized cost - current	-	102,950,896	102,950,896
Equity-method investments, net	60,883,586	(23,705)	60,859,881
Deferred income tax assets	575,209	16,871	592,080
Impact on assets	$ 957,747,995	$ (392,660)	$ 957,355,335
Financial liabilities held for trading	$ 317,780	$ (8,512)	$ 309,268
Deferred income tax liabilities	8,435,684	(4,980)	8,430,704
Impact on liabilities	$ 8,753,464	$ (13,492)	$ 8,739,972
Retained earnings	$ 72,723,187	$ 55,471	$ 72,778,658
Unrealized gain (loss) on AFS financial assets	5,887,639	(5,887,639)	-
Equity instruments at FVTOCI	-	4,154,126	4,154,126
Debt instruments at FVTOCI	-	1,298,874	1,298,874
Impact on equity	$ 78,610,826	$ (379,168)	$ 78,231,658

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 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
Amendments to IAS 28 "Amended by 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: FSC permits the Bank to elect applying the amendments in advance at January 1, 2018.

Note 3: On December 19, 2017, the FSC announced that enterprises located in the ROC should apply IFRS 16 as of January 1, 2019.

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 leases 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 right-of-use assets separately from 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 the 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 lesser.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

Statement of Compliance

The financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and the Regulations Governing the Preparation of Financial Reports by Securities Issuers.

Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments assets that are measured at fair value.

The fair value measurements are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and the significance of the inputs to the fair value measurement in its entirety, which 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 the 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 the asset or liability.

When the Bank prepared the financial statements, its investments in the subsidiaries and associates were accounted for by the equity method. To make the current losses and profits, other comprehensive income and equity equal to the current losses and profits, other comprehensive income and equity which are attributable to owner of the Bank in the consolidated financial statements, “Equity-method investments”, “share of profit or loss of subsidiaries, associates and joint ventures”, “share of the other comprehensive income of subsidiaries, associates and joint ventures” were adjusted.

Classification of Current and Non-current Assets and Liabilities

Since the operating cycle in the banking industry cannot be reasonably identified, accounts included in the Bank’s financial statements are not classified as current or noncurrent. Nevertheless, these accounts are properly categorized according to the nature of each account and sequenced by liquidity.

Foreign Currencies

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

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

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

Nonmonetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting financial statements, the assets and liabilities of the Bank’s foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising are recognized in other comprehensive income.

Financial Instruments

Financial assets and financial liabilities are recognized when the Bank 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 derecognised on a trade date basis.

1) Categories

The Bank owns financial assets which are classified into the following specified categories: Financial assets at fair value through profit or loss (FVTPL), held-to-maturity financial assets, Available-for-sale FS (AFS) financial assets and loans and receivables.

a) Financial assets at FVTPL

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

A financial asset is designated as at FVTPL on initial recognition when:

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

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

- If a contract contains one or more embedded derivatives, the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

Refer to Note 34 for related disclosure.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

b) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturity dates that the Bank has the positive intent and ability to hold to maturity other than those that the entity upon initial recognition designates as at fair value through profit or loss, or designates as available for sale, or meet the definition of loans and receivables.

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

c) AFS financial assets

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

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

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

d) Loans and receivables

Loans and receivables (including due from the Central Bank and call loan to banks, securities purchased under resale agreements, receivables, discounts and loans, debt investments with no active market and other financial assets) are measured at amortized cost using the effective interest method, less any impairment, except for short-term receivables when the effect of discounting is immaterial.

For the statements of cash flows, cash and cash equivalents include cash and cash equivalent in the balance sheet, due from the central bank and call loans to banks and securities purchased under resale agreements which fall within the definition of cash and cash equivalents under IFRS No. 7 approved by the FSC. Cash on hand and due from other banks are included in cash and cash equivalents on balance sheets.

2) Impairment of financial assets

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 that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

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

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

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

For AFS 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.

The objective evidence of impairment of other financial assets includes significant financial difficulties or defaults of the issuer or debtor, increasing possibilities of debtors' bankruptcy or debt restructuring, and inactive market due to the issuer's financial difficulties.

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of financial assets that are carried at cost, where the carrying amount is reduced through the use of an allowance account. When financial assets 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.

Under the guidelines of "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" issued by the Banking Bureau of the FSC, the credit accounts are categorized into five groups: Normal credit assets, require special mention assets, substandard assets, doubtful assets and full-amount loss based on the clients' financial conditions. After assessing the value of the collateral, the Bank will assess the possibilities of recovery.

Under the above guidelines, in addition to the minimum standard allowance for all accounts, allowance is provided for accounts classified as normal (except government), notice, warning, difficult and uncollectible at 1%, 2%, 10%, 50%, and 100%, respectively.

Rule No. 10300329440 issued by the FSC on December 4, 2014 stipulated that banks may maintain a bad debt provision ratio at a minimum of 1.5% for housing mortgages in order to improve banks' risk cushion. The rule requires the 1.5% rate be reached at no later than the end of 2014.

Rule No. 10410001840 issued by the FSC on April 23, 2015 stipulated that banks may maintain a minimum 1.5% bad debt provision ratio for category one credit assets (including short-term trade financing) due from the People's Republic of China (China) businesses. This is again to improve banks' risk cushion.

According to the local statutes, the Bank's allowances for bad debts and guarantee liabilities for the "acquisition of residential home repair loans and construction loans" and "category one credit assets (including short-term trade financing) due from China businesses" should be at least 1.5%.

Uncollectible assets could be written off after the board of directors' approval.

3) Derecognition of financial assets

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

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

b. Financial liabilities

1) Subsequent measurement of financial liabilities

All financial liabilities are measured at amortized cost using effective interest rate, except for the following situations:

a) Financial liabilities at FVTPL

Financial liabilities at FVTPL are all held for trading, and stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The method to determine fair value is stated in Note 34.

b) Financial guarantee contracts

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

2) Derecognition of financial liabilities

The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

c. Derivative financial instruments

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

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

Investment in Subsidiaries

Investments in subsidiaries are accounted for by the equity method.

Subsidiaries are the entities over which the Bank has control.

Under the equity method, an investment in a subsidiary is initially recognized at cost and adjusted thereafter to recognize the Bank's share of the profit or loss and other comprehensive income of the subsidiary. The changes in subsidiaries' other equity are recognized by the Bank based on its share proportion.

If the change in subsidiaries' equity does not make the Bank lose control on subsidiaries, the change is treated as equity transactions. The difference between the carrying amount of the investment and the fair value received or paid is recognized in equity.

When the investment loss equals or exceeds the Bank’s interest in that subsidiary (including carrying amount of the investment accounted for by the equity method and other long-term investment), the Bank continues recognizing losses in proportion to its current ownership in the investee.

Any excess of the cost of acquisition over the Bank’s share of the net fair value of the identifiable assets and liabilities of an associate and jointly controlled entity recognized at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Bank’s share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When testing for impairment, the cash-generating unit is determined based on the scope of financial statements as a whole by comparing its recoverable amount with its carrying amount. If the recoverable amount of the asset subsequently increases, the reversal of the impairment loss is recognized as a gain, but the increased carrying amount of an asset after a reversal of an impairment loss shall not exceed the carrying amount that would have been determined (net of amortization or depreciation) had no impairment loss been recognized on the asset in prior years. An impairment loss recognized on goodwill shall not be reversed in a subsequent period.

When the Bank ceases to have control over the subsidiary, any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the subsidiaries attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the subsidiaries. The Bank accounts for all amounts previously recognized in other comprehensive income in relation to the subsidiaries on the same basis as would be required if the subsidiaries had directly disposed of the related assets or liabilities.

When the bank transacts with its subsidiaries, profits and losses resulting from the transactions with the subsidiaries are recognized in the Bank's financial statements only to the extent of interests in the subsidiaries that are not related to the Bank.

Nonperforming Loans

Under guidelines issued by the Banking Bureau of the FSC the balance of loans and other credits extended by the Bank and the related accrued interest thereon are classified as nonperforming.

Nonperforming loans in the lending business are classified as discounts and loans; otherwise, are classified as other financial assets.

Securities Purchased/Sold Under Resale/Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions. Interest earned on resale agreements or interest incurred on repurchase agreements is recognized as interest revenue or interest expense over the life of each agreement.

Properties and Equipment

Properties are stated at cost, less recognized accumulated depreciation and accumulated impairment loss.

Depreciation is provided on a straight-line basis over estimated useful lives; critical components are identified and depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period. Change in accounting estimate takes effect prospectively.

Any gain or loss on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Intangible Assets

Intangible assets that have finite useful lives and are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life residual value, and amortization method are reviewed at the end of each reporting period. Change in accounting estimate takes effect prospectively. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

Any gain or loss on the disposal or retirement of an item of intangible assets is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

Recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

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

Collateral Assumed

Collateral assumed is recorded at the appraised value. At the balance sheet date, such collateral is individually revalued at the lower of cost or net realizable value.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

Revenue Recognition

Interest revenue from loans are estimated on accrual basis. Interest revenue from nonperforming bank-extended loans and other credits are recognized only when collection is made. In accordance with the Ministry of Finance regulations, the interest from the relief and extension of specific loans is recorded as deferred income and recognized as income upon collection. Service fees are recorded as income upon receipt or when the related services are substantially completed.

The costs of acquisition of loans and accounts receivable and extra fees received are accounted for as adjustments to the book values and the effective interests of loans and accounts receivable.

Dividend revenue is recognized when the right of shareholder to receive dividend is established.

Leasing

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

a. The Bank as lessor

   Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease.

b. The Bank as lessee

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

Employee Benefits

a. Short-term employee benefits

   Liabilities related to short-term employee benefits are measured and recognized at the undiscounted amount expected to be paid to employees for their services.

b. Retirement benefit costs

   The Bank currently provides both defined contribution and defined benefit retirement plans to its employees. Pursuant to local rules, employees working overseas are enrolled in defined contribution retirement benefit plan.

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

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

   Net defined benefit liabilities (assets) represent the actual deficit (surplus) in the Bank's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

c. Employee preferential deposits

The Bank provides current and retired employees preferential interest rates for deposits under certain balances. Differences between interests at preferential rate and interest at market rate are recognized as employee benefits.

Under rule No. 30 of the Regulations Governing the Preparation of Financial Reports by Public Banks, post-retirement preferential interests provided to retired employees should be measured and recognized using actuarial calculation pursuant to IAS No. 19. If variables for use in the actuarial assumptions are stipulated in official governing rules, then the rules should be applied first.

d. Other long-term employee benefits

The Bank provides death benefit to employees who die during employment inside or outside company premises for any reason or cause. For employees with retirement eligibility, death benefits are considered as part of their pension benefits. For those without retirement eligibility, death benefits are determined based on the length of employment: If employment is less than one year, death benefit is equivalent to one month salary; if employment is about one year to five years, death benefit is equivalent to one month salary for each year of employment; if employment is more than five years, death benefit is determined in line with the employee's pension benefit based on years of service before the Labor Pension Act was enacted.

Taxation

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

a. Current tax

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

Adjustments of prior years' tax liabilities are added to or deducted from the current period's income tax expenses.

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized on all taxable temporary differences.

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all (deductible temporary differences, unused loss carry forward and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures) to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

c. Current and deferred tax of this period

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank's accounting policies, the 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 to be relevant. Actual results may differ from these estimates.

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

a. Impairment of loans and receivables

The Bank periodically reviews its loan portfolios for impairment. Recognition of impairment depends on whether any observable objective evidence of impairment exists. The evidence should contain observable data indicating the unfavorable changes in payment conditions or the economic conditions in related countries or territories. When analyzing the expected cash flows of such loans and receivables, the management’s estimates are based on past experience with loss. The Bank reviews regularly the methods and assumptions in estimating expected cash flows in order to reduce the difference between the expected and actual losses.

b. Income tax

The Bank’s income tax calculation relies heavily on estimates. The Bank determined the final amount of tax through many transactions and calculations. If the actual amount differs from the original estimation, the difference will be adjusted in the recognition of current tax and deferred tax in the current period.

The reliability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences are available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognized in profit or loss for the period in which such reversal takes place.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2017	2016
Cash on hand and working fund	$ 6,351,970	$ 9,021,160
Notes and checks in clearing	3,031,515	3,148,468
Due from other banks - domestic	5,591,332	1,991,923
Due from other banks - foreign	18,081,208	12,052,498
	$ 33,056,025	$ 26,214,049

7. DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS, NET

	December 31	
	2017	2016
Call loans to banks	$ 60,390,707	$ 56,981,929
Deposit reserves - I	7,216,386	1,952,103
Deposit reserves - II	17,480,443	15,353,754
Deposit reserves - foreign	162,265	126,429
	$ 85,249,801	$ 74,414,215

Deposit reserves are statutory reserves and determined monthly at prescribed rates based on average balances of customers' deposits. The entire balance of deposit reserve - II is subject to withdrawal restrictions while no restrictions are placed to other deposit reserves.

Call loans to banks including allowance for doubtful debt $1,929 thousand on December 31, 2017 and $2,094 thousand on December 31, 2016.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
Held-for-trading financial assets		
Forward contracts	$ 292,631	$ 143,022
Option contracts	158,999	228,605
Currency swap contracts	56,775	284,093
Commercial paper	-	5,582,305
Negotiable certificates of deposit	-	2,499,958
Others	27,954	61,631
	536,359	8,799,614
Financial assets designated at fair value through profit or loss		
Structured corporate bond contracts	705,418	768,160
	$ 1,241,777	$ 9,567,774

(Continued)

	December 31	
	2017	2016
Held-for-trading financial liabilities		
Option contracts	$ 159,990	$ 223,552
Forward contracts	80,549	225,271
Others	77,241	10,283
	$ 317,780	$ 459,106

(Concluded)

The Bank engages in derivative transactions mainly to accommodate customers' needs and manage its exposure positions.

The financial assets and liabilities at FVTPL contract (nominal) amounts of derivative transactions as of December 31, 2017 and 2016 were as follows:

	December 31	
	2017	2016
Forward contracts	$ 24,633,634	$ 17,127,109
Currency swap contracts	16,797,075	27,288,257
Option contracts	16,250,270	23,187,899
Interest rate swap contracts	3,304,661	1,439,847
Asset swap contracts	712,320	773,328

9. SECURITIES PURCHASED UNDER RESALE AGREEMENTS (DECEMBER 31, 2016: NIL)

Securities purchased under resale agreements as of December 31, 2017 were $195,061 thousand. The aforementioned securities will be bought back one after another before January 24, 2018 at $195,111 thousand.

10. RECEIVABLES, NET

	December 31	
	2017	2016
Acceptances	$ 2,279,844	$ 2,116,838
Accrued interest	1,945,260	2,116,028
Credit cards receivable	1,900,742	1,869,147
Accounts receivable - factoring	648,656	1,008,988
Others	817,041	737,820
	7,591,543	7,848,821
Less allowance for credit losses	(399,386)	(337,259)
	$ 7,192,157	$ 7,511,562

The allowance for accounts receivable and other financial assets (excluding part of acceptances and accrued interest) is categorized and assessed by credit risk as below:

Item	December 31, 2017	
	Total	Allowance
With objective evidence of impairment		
Individually assessed	$ 43,334	$ 43,334
Collectively assessed	191,022	106,412
With no objective evidence of impairment		
Collectively assessed	5,111,869	295,436
Grand total	$ 5,346,225	$ 445,182

Item	December 31, 2016	
	Total	Allowance
With objective evidence of impairment		
Individually assessed	$ 47,045	$ 47,045
Collectively assessed	183,883	124,966
With no objective evidence of impairment		
Collectively assessed	5,092,472	215,232
Grand total	$ 5,323,400	$ 387,243

The changes in allowance for receivables and other financial assets are listed below:

	For the Year Ended December 31	
	2017	2016
Balance at January 1	$ 387,243	$ 337,304
Provisions	65,992	48,560
Write-offs	(33,776)	(33,594)
Recoveries	30,415	35,339
Effect of exchange rate changes	(4,692)	(366)
Balance at December 31	$ 445,182	$ 387,243

11. DISCOUNTS AND LOANS, NET

	December 31	
	2017	2016
Loans	$ 630,129,052	$ 582,954,042
Inward/outward documentary bills	7,455,583	6,673,666
Nonperforming loans	1,865,649	1,561,571
	639,450,284	591,189,279
Discount and premium adjustments	741,351	727,849
Allowance for credit losses	(9,193,577)	(9,082,012)
	$ 630,998,058	$ 582,835,116

The Bank discontinues accruing interests when loans are deemed nonperforming. For the years ended December 31, 2017 and 2016, the unrecognized interest revenue on the nonperforming loans amounted to $34,385 thousand and $33,374 thousand, respectively.

For the years ended December 31, 2017 and 2016, the Bank only had written off certain credits after completing the required legal procedures.

Allowances for discounts and loans are categorized and assessed by credit risk as below:

	December 31, 2017	
Item	**Total**	**Allowances**
With objective evidence of impairment		
Individually assessed	$ 2,158,672	$ 513,423
Collectively assessed	5,001,433	1,718,283
With no objective evidence of impairment		
Collectively assessed	632,290,179	6,961,871
Grand total	$ 639,450,284	$ 9,193,577

	December 31, 2016	
Item	**Total**	**Allowances**
With objective evidence of impairment		
Individually assessed	$ 1,791,949	$ 426,026
Collectively assessed	4,895,576	2,072,848
With no objective evidence of impairment		
Collectively assessed	584,501,754	6,583,138
Grand total	$ 591,189,279	$ 9,082,012

The changes in allowance for discount and loans are summarized below:

	For the Year Ended December 31	
	2017	**2016**
Balance at January 1	$ 9,082,012	$ 9,140,613
Provisions	531,850	425,902
Write-offs	(479,721)	(909,889)
Recoveries	253,550	472,882
Effect of exchange rate changes	(194,114)	(47,496)
Balance at December 31	$ 9,193,577	$ 9,082,012

The details of bad debts expenses for the years ended December 31, 2017 and 2016 are listed as below:

	For the Year Ended December 31	
	2017	**2016**
Provisions of loans and discounts	$ 531,850	$ 425,902
Provisions of guarantee liabilities	2,086	125,526
Provisions of receivables	65,992	48,560
	$ 599,928	$ 599,988

12. AFS FINANCIAL ASSETS, NET

	December 31 2017	December 31 2016
Bank debentures	$ 41,898,143	$ 35,014,618
Government bonds	39,089,680	66,688,093
Corporate bonds	37,189,005	28,450,192
Business paper	24,758,245	22,038,165
Beneficiary certificates	3,585,605	7,928,479
Shares	3,566,742	3,243,256
Treasury bills	2,979,877	-
Asset-backed securities	321,818	423,756
Negotiable certificates of deposit	23,160	140,121
	$ 153,412,275	$ 163,926,680

Part of the aforementioned AFS financial assets were sold under repurchase agreements as of December 31, 2017 and 2016. The par value of bonds and commercial paper sold under repurchase agreements were $28,773,500 thousand and $9,493,600 thousand, respectively.

Part of the aforementioned asset-backed securities were invested in Structured Investment Vehicles (SIV). The Bank’s recognized impairment losses in prior years amounted to $92,737 thousand and realized gains on available-for-sale financial assets amounted to $52,724 thousand due to the liquidation and disposal of SIV in August 2017.

About the pledged assets, see Note 32.

13. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31 2017	December 31 2016
Negotiable certificates of deposit	$ 98,800,000	$ 61,300,000
Corporate bonds	2,356,690	831,926
Government bonds	2,288,243	93,735
	$ 103,444,933	$ 62,225,661

About the pledged assets, see Note 32.

14. EQUITY-METHOD INVESTMENTS

	December 31			
	2017		2016	
Equity-Method Investments	Carrying Amount	% of Owner- ship	Carrying Amount	% of Owner- ship
Investments in subsidiaries				
Domestic investments				
SCSB Asset Management Ltd.	$ 1,637,786	100.00	$ 1,570,420	100.00
China Travel Service (Taiwan)	316,327	99.99	291,620	99.99
SCSB Life Insurance Agency	191,579	100.00	197,996	100.00
SCSB Property Insurance Agency	57,959		58,519	100.00
SCSB Marketing Ltd.	7,780		7,500	100.00
	2,211,431		2,126,055	
Foreign investments				
Shancom Reconstruction Inc.	58,089,977	100.00	60,493,276	100.00
Wresqueue Limitada	312,375	100.00	329,303	100.00
Paofoong Insurance Company (Hong Kong) Ltd.	269,803	40.00	271,562	40.00
	58,672,155		61,094,141	
Grand total	$ 60,883,586		$ 63,220,196	

The Bank invested in Paofoong Insurance Company (Hong Kong) Ltd. by holding 40% shares directly and 60% indirectly through Shancom Reconstruction Inc. Therefore, Paofoong Insurance Company (Hong Kong) Ltd. was recorded as a subsidiary.

The Bank decreased the carrying amount of Kuo Hai Real Estate Management to zero and recognized losses on this investment because of the investee’s continuing operating losses over the years.

As of the years ended December 31,2017 and 2016, profit or loss of the Bank and the amount of other comprehensive income accounted for using the equity method were based on the associates’ financial statements audited by the auditors.

15. OTHER FINANCIAL ASSETS, NET

	December 31	
	2017	2016
Nonperforming credit card receivables	$ 45,796	$ 49,984
Bills purchased, net	635	1,570
	46,431	51,554
Allowance for nonperforming credit card receivables	(45,796)	(49,984)
	$ 635	$ 1,570

The amount of nonperforming credit card receivables is made up of unsettled transactional for forward exchange contracts and credit cards receivables.

The balances of credit cards receivable reported as nonperforming were $2,463 thousand and $2,939 thousand as of December 31, 2017 and 2016, respectively. The unrecognized interest revenue on the receivable amounted to $22 thousand and $32 thousand for the years ended December 31, 2017 and 2016, respectively.

16. PROPERTIES, NET

	December 31	
	2017	**2016**
Land	$ 9,559,664	$ 9,664,925
Buildings and improvements	2,193,953	2,359,879
Office equipment	208,310	226,516
Transportation equipment	13,955	11,687
Miscellaneous equipment	130,714	153,090
Construction-in-progress and prepayments	17,655	7,260
	$ 12,124,251	$ 12,423,357

For the Year Ended December 31, 2017

Item	Balance at January 1, 2017	Additions	Disposals	Internal Transfer	Effect of Exchange Rate Changes, Net	Balance at December 31, 2017
Cost						
Land	$ 9,664,925	$ -	$ (105,261)	$ -	$ -	$ 9,559,664
Buildings and improvements	4,330,278	-	(86,164)	-	-	4,244,114
Office equipment	1,025,594	45,758	(19,589)	-	(2,711)	1,049,052
Transportation equipment	54,518	6,590	(4,091)	-	-	57,017
Miscellaneous equipment	534,933	15,753	(8,740)	-	(946)	541,000
	15,610,248	$ 68,101	$ (223,845)	$ -	$ (3,657)	15,450,847
Accumulated depreciation						
Buildings and improvements	1,970,399	$ 92,861	$ (13,099)	$ -	$ -	2,050,161
Office equipment	799,078	60,291	(16,949)	-	(1,678)	840,742
Transportation equipment	42,831	4,086	(3,855)	-	-	43,062
Miscellaneous equipment	381,843	36,695	(7,707)	-	(545)	410,286
	3,194,151	$ 193,933	$ (41,610)	$ -	$ (2,223)	3,344,251
Construction-in-progress and prepayments	7,260	$ 10,395	$ -	$ -	$ -	17,655
Net amount	$ 12,423,357					$ 12,124,251

For the Year Ended December 31, 2016

Item	Balance at January 1, 2016	Additions	Disposals	Internal Transfer	Effect of Exchange Rate Changes, Net	Balance at December 31, 2016
Cost						
Land	$ 9,664,925	$ -	$ -	$ -	$ -	$ 9,664,925
Buildings and improvements	4,330,278	-	-	-	-	4,330,278
Office equipment	1,134,495	72,532	(180,941)	-	(492)	1,025,594
Transportation equipment	56,187	2,065	(3,734)	-	-	54,518
Miscellaneous equipment	536,661	14,931	(16,512)	-	(147)	534,933
	15,722,546	$ 89,528	$ (201,187)	$ -	$ (639)	15,610,248
Accumulated depreciation						
Buildings and improvements	1,866,406	$ 103,993	$ -	$	$ -	1,970,399
Office equipment	899,368	71,221	(171,188)		(323)	799,078
Transportation equipment	42,428	3,883	(3,480)		-	42,831
Miscellaneous equipment	356,328	40,313	(14,685)	-	(113)	381,843
	3,164,530	$ 219,410	$ (189,353)	$ -	$ (436)	3,194,151
Construction-in-progress and prepayments	7,260	$ -	$ -	$ -	$ -	7,260
Net amount	$ 12,565,276					$ 12,423,357

The Bank did not recognize any impairment losses on the properties for the years ended December 31, 2017 and 2016.

Depreciation expense of properties is computed using the straight-line method over below useful lives:

Buildings and improvements	
Branches	43-55 years
Air conditioning units and machine rooms	9 years
Office equipment	3-8 years
Transportation equipment	5-10 years
Miscellaneous equipment	5-20 years

The Bank's land, building, and improvement insured are amounted to $6,894,563 thousand.

17. OTHER ASSETS, NET

	December 31	
	2017	2016
Prepaid expenses	$ 1,385,957	$ 1,375,596
Refundable deposits - net of $17,360 thousand impairment loss	609,293	633,182
Deferred charges	237,444	357,593
Computer software	117,685	137,288
Temporary payments and suspense	90,759	86,547
Others	27,960	28,019
	$ 2,469,098	$ 2,618,225

18. DUE TO THE CENTRAL BANK AND BANKS

	December 31	
	2017	2016
Due to banks	$ 644,109	$ 579,627
Call loans from banks	3,505,624	7,817,155
Deposit transfer from Chunghwa Post Co., Ltd.	3,383,529	3,802,664
Overdraft on banks	798,574	881,240
	$ 8,331,836	$ 13,080,686

19. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

Securities sold under repurchase agreements as of December 31, 2017 and 2016 were $29,792,067 thousand and $10,186,212 thousand, respectively. The aforementioned securities will be sold back by September 21, 2018 and September 22, 2017 at $29,803,070 thousand and $10,193,351 thousand, respectively.

20. PAYABLES

	December 31	
	2017	2016
Dividends payable	$ 11,842,528	$ 10,995,694
Accounts payable	3,719,056	3,688,380
Liabilities on bank acceptances	2,325,602	2,145,798
Accrued interests	1,268,942	1,024,683
Accrued expenses	1,019,524	958,010
Other accounts payable	87,414	113,581
Others	298,380	320,552
	$ 20,561,446	$ 19,246,698

21. DEPOSITS AND REMITTANCES

	December 31	
	2017	2016
Time deposits	$ 344,427,574	$ 278,505,802
Savings deposits	267,627,332	264,726,125
Demand deposits	221,263,402	230,535,871
Checking deposits	9,958,661	10,518,833
Negotiable certificates of deposits	6,417,900	4,529,100
Remittances	460,232	969,294
	$ 850,155,101	$ 789,785,025

22. BANK DEBENTURES

	December 31	
	2017	2016
The subordinate bank debenture - 7 year maturity; first issued in 2010; maturity date is on December 2017	$ -	$ 3,000,000
The subordinate bank debenture - 7 year maturity, first issued in 2012; maturity date is on April 2019	4,000,000	4,000,000
The subordinate bank debenture - 7 year maturity, second issued in 2012; maturity date is on May 2019	1,000,000	1,000,000
The subordinate bank debenture - 7 to 10 year maturity, third issued in 2012; maturity date is on November 2019 to 2022	5,000,000	5,000,000
The subordinate bank debenture - 7 to 10 year maturity, fourth issued in 2012; maturity date is on December 2019 to 2022	10,000,000	10,000,000
The subordinate bank debenture - 7 to 10 year maturity; first issued in 2014; maturity date is on March 2021 to 2024	6,700,000	6,700,000
The subordinate bank debenture - 7 year maturity; second issued in 2014; maturity date is on November 2021	3,300,000	3,300,000
The subordinate bank debenture - 7 year maturity; first issued in 2015; maturity date is on June 2022	2,150,000	2,150,000

(Continued)

	December 31	
	2017	2016
The subordinate bank debenture - 8.5 year maturity; first issued in 2015; maturity date is on June 2024	$ 3,000,000	$ 3,000,000
The subordinate bank debenture - 7 to 10 year maturity; first issued in 2017; maturity date is on June 2024 to 2027	5,000,000	-
The subordinate bank debenture - 7 to 10 year maturity; second issued in 2017; maturity date is on December 2024 to 2027	5,000,000	-
	$ 45,150,000	$ 38,150,000

(Concluded)

The first issuance of the 2010 subordinated bank debenture bears a fixed interest rate of 1.5% with interest paid annually and repayment of principal at maturity.

The first issuance of the 2012 subordinated bank debenture bears a fixed interest rate of 1.48% with interest paid annually and repayment of principal at maturity.

The second issuance of the 2012 subordinated bank debenture bears a fixed interest rate of 1.54% with interest paid annually and repayment of principal at maturity.

The third issuance of the 2012 bank debenture can be classified into two types in accordance with the issued term and the methods of interest accrual: Type A and B. Their terms and methods of interest accrual are as follows: Type A, seven years of subordinate bank debenture at a fixed annual interest rate of 1.43%; Type B, ten years of subordinate bank debenture at a fixed annual interest rate of 1.55%. Their interests are paid annually with repayment of principals at maturity.

The fourth issuance of the 2012 bank debenture can be classified into two types in accordance with the issued term and the methods of interest accrual: Type A and B. Their terms and methods of interest accrual are as follows: Type A, seven years of subordinate bank debenture at a fixed annual interest rate of 1.43%; Type B, ten years of subordinate bank debenture at a fixed annual interest rate of 1.55%. Their interests are paid annually with repayment of principals at maturity.

The first issuance of the 2014 bank debenture can be classified into two types in accordance with the issued term and the methods of interest accrual: Type A and B. Their terms and methods of interest accrual are as follows: Type A, seven years of subordinate bank debenture at a fixed annual interest rate of 1.70%; Type B, ten years of subordinate bank debenture at a fixed annual interest rate of 1.85%. Their interests are paid annually with repayment of principals at maturity.

The second issuance of the 2014 subordinated bank debenture bears a fixed interest rate of 1.83% with interest paid annually and repayment of principal at maturity.

The first issuance of the 2015 subordinated bank debenture bears a fixed interest rate of 1.83% with interest paid annually and repayment of principal at maturity.

The second issuance of the 2015 subordinated bank debenture bears a fixed interest rate of 1.83% with interest paid annually and repayment of principal at maturity.

The first issuance of the 2017 bank debenture can be classified into two types in accordance with the issued term and the methods of interest accrual: Type A and B. Their terms and methods of interest accrual are as follows: Type A, seven years of subordinate bank debenture at a fixed annual interest rate of 1.50%; Type B, ten years of subordinate bank debenture at a fixed annual interest rate of 1.85%. Their interests are paid annually with repayment of principals at maturity.

The second issuance of the 2017 bank debenture can be classified into two types in accordance with the issued term and the methods of interest accrual: Type A and B. Their terms and methods of interest accrual are as follows: Type A, seven years of subordinate bank debenture at a fixed annual interest rate of 1.30%; Type B, ten years of subordinate bank debenture at a fixed annual interest rate of 1.55%. Their interests are paid annually with repayment of principals at maturity.

23. OTHER FINANCIAL LIABILITIES

	December 31	
	2017	2016
Appropriated loan funds	$ 2,077,200	$ 2,810,902
Principals of structured instruments	971,217	469,485
	$ 3,048,417	$ 3,280,387

24. PROVISIONS

	December 31	
	2017	2016
Reserve for possible losses on guarantees	$ 596,361	$ 604,785
Reserve for employee benefits (Note 26)	529,692	391,638
Others	6,318	6,555
	$ 1,132,371	$ 1,002,978

The changes in provisions of guarantee liabilities are summarized below:

	December 31	
	2017	2016
Balance at January 1	$ 604,785	$ 479,670
Reserve for possible losses on guarantees (Note 11)	2,086	125,526
Exchange differences	(10,510)	(411)
Balance at December 31	$ 596,361	$ 604,785

25. OTHER LIABILITIES

	December 31	
	2017	2016
Guarantee deposits received	$ 348,590	$ 357,153
Deferred revenue	137,268	137,139
Receipts in advance	146,667	124,119
Temporary credit	40,973	37,355
Others	75,277	81,810
	$ 748,775	$ 737,576

26. PENSION PLAN

a. Defined contribution plan

The pension plan under the Labor Pension Act (the "LPA") is a defined contribution plan. Under the LPA, the Bank makes monthly contributions of amounts equal to 6% of salaries and wages to a pension fund.

The Bank makes contributions to its pension fund at the predetermined rate specified in the defined contribution plan and immediately recognizes as pension expense. Contributions made to the defined contribution plan for the year ended December 31, 2017 and 2016 were $63,286 thousand and $57,916 thousand, respectively.

b. Defined benefit plan

The Bank adopted a defined benefit plan under the Labor Standards Law, under which pension benefits are calculated on the basis of the length of service and average monthly salaries of the last six months before retirement. The Bank contributes amounts equal to 8% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Bank assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Bank is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor ("the Bureau"); the Bank has no right to influence the investment policy and strategy.

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

	December 31 2017	December 31 2016
Present value of defined benefit obligation	$ 2,652,156	$ 2,543,556
Fair value of plan assets	(2,462,967)	(2,439,424)
Net defined benefit liabilities	$ 189,189	$ 104,132

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2016	$ 2,419,046	$ (2,390,026)	$ 29,020
Service cost			
Current service cost	193,809	-	193,809
Net interest expense (income)	43,825	(44,965)	(1,140)
Recognized in profit or loss	237,634	(44,965)	192,669

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	$ -	$ 21,669	$ 21,669
Actuarial loss - changes in demographic assumptions	11,906	-	11,906
Actuarial loss - experience adjustments	39,719	-	39,719
Recognized in other comprehensive income	51,625	21,669	73,294
Contributions from the employer	-	(190,851)	(190,851)
Benefits paid	(164,749)	164,749	-
Balance at December 31, 2016	$ 2,543,556	$ (2,439,424)	$ 104,132
Balance at January 1, 2017	$ 2,543,556	$ (2,439,424)	$ 104,132
Service cost			
Current service cost	193,244		193,244
Net interest expense (income)	46,719	(46,604)	115
Recognized in profit or loss	239,963	(46,604)	193,359
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	18,886	18,886
Actuarial loss - changes in demographic assumptions	8,936	-	8,936
Actuarial loss - experience adjustments	52,700	-	52,700
Recognized in other comprehensive income	61,636	18,886	80,522
Contributions from the employer	-	(188,824)	(188,824)
Benefits paid	(192,999)	192,999	-
Balance at December 31, 2017	$ 2,562,156	$ (2,462,967)	$ 189,189

(Concluded)

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

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

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

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

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

	December 31	
	2017	**2016**
Discount rate(s)	1.90%	1.90%
Expected rate(s) of salary increase	2.75%	2.75%

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

	December 31	
	2017	**2016**
Discount rate(s)		
0.25% increase	$ (72,813)	$ (72,724)
0.25% decrease	$ 75,666	$ 75,677
Expected rate(s) of salary increase		
0.25% increase	$ 73,669	$ 73,677
0.25% decrease	$ (71,257)	$ (71,169)

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

	December 31	
	2017	**2016**
The average duration of the defined benefit obligation	12.0 years	12.0 years
The expected contributions to the plan for the next year	$ 194,017	$ 196,099

c. Employee preferential deposits

According to the Bank's employee preferential interest policy, the Bank pays preferential interests on certain deposits of presently active and retired employees. Under the Regulations Governing the Preparation of Financial Reports by Public Banks, only benefits representing the markups from market interest rate paid to retired employees should be actuarially determined and recognized.

The Bank performed actuarial valuation of preferential interest expenses for retired employees according to related actuarial assumptions under Rule No. 10110000850 issued by the FSC on March 15, 2012. The principal assumptions of the actuarial valuations were as follows:

	December 31	
	2017	**2016**
Discount rate	4.00%	4.00%
Expected return of deposit fund	2.00%	2.00%
Expected rates of account balance decrease	2.00%	2.00%
Expected probabilities of preferential interest deposits system change	50.00%	50.00%

The amounts included in the balance sheets in respect of the Bank's obligation under the preferential interest deposit plan for retired employees were as follows:

	December 31	
	2017	2016
Present value of preferential interest deposit for retired employees	$ 334,276	$ 282,279

The Bank recognized $68,714 thousand and $62,337 thousand in defined benefit plans, loss of $17,814 thousand and $13,014 thousand in defined other comprehensive income for the years ended December 31, 2017 and 2016.

d. Other long-term employee benefits obligations

The Bank provides death benefits to employees who die during employment inside or outside company premises for any reason or cause. For employees with retirement eligibility, death benefits are considered part of their pension benefits. For those without retirement eligibility, death benefits are determined based on the length of employment: If employment is less than one year, death benefits are equivalent to one month salary; if employment is one year to five years, death benefits are equivalent to one month salary for each year of employment; if employment is more than five years, death benefits are determined in line with the employee's pension benefits based on years of service before the LPA was enacted.

The obligations for employee death benefits on the balance sheet date were as follows:

	December 31	
	2017	2016
Other long-term employee benefits obligations	$ 6,227	$ 5,227

For the years ended December 31, 2017 and 2016, the Bank recognized the gains of $1,000 thousand and $1,288 thousand in the statements of comprehensive income in respect of the employee death benefit, respectively.

e. Long-term employee benefits liabilities

	December 31	
	2017	2016
Defined benefit liabilities	$ 189,189	$ 104,132
Present value of preferential interest deposits for retired employees	334,276	282,279
Other long-term employee benefits obligations	6,227	5,227
	$ 529,692	$ 391,638

27. EQUITY

a. Share capital

	December 31	
	2017	2016
Ordinary shares		
Authorized shares (in thousands)	6,000,000	6,000,000
Authorized capital	$ 60,000,000	$ 60,000,000
Issued and paid shares (in thousands)	4,079,103	4,079,103
Issued capital	$ 40,791,031	$ 40,791,031

Issued ordinary shares with par value of $10 entitled the right to vote and to receive dividends.

b. Capital surplus

	December 31	
	2017	2016
Share premium	$ 2,647,583	$ 2,647,583
Treasury share transactions	2,006,754	1,998,854
Proportionate share in equity-method investee's surplus from donated assets	1,218	1,218
	$ 4,655,555	$ 4,647,655

Under the Company Act, capital surplus can only be used to offset a deficit. However, the capital surplus from share issued in excess of par (including additional paid-in capital from issuance of ordinary shares, conversion of bonds and treasury share transactions) and donations may be capitalized, however, this is limited to a certain percentage of the Bank's paid-in capital.

The capital surplus from investments accounted for using the equity method may not be used for any purpose.

Since the shares held by subsidiaries were reclassified as treasury shares, cash dividend distributed to subsidiaries was then recorded as "capital surplus - treasury shares". Cash dividends distributed to subsidiaries amounted to $7,900 thousand and $7,745 thousand for the years ended December 31, 2017 and 2016, respectively.

c. Appropriation of earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 14, 2016 and, in that meeting, had resolved amendments to the Bank's Articles of Incorporation particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation. For information about employees' compensation and remuneration and the actual appropriations, refer to Note 28 (d).

The Bank has made special reserves for the adoption of IFRS in accordance with Rule No. 1010012865 issued by the FSC on April 6, 2012 and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs."

Legal reserve should be appropriated at the amount equal to 30% of earnings after tax. Legal reserve shall be appropriated until it reaches the Bank's paid-in capital. 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. However, under the Banking Law, if the Bank's legal reserve is less than its paid-in capital, the Bank may distribute cash earnings only up to 15% of the paid-in capital.

Except for non-ROC resident shareholders, all shareholders receiving the undistributed earnings generated after 1998 are allowed a tax credit equal to their proportionate share of the income tax paid by the Bank. However, earnings generated in 1997 and prior years, when distributed, are not entitled to imputation tax credit.

The appropriation of earnings and dividends per share for 2016 and 2015 were approved in the shareholders' meetings on June 16, 2017 and June 14, 2016, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		**Dividends Per Share (Dollars)**	
	2016	**2015**	**2016**	**2015**
Legal reserve	$ 3,524,500	$ 3,569,398		
Special reserve	58,742	-		
Cash dividends - ordinary shares	6,118,655	5,998,681	$ 1.50	$ 1.50
Share dividends - ordinary shares	-	799,824	-	0.20
	$ 9,701,897	$ 10,367,903	$ 1.50	$ 1.70

The appropriation of earnings and dividends per share for 2017 were proposed by the Bank's board of directors on March 24, 2018. The appropriations and dividends per share were as follows:

	Appropriation of Earnings	**Dividends Per Share (NT$)**
Legal reserve	$ 3,715,568	
Special reserve	61,926	
Cash dividends	7,342,386	$ 1.80
	$ 11,119,880	

d. Special reserve

The Bank has made a special reserve of $1,256,859 thousand due to transferring its cumulative translation adjustment reported in equity to retained earnings during first-time adoption. There was no change in the balance of special reserve for the year ended on December 31, 2017.

With Rule No. 10510001510 issued by the FSC on May 25, 2016, public banks should make a special reserve for 0.5% to 1.0% of net profit when making appropriations of earnings for 2016 to 2018 to cope with the staff transformation of financial technology development. Public banks may reverse the same amount of transfer or resettle the expenses since 2017. The Bank has made a special reserve of $61,926 thousand and $58,742 thousand from earnings of 2017 and 2016 proposed by the Bank's board of directors on March 24, 2018 and March 25, 2017, respectively.

e. Treasury shares

Purpose	Beginning Balance	Increase	Decrease	Ending Balance
For the year ended December 31, 2017				
Shares held by subsidiaries	11,397	-	-	11,397
For the year ended December 31, 2016				
Shares held by subsidiaries	11,174	223	-	11,397

The Bank reclassified its shares held by the subsidiaries as treasury shares with a carrying amount of $83,144 thousand (representing 7,698 thousand shares). The shares increased by 3,699 thousand shares over the years.

Under the Company Act, the Bank is not allowed to buy more than 5% of its issued shares. In addition, the total cost of treasury shares may not exceed the sum of the retained earnings and realized capital surplus. The Bank may not exercise shareholders' rights on these shares before they are resold. The Bank's shares held by its subsidiaries are treated as treasury shares. However, the subsidiaries may still exercise shareholders' rights on these shares, except for voting rights and subscription rights on capital increase by cash. Under the Securities and Exchange Act, the Bank shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends, to vote and to subscribe for shares on capital increase by cash.

28. DETAILS OF COMPREHENSIVE INCOME STATEMENT ITEMS

a. Interest revenue, net

	For the Year Ended December 31	
	2017	2016
Interest revenue		
Discounts and loans	$ 13,762,498	$ 12,809,016
Securities investments	2,659,427	2,598,842
Due from banks	866,628	576,060
Credit and revolving	88,830	89,349
Others	141,317	284,310
	17,518,700	16,357,577
Interest expense		
Deposits	4,713,032	4,541,272
Bank debentures	674,102	622,440
Due to banks	207,492	167,327
Securities sold under repurchase agreements	83,376	62,157
Structured bond instruments	26,705	12,019
Others	32,361	36,644
	5,737,068	5,441,859
	$ 11,781,632	$ 10,915,718

b. Service fee revenue, net

	For the Year Ended December 31	
	2017	2016
Service fee revenue		
Trusts	$ 847,905	$ 644,058
Commissions	269,626	427,086
Guarantees	251,934	243,357
Credit cards	240,626	236,427
Loans	236,982	243,127
Remittances	162,861	174,871
Exchange	154,724	171,618
Others	600,238	662,944
	2,764,896	2,803,488
Service fee expenses		
Credit cards	124,957	114,197
Nominee	76,296	73,848
Foreign finance	58,578	64,180
Custody	46,664	52,304
Others	88,950	65,284
	395,445	369,813
	$ 2,369,451	$ 2,433,675

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

	For the Year Ended December 31, 2017		
	Realized (Loss) Gain	Unrealized (Loss) Gain	Total
Financial asset at FVTPL	$ 5,515,702	$ 50,955	$ 5,566,657
Specified financial asset at FVTPL	25,856	(1,990)	23,866
Financial liabilities at FVTPL	(4,841,467)	243,067	(4,598,400)
	$ 700,091	$ 292,032	$ 992,123

	For the Year Ended December 31, 2016		
	Realized (Loss) Gain	Unrealized (Loss) Gain	Total
Financial asset at FVTPL	$ 9,419,503	$ (117,289)	$ 9,302,214
Specified financial asset at FVTPL	25,055	(1,302)	23,753
Financial liabilities at FVTPL	(8,647,090)	(77,968)	(8,725,058)
	$ 797,468	$ (196,559)	$ 600,909

d. Employee benefits expense

	For the Year Ended December 31	
	2017	2016
Short-term employee benefits	$ 3,244,023	$ 3,101,043
Retirement benefits		
Defined contribution plans	63,286	57,916
Defined benefit plans	193,359	192,669
Other employee benefits	317,043	318,523
	$ 3,817,711	$ 3,670,151

For the years ended December 31, 2017 and 2016, the numbers of employees of the Bank were 2,474 and 2,446, respectively.

In compliance with the Company Act as amended in May 2015, the shareholders held their meeting and resolved amendments to the Articles of Incorporation of the Bank; the amendments stipulate distribution of employees' compensation and remuneration to directors at the rates no less than 1‰ and no higher than 6‰, respectively, of net profit before income tax, employees' compensation, and directors remuneration. For the ended December 31, 2017, the employees' compensation and the director's remuneration were estimated within the aforementioned range respectively.

The compensation to employees and the director's remuneration for 2017 and 2016 approved in the shareholders' meeting on March 24, 2018 and March 25, 2017, respectively, were as follows:

	For the Year Ended December 31			
	2017		2016	
	Cash Dividends	Share Dividends	Cash Dividends	Share Dividends
Employees' compensation	$ 38,000	$ -	$ 34,000	$ -
Directors' remuneration	58,000	-	52,000	-

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

There was no difference between the actual amounts of employees' compensation and directors' remuneration paid and the amounts recognized in the financial statements for the years ended December 31, 2016 and 2015.

Information on the employees' compensation and directors' remuneration resolved by the Bank's board of directors in 2017 and 2016 and bonuses for employees and directors resolved in the shareholders' meetings in 2018 and 2017 are available on the Market Observation Post System website of the Taiwan Stock Exchange.

e. Depreciation and amortization

	For the Year Ended December 31	
	2017	2016
Depreciation expenses	$ 193,933	$ 219,410
Amortization expenses	258,928	271,782
	$ 452,861	$ 491,192

29. INCOME TAX

a. Income tax expense (benefit) recognized in profit or loss

The major components of tax expense (benefit) were as follows:

	For the Year Ended December 31	
	2017	2016
Current tax		
In respect of the current year	$ 1,485,796	$ 1,433,789
In respect of prior periods	12,458	(24,396)
	1,498,254	1,409,393
Deferred tax		
In respect of the current year	535,900	449,257
In respect of prior periods	(11,129)	9,299
	524,771	458,556
Income tax expense recognized in profit or loss	$ 2,023,025	$ 1,867,949

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

	For the Year Ended December 31	
	2017	2016
Profit before tax from continuing operations	$ 14,408,252	$ 13,616,281
Income tax expense calculated at the statutory rate	$ 2,449,403	$ 2,314,768
Add (deduct) tax effect of:		
Tax-exempt cash dividends	(19,054)	(19,677)
Permanent difference - investment income	(31,372)	(20,190)
Tax-exempt gains on securities transactions	(61,255)	(144,926)
Tax-exempt income from offshore banking unit (OBU)	(586,485)	(529,158)
Tax-exempt gain on sale of land	(33,055)	-
Others	(13,802)	5,226
	1,704,380	1,606,043
Additional income tax on unappropriated earnings	195,962	149,156
Additional income tax under the Alternative Minimum Tax Act	110,225	137,146
Adjustments for prior years' tax	12,458	(24,396)
Income tax expense recognized in profit or loss	$ 2,023,025	$ 1,867,949

The Bank applies the tax rate of 17%.

In February 2018, it was announced by the President of ROC that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

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

b. Income tax expense recognized in other comprehensive income

	For the Year Ended December 31	
	2017	2016
Deferred income tax expense		
Arising on income and expenses recognized in other comprehensive income		
Exchange differences on translating foreign operations	$ 820,109	$ 248,363
Unrealized gain or loss on AFS financial assets	(30,707)	19,119
Income from defined benefit plans	16,717	14,674
Income tax expense recognized in other comprehensive income	$ 806,119	$ 282,156

c. Current tax assets and liabilities

	December 31	
	2017	2016
Current tax assets		
Tax refund receivable	$ 37,267	$ 37,267
Current tax liabilities		
Income tax payable	$ 796,857	$ 691,677

d. Deferred tax assets and liabilities

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

For the year ended December 31, 2017

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Doubtful debts	$ 452,727	$ (48,944)	$ -	$ 403,783
Impairment loss on AFS financial assets	18,737	(14,264)	-	4,473
Unrealized loss on financial instruments	16,486	-	(16,486)	-
Investment loss of domestic equity-method subsidiaries	33,142	(4,240)	-	28,902
Unrealized foreign exchange loss	-	18,192	-	18,192
Defined employee benefit plans	95,582	6,509	16,717	118,808
Others	1,087	(36)	-	1,051
	$ 617,761	$ (42,783)	$ 231	$ 575,209

Deferred Tax Liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Unrealized gain on financial instruments	$ (44,685)	$ 39,481	$ (14,221)	$ (19,425)
Unrealized foreign exchange gain	(12,549)	12,549	-	-
Investment income and exchange differences on translation of foreign equity-method subsidiaries	(8,701,958)	(534,104)	820,109	(8,415,953)
Others	(392)	86	-	(306)
	$ (8,759,584)	$ (481,988)	$ 805,888	$ (8,435,684)

For the year ended December 31, 2016

Deferred Tax Assets	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Doubtful debts	$ 448,363	$ 4,364	$ -	$ 452,727
Impairment loss on AFS financial assets	18,737	-	-	18,737
Unrealized loss on financial instruments	2,983	(5,616)	19,119	16,486
Investment loss of domestic equity-method subsidiaries	36,978	(3,836)	-	33,142
Unrealized foreign exchange loss	4,721	(4,721)	-	-
Defined employee benefit plans	75,162	5,746	14,674	95,582
Others	1,205	(118)	-	1,087
	$ 588,149	$ (4,181)	$ 33,793	$ 617,761

Deferred Tax Liabilities	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Temporary differences				
Unrealized gain on financial instruments	$ -	$ (44,685)	$ -	$ (44,685)
Unrealized foreign exchange gain	-	(12,549)	-	(12,549)
Investment income and exchange differences on translation of foreign equity-method subsidiaries	(8,553,163)	(397,158)	248,363	(8,701,958)
Others	(409)	17	-	(392)
	$ (8,553,572)	$ (454,375)	$ 248,363	$ (8,759,584)

e. Integrated income tax

	December 31	
	2017	2016
Unappropriated earnings		
Unappropriated earnings generated before January 1, 1998	$ 27,065	$ 27,065
Unappropriated earnings generated on and after January 1, 1998	21,039,808	18,438,876
	$ 21,066,873	$ 18,465,441
Imputation credit accounts	$ 2,644,703	$ 2,301,334

	For the Year Ended December 31	
	2017 (Expected)	2016
Creditable ratio for distribution of earnings	(Note)	12.48%

Note: Since the amended Income Tax Act announced in February 2018 abolished the imputation tax system, no creditable ratio for the distribution of earnings in 2018 is expected.

f. Income tax return assessments

The Bank's income tax returns through 2014 have been assessed by the tax authorities.

30. EARNINGS PER SHARE

Unit: NT$ Per Share

	For the Year Ended December 31	
	2017	2016
Basic earnings per share	$ 3.04	$ 2.89
Diluted earnings per share	$ 3.04	$ 2.89

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

Net Profit for the Period

	For the Year Ended December 31	
	2017	2016
Earnings used in the computation of basic and diluted earnings per share	$ 12,385,227	$ 11,748,332

Weighted average number of ordinary shares outstanding (in thousand shares):

	For the Year Ended December 31	
	2017	2016
Weighted average number of ordinary shares in computation of basic earnings per share	4,067,706	4,067,706
Effect of potentially dilutive ordinary shares:		
Employees' compensation	1,781	1,693
Weighted average number of ordinary shares used in the computation of diluted earnings per share	4,069,487	4,069,399

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

31. RELATED-PARTY TRANSACTIONS

a. The Bank's related parties were as follows:

Related Party	Relationship with the Bank
China Travel Service (Taiwan)	Subsidiary
SCSB Life Insurance Agency	Subsidiary
SCSB Property Insurance Agency	Subsidiary
SCSB Asset Management Ltd.	Subsidiary
SCSB Marketing Ltd.	Subsidiary
Shancom Reconstruction Inc.	Subsidiary
CTS Travel International Ltd.	Indirect subsidiary
Krinein Company (Krinein)	Indirect subsidiary
Empresa Inversiones Generales, S.A. (Empresa)	Indirect subsidiary
The SCSB Cultural & Educational Foundation	Fund donated by the Bank which exceed 1/3 of total fund
The SCSB Charity Foundation	Fund donated by the Bank which exceed 1/3 of total fund
Silks Place Taroko	Equity-method investment held by subsidiary
Hung Ta Investment Corporation	The chairman and the Bank's chairman are related by marriage
Hung Shen Investment Corporation	The chairman and the Bank's chairman are related by marriage
GTM Corporation	The director of the Bank is the chairman
Chi-Li Investment Co., Ltd.	The director of the Bank is the director
Chang Ho Hsing Co., Ltd.	The director of the Bank is the director
Goldsun Co., Ltd.	The director of the Bank is the director (from June 5, 2015)
CX Technology Corporation	The director of the Bank is the director (from June 16, 2015)
Qin Mao Consultants Ltd.	The chairman and the Bank's director are related by marriage
Lian Yi Investment Co., Ltd.	The director and the Bank's director are related by marriage

b. The significant transactions and account balances with the above related parties (except those disclosed in other notes) are summarized as follows:

1) Due from foreign banks

	December 31	
	2017	2016
Shanghai Commercial Bank (HK)	$ 221,537	$ 286,710

The interest revenue arising from the above transactions as $173 thousand and $579 thousand for the years ended December 31, 2017 and 2016, respectively.

2) Due to banks

	December 31	
	2017	2016
Shanghai Commercial Bank (HK)	$ 24	$ 152

3) Due from the central and call loans to banks

	December 31	
	2017	2016
Shanghai Commercial Bank (HK)	$ -	$ 1,850,160

The interest expense of call loans to banks arising from Shanghai Commercial Bank (HK) were $5,799 thousand for the year ended December 31, 2016.

4) Guarantees

	Maximum Balance	Ending Balance	Reserve for Possible Losses on Guarantees	Interest Rate (%)	Collateral
December 31, 2017					
China Travel Service (Taiwan)	$ 4,000	$ 4,000	$ -	1.00-1.00	Real estate
December 31, 2016					
China Travel Service (Taiwan)	$ 4,000	$ 4,000	$ -	0.50-1.00	Real estate

5) Deposits

	December 31, 2017			For the Year Ended December 31, 2017
	Maximum Balance	Ending Balance	Interest Rate (%)	Interest Expense
Empresa	$ 2,479,479	$ 762,922	0.45-1.40	$ 11,114
Krinein	780,094	438,783	0.45-1.40	6,101
Employees	440,089	216,980	0.00-9.96	3,027
Supervisors and management	424,455	196,145	0.00-3.40	931
SCSB Asset Management Ltd.	409,308	409,217	0.08-1.08	2,904
The SCSB Cultural & Educational Foundation	332,374	311,573	0.01-1.24	1,921
SCSB Life Insurance Agency	258,763	218,605	0.00-1.08	1,618
Shancom Reconstruction Inc.	167,080	167,080	0.13-1.40	2,264
Others	249,233	232,374	0.01-3.50	1,661
	$ 5,540,875	$ 2,953,679		$ 31,541

	December 31, 2016			For the Year Ended December 31, 2016
	Maximum Balance	Ending Balance	Interest Rate (%)	Interest Expense
Empresa	$ 2,689,545	$ 818,605	0.25-0.60	$ 4,833
Krinein	844,116	470,808	0.25-0.60	2,746
SCSB Asset Management Ltd.	511,247	320,977	0.08-4.00	5,811
The SCSB Cultural & Educational Foundation	334,052	318,097	0.01-1.38	2,048
SCSB Life Insurance Agency	329,256	232,750	0.00-1.17	1,970
Employees	416,929	182,561	0.00-9.96	3,053
Shancom Reconstruction Inc.	179,263	179,263	0.08-0.60	1,038
Supervisors and management	124,762	54,100	0.00-3.50	863
Others	412,539	293,643	0.00-3.30	1,476
	$ 5,841,709	$ 2,870,804		$ 23,838

6) Accrued receivables (accounted for as receivables)

	December 31	
	2017	2016
SCSB Life Insurance Agency	$ 35,188	$ 35,434
SCSB Property Insurance Agency	657	274
	$ 35,845	$ 35,708

7) Interest receivable (accounted for as receivables)

	December 31	
	2017	2016
Supervisors and management	$ 103	$ 103
	$ 103	$ 103

8) Interest payable (accounted for as payables)

	December 31	
	2017	2016
Empresa	$ 2,433	$ 1,076
Krinein	1,399	619
Shancom Reconstruction Inc.	533	236
SCSB Life Insurance Agency	87	101
Others	661	528
	$ 5,113	$ 2,560

9) Guarantee deposits received (accounted for as other liabilities)

	December 31	
	2017	2016
The SCSB Cultural & Educational Foundation	$ 211	$ 211
SCSB Life Insurance Agency	197	197
SCSB Property Insurance Agency	197	197
China Travel Service (Taiwan)	180	180
Others	67	67
	$ 852	$ 852

10) Service fees (accounted for as service fee income, net)

	For the Year Ended December 31	
	2017	2016
SCSB Life Insurance Agency	$ 257,763	$ 415,763
SCSB Property Insurance Agency	11,858	11,320
	$ 269,621	$ 427,083

11) Rental income (accounted for as other net revenue)

	For the Year Ended December 31	
	2017	2016
The SCSB Cultural & Educational Foundation	$ 842	$ 842
SCSB Life Insurance Agency	790	790
SCSB Property Insurance Agency	790	790
China Travel Service (Taiwan)	732	720
Others	254	249
	$ 3,408	$ 3,391

For the rental contracts with related parties, the rent is determined in proportion to the area rented by reference to the rentals in the neighborhood and received on a monthly basis.

12) Administrative and operating expenses (accounted for as other general administrative expenses)

	For the Year Ended December 31	
	2017	2016
SCSB Marketing	$ 72,427	$ 68,231
China Travel Service (Taiwan)	2,599	2,140
SCSB Asset Management Ltd.	-	33
	$ 75,026	$ 70,404

13) Accrued expenses

	For the Year Ended December 31	
	2017	2016
SCSB Marketing	$ -	$ 5,777

14) Loans

December 31, 2017

Category	Name	Maximum Balance	Ending Balance	Performance: Normal Loans	Performance: Nonperforming Loans	Collateral	Interest Rate (%)	Difference of Terms of the Transactions with Unrelated Parties	Year Ended December 31, 2017 Interest Revenue
Loans for personal house mortgages	Supervisors and management (2)	$ 24,296	$ 16,184	$ 16,184	-	Real estate	1.86-2.10	None	$ 423
Others	Supervisors and management (4)	80,114	74,754	74,754	-	Real estate	1.68-2.67	None	1,416
	Silks Place Taroko	10,000	-	-	-	Real estate	1.63	None	15
		$ 114,410	$ 90,938	$ 90,938					$ 1,854

December 31, 2016

Category	Name	Maximum Balance	Ending Balance	Performance: Normal Loans	Performance: Nonperforming Loans	Collateral	Interest Rate (%)	Difference of Terms of the Transactions with Unrelated Parties	Year Ended December 31, 2016 Interest Revenue
Loans for personal house mortgages	Supervisors and management (2)	$ 34,418	$ 23,679	$ 23,679	-	Real estate	1.86-2.15	None	$ 630
Others	Supervisors and management (5)	76,367	63,029	63,029	-	Real estate	1.68-2.82	None	1,328
	CX Technology	37,739	-	-	-	Real estate	1.73-1.93	None	455
	Silks Place Taroko	44,000	-	-	-	Real estate	1.56-1.70	None	447
	Goldsun Co., Ltd.	100,000	-	-	-	Real estate	1.10-1.10		190
		$ 292,524	$ 86,708	$ 86,708					$ 3,050

Employee deposits and loans have interest rates that are better than ordinary rates but within regulated limits, while other related party transactions have similar terms as non-related party transactions.

Under the provisions of Articles 32 and 33 of the Banking Act, the Bank shall not make unsecured loans to related party, except for consumer loans under certain limit, and government loans. Secured loans to a related parties should be fully guaranteed and the terms not superior to other similar credit clients.

c. Compensation of directors, supervisors and management personnel:

	For the Year Ended December 31	
	2017	2016
Salaries and other short-term employee benefits	$ 126,877	$ 123,763
Bonuses for employees	67,872	72,655
Remuneration of directors and supervisors	52,000	55,000
Retirement benefits	13,749	13,282
	$ 260,498	$ 261,700

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

32. PLEDGED ASSETS

Under the Central Bank's clearing system of Real-Time Gross Settlement (RTGS), on December 31, 2017 and 2016, the assets listed below have been provided as collateral for day-term overdraft with the pledged amount adjustable anytime.

	December 31		
	2017	2016	Guaranty Purpose
Held-to-maturity financial assets	$ 15,000,000	$ 15,000,000	Day-term overdraft with the pledge

On December 31, 2017 and 2016, the assets listed below have been provided as refundable deposits for operating guarantee and for executing legal proceedings against defaulting borrowers as required by the court.

	December 31		
	2017	2016	Guaranty Purpose
Held-to-maturity financial assets	$ 43,590	$ 45,510	Operating guarantee
AFS financial assets	261,448	264,597	Operating guarantee

33. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

a. In addition to those disclosed in other notes, significant commitments and contingencies of the Bank as of December 31, 2017 and 2016 were as follows:

	December 31 2017	December 31 2016
Receivables under custody	$ 27,196,931	$ 26,581,295
Consigned travelers' checks	234,878	266,872
Guarantee notes payable	91,904,226	112,183,213
Assets under trust	141,528,949	140,583,675
Securities in custody	13,275,911	8,768,283
Government bonds in brokerage accounts	23,499,500	56,237,500
Short-term bills in brokerage accounts	1,312,500	1,127,400

b. Operational risk and legal risk

Item	Reason and Amount: For the Year Ended December 31, 2017	Reason and Amount: For the Year Ended December 31, 2016
Director or staff indicted for illegal operational conduct	None	None
Punished by the relevant authorities for violating the law	1. Fined $1 million under the Banking Bureau's letter dated October 25, 2017 (Ref. No. 10620004740) for violating anti-money laundering rules. 2. Fined $2 million under the Banking Bureau's letter dated October 25, 2017 (Ref. No. 10620004740) for violating banking transaction operations due to the actions of a teller acting upon instructions received from a fraudulent account on the communications application, LINE.	None

(Continued)

Item	Reason and Amount	
	For the Year Ended December 31, 2017	For the Year Ended December 31, 2016
Correctional action request by the relevant authorities	None	None
Punished by the relevant authorities according to the Banking Act, Articles No. 61-1	The Bank has been corrected by the Banking Bureau's letter dated October 25, 2017 (Ref. No. 10620004741) for a member of Yuanlin which illegally kept application documentation of a customer's stamped Taiwan (foreign-) currency current deposit withdrawal slip which is in violation of rules and regulations.	The Bank has been corrected by the Banking Bureau's letter dated June 27, 2016 (Ref. No. 10500119770) for the incomplete records of interested parties.
A single or whole security events due to fraudulence, accident or against the "Outlines Governing the Security Maintenance and Administration of Financial Institutions" causing material losses amounting to $50 million	None	None
Other	None	None

(Concluded)

34. FINANCIAL INSTRUMENTS

a. Fair value information - financial instruments not measured at fair value

1) Financial assets and liabilities with significant differences between carrying amount and fair value

Except as detailed in the following table, the Bank's management considers the carrying amounts of financial instruments not measured at fair values to be approximate of their fair values or that the fair values could not be reliably measured:

	December 31			
	2017		2016	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Held-to-maturity financial assets	$ 103,444,933	$103,504,650	$ 62,225,661	$ 62,251,530
Financial liabilities				
Bank debentures	45,150,000	45,073,224	38,150,000	38,056,168

2) Fair value measurements recognized in the balance sheets

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Financial assets				
Held-to-maturity financial assets	$103,504,650	$ 941,624	$ 102,563,026	$ -
Financial liabilities				
Bank debentures	45,073,224	-	45,073,224	-

	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Financial assets				
Held-to-maturity financial assets	$ 62,251,530	$ 833,175	$ 61,418,355	$ -
Financial liabilities				
Bank debentures	38,056,168	-	38,056,168	-

3) The evaluation method and assumptions used in measuring fair value

The fair value of financial assets and liabilities are determined as follows:

a) The fair value of financial assets with standard clauses and terms is quoted market price.

b) The fair value of financial instruments other than the above is determined by discounted cash flow analysis or other generally accepted pricing models.

b. Fair value information - financial instruments measured at fair value

1) Fair value level

Information of the financial instruments measured at fair value categorized by level is as follows:

Financial Instruments Measured at Fair Value	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Non-derivative instruments				
Assets				
Financial assets at FVTPL				
Held-for-trading financial assets				
Shares	$ 4,050	$ 4,050	$ -	$ -
Financial assets designated as at FVTPL on initial recognition	705,418	-	-	705,418
AFS financial assets				
Shares	3,566,742	1,746,407	-	1,820,335
Bonds	118,498,646	51,089,823	66,485,712	923,111
Other	31,346,887	3,608,765	27,738,122	-
	$ 154,121,743	$ 56,449,045	$ 94,223,834	$ 3,448,864

(Continued)

Financial Instruments Measured at Fair Value	December 31, 2017 Total	Level 1	Level 2	Level 3
Derivative instruments				
Assets				
Financial assets at FVTPL	$ 544,040	$ 15,946	$ 497,349	$ 30,745
Liabilities				
Financial liabilities at FVTPL	$ 323,964	$ -	$ 291,701	$ 32,263

(Concluded)

Financial Instruments Measured at Fair Value	December 31, 2016 Total	Level 1	Level 2	Level 3
Non-derivative instruments				
Assets				
Financial assets at FVTPL				
Held-for-trading financial assets				
Shares	$ 28,354	$ 28,354	$ -	$ -
Commercial paper	5,582,305	-	5,582,305	-
Other	2,499,958	-	2,499,958	-
Financial assets designated as at FVTPL on initial recognition	768,160	-	-	768,160
AFS financial assets				
Shares	3,243,256	1,433,691	-	1,809,565
Bonds	130,576,659	44,267,346	85,657,742	651,571
Other	30,106,765	8,068,600	22,038,165	-
	$ 172,805,457	$ 53,797,991	$ 115,778,170	$ 3,229,296
Derivative instruments				
Assets				
Financial assets at FVTPL	$ 688,997	$ 26,717	$ 632,975	$ 29,305
Liabilities				
Financial liabilities at FVTPL	$ 459,106	$ -	$ 435,925	$ 23,181

There are no transfers of financial instruments between Level 1 and Level 2 fair value measurement for the years ended December 31, 2017 and 2016.

2) Reconciliation of Level 3 fair value measurements of financial assets and liabilities for the years ended December 31, 2017 and 2016 is as follows:

For the year ended December 31, 2017

Item	Beginning Balance	Amount of Valuation Gain or Loss		Addition		Reduction		Ending Balance
		Included in Profit or Loss	Included in Other Comprehensive Income	Buy or Issue	Transferred In	Sell Out, Disposal or Settlement	Transferred Out from Third Level	
Assets								
Financial assets at FVTPL								
Held-for-trading financial assets	$ 29,305	$ (1,026)	$	$ 8,102	$	$ (5,636)	$	$ 30,745
Financial assets designated as at fair value	768,160	(70,112)		581,160		(573,790)		705,418
AFS financial assets	2,461,136		63,600	494,442		(275,732)		2,743,446
Liabilities								
Financial liabilities at FVTPL								
Held-for-trading financial liabilities	23,181	7,848		4,051		(2,817)		32,263

For the year ended December 31, 2016

Item	Beginning Balance	Amount of Valuation Gain or Loss		Addition		Reduction		Ending Balance
		Included in Profit or Loss	Included in Other Comprehensive Income	Buy or Issue	Transferred In	Sell Out, Disposal or Settlement	Transferred Out from Third Level	
Assets								
Financial assets at FVTPL								
Held-for-trading financial assets	$ 4,333	$ 21,818	$ -	$ 15,001	$ -	$ (11,847)	$ -	$ 29,305
Financial assets designated as at fair value	1,048,847	22,911	-	386,664	-	(644,440)	-	768,160
AFS financial assets	3,247,523	-	1,572	337,212	-	(1,251,171)	-	2,461,136
Liabilities								
Financial liabilities at FVTPL								
Held-for-trading financial liabilities	1,903	19,701	-	7,500	-	(5,923)	-	23,181

3) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Bonds	Valuation was based on observable market prices or assessed by the cash-flow method through observable elements.
Derivatives	Valuation was based on widely-adapted pricing techniques. The inputs were assessed by observable elements in the market.
Others	Valuation was based on observable market prices or assessed by a discounted cash flow analysis through observable elements.

4) Valuation techniques and inputs applied for Level 3 fair value measurement

Fair value evaluation categorized as level 3 included but not limited to FVTPL, equity securities investment, derivatives, and held to maturity financial assets.

Most fair value categorized as level 3 only possess single unobservable inputs. Non-active market debt instruments possess unobservable inputs. The non-active market equity instruments are independent and thus are irrelevant to each other. The quantified information of significant unobservable inputs is as follows.

	Fair Value	Valuation Techniques	Significant Unobservable Inputs	Interval (Weighted-average)	Notes
Non-derivative financial assets					
Financial assets at FVTPL					
Corporate bonds	$ 705,418	Bids from counterparties	Lack of market liquidity discount	0%-10%	The increase in discount from lack of market liquidity decreases fair value.
AFS financial assets					
Shares	1,820,335	Net assets method	N/A	N/A	N/A
Bonds	923,111	1.Hybrid Model 2.Monte Carlo Simulation	1. Dividend rate 2. Share price volatility 3. Correlation coefficient 4. Credit spread 5. Default rate Recovery rate	0%-10%	The increase in discount from lack of market liquidity decreases fair value.
Derivative financial assets					
Financial assets at FVTPL					
Interest rate swaps	4,665	Discounted cash flow	Discount of marketability	0%-10%	The increase in discount of marketability decreases fair value.
Option	26,080	Black-Scholes Model	Fluctuating	0%-15%	The increase in volatility decreases fair value.
Derivative financial liabilities					
Financial liability at FVTPL					
Options	32,263	Black-Scholes Model	Fluctuating	0%-15%	The increase in volatility decreases fair value.

5) Sensitivity analysis of alternative assumptions of Level 3 fair value measurements of financial instruments

The Bank reasonably measured the fair values of its financial instruments; however, using different valuation models, evaluation methods and underlying assumptions may lead to different results. For financial instruments classified as level 3 fair value measurements, if the parameters went up 1%, the influence on net income or other comprehensive income would be as follows:

December 31, 2017

	Changes in Fair Value Reflected in Profit or Loss		**Changes in Fair Value Reflect in Other Comprehensive Income**	
	Favorable	**Unfavorable**	**Favorable**	**Unfavorable**
Assets				
Financial assets at FVTPL				
Held-for-trading financial assets	$ 19,351	$ (3,902)	$	$
Financial assets designated as at fair value		(1,530)		
AFS financial assets			18,139	(29,708)
Liabilities				
Financial liabilities at FVTPL				
Held-for-trading financial liabilities	42	(19,351)		

December 31, 2016

	Changes in Fair Value Reflected in Profit or Loss		**Changes in Fair Value Reflect in Other Comprehensive Income**	
	Favorable	**Unfavorable**	**Favorable**	**Unfavorable**
Assets				
Financial assets at FVTPL				
Held-for-trading financial assets	$ 18,931	$ (1,074)	$ -	$ -
Financial assets designated as at fair value	-	(1,206)	-	-
AFS financial assets	-	-	18,096	(3,300)
Liabilities				
Financial liabilities at FVTPL				
Held-for-trading financial liabilities	-	(18,931)	-	-

For financial instruments classified as Level 3 fair value measurements, if the parameters went down 1%, the influence of net income or other comprehensive income is as follows:

December 31, 2017

	Changes in Fair Value Reflected in Profit or Loss		Changes in Fair Value Reflect in Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
Assets				
Financial assets at FVTPL				
Held-for-trading financial assets	$ 17,772	$ (5,767)	$	$
Financial assets designated as at fair value	1,530			
AFS financial assets			31,777	(18,139)
Liabilities				
Financial liabilities at FVTPL				
Held-for-trading financial liabilities	1,987	(17,772)		

December 31, 2016

	Changes in Fair Value Reflected in Profit or Loss		Changes in Fair Value Reflect in Other Comprehensive Income	
	Favorable	Unfavorable	Favorable	Unfavorable
Assets				
Financial assets at FVTPL				
Held-for-trading financial assets	$ 14,144	$ (2,599)	$ -	$ -
Financial assets designated as at fair value	1,206	-	-	-
AFS financial assets	-	-	4,280	(18,096)
Liabilities				
Financial liabilities at FVTPL				
Held-for-trading financial liabilities	1,663	(14,144)	-	-

c. Financial risk management

1) Risk management

The Bank's objective in risk management is to establish a risk control mechanism weighing the entire risk of the Bank, restrictions from laws and regulations, to diversify, transfer, and avoid risk, and to pursue the maximum benefits of the Bank's customers, shareholders, and employees. The Bank's major risks include credit, market (interest rate, exchange rate and equity securities), operational, liquidity and so on.

The Bank established written risk management policies and procedures that are considered and approved by the board of directors to identify, measure, monitor, and control risks including, credit, market, operational and liquidity.

The Bank's risk management department performs the Bank's risk management activities pursuant to the policies approve by the board of directors. The risk management department works with other business departments in order to identify, evaluate, and avoid any financial risks. The board of directors formulates the written policies for risk management; the policy includes specific exposures such as currency, interest rate, and credit risks, and derivative and non-derivative financial instruments. In addition, the department of internal audit is responsible for independent review of risk management and control environment.

2) Credit risk

Credit risk is the risk of counterparties' failure to fulfill their contractual obligations causing the Bank's financial losses. Both balance sheet and off-balance sheet items are exposed to credit risks. For the Bank's credit exposures, balance sheet items mainly consisted of discounts and loans, credit card business, due from and call loans to banks, debt investments, and derivative instruments. Off-balance sheet items mainly consisted of financial guarantees, acceptances, letters of credit, loan commitments, and other services also generating credit exposure.

To ensure that the credit risk is controlled within a tolerable range, the Bank established an internal standard for credit risk. In that standard, all transactions are analyzed whether in the banking book or in the trading book, and either in-balance-sheet or off-balance-sheet, to identify the inherent and potential risks. The Bank examines and confirms credit risk in accordance with the standards before launching new products and business. Furthermore, the Bank also establishes a risk management system for complicated credit business such as factoring, credit derivative financial instruments and so on.

The Bank's foreign operation units adopt policies and standards same as above to assess their asset quality and provision for contingent loss, and also include policies that comply with the regulations of local FSC.

a) Procedures of credit risk management

Each major business applies procedures and methods for credit risk management as follows:

i. Credit business (including loan commitments and guarantees)

The classification of credit assets and credit quality levels are as follows:

i) Classification of credit assets

Credit assets are divided into normal, notice, warning, difficult and uncollectible according to the conditions of the credit assets and the length of time the accounts were overdue. The Bank complies with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" and "Credit Asset Valuation Guidelines" to manage credit issues related to nonperforming loans.

ii) Credit quality ratings

The Bank establishes a credit quality rating guide (either using internal rating models or credit rating table) based on the business characteristics, scale and other factors and uses it in its risk management.

In order to assess corporate clients' credit risks, the Bank develops credit rating models by using statistical methods or professional judgments and by considering clients' information. The models are reviewed regularly to determine whether the computation agrees to the actual situation, and adjustments are made to each parameter to optimize calculation results.

For individual personal clients' credit loans and mortgage loans, internal credit rating models are used in credit evaluation; other credits are assessed on a case by case basis.

The clients are assessed and ranked annually. In addition, to ensure the rationality of the credit rating system, the design, process and associated risk factors are reviewed and the models are evaluated based on the actual defaults on an annual basis.

ii. Due from and call loans to banks

The Bank assesses the credit position of counterparties and consults a credit rating agency for credit rating information and sets limits to the credit facilities.

iii. Debt investment and derivative financial instruments

For the credit risk management of debt investments, the Bank identifies credit risk by using information from external institutions about credit ratings, quality of debts, region, and the risk of counterparties.

Most of the Bank's counterparties in derivative transactions are assessed at higher than investment grade and the Bank controls the investment according to counterparties' facilities (including call loans); counterparties that do not have credit ratings or are not assessed at investment grade are reviewed case by case. Counterparties which are non-financial or non-banking clients are assessed according to the general procedures for the approval of credit facilities and control of credit exposure situations of the counterparty.

b) Policies of credit risk hedging or mitigation

i. Collateral

The Bank applies a series of policies to decrease credit risk in its lending business. Among those policies is the requirement to request collateral from creditors. To secure the creditor's rights, the Bank has established procedures for the pledging, valuation, management, and disposal of collateral. The contracts between the Bank and borrowers clearly state the protocols, including but not limited to the security of credit, procedures for collateral and for off-sets.

Collateral for businesses, other than loan borrowings, vary by the nature of the related financial instruments. Only asset-backed securities and other similar financial instruments are secured by a pool of financial assets.

ii. Limitation of credit risk and credit concentration management

The credit policies of the Bank regulate credit limitations, as applied to single counterparties or group, to avoid excessive credit concentration. The Bank further implements concentration policies, which monitor and manage the credit limitation and concentration in one single counterparty, different enterprises, related parties, industries, and countries. The policies are based on individual criteria in different categories, including but not limited to, industries, enterprises, and stock-pledge related loans.

iii. Other mechanism for credit risk management

To further decrease credit risks, the contracts also proclaim that the Bank may decrease the balances, shorten the maturity period, demand immediate payback, or use borrowers' assets in the Bank to offset their liabilities.

In most circumstances, the Bank applies gross settlement with counterparties. However, to further decrease credit risks, the Bank applies net settlement or even terminates transactions with certain counterparties when default may occur.

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

December 31, 2017

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	Master Netting Arrangements	Other Credit Enhancements	Total
Receivables	$ 1,001,320	$	$ 325,008	$ 1,326,328
Discount and loans	430,443,329		67,827,337	498,270,666
Held-for-trading financial assets - short-term bills			4,885,811	4,885,811
AFS financial assets - bonds			699,996	699,996

December 31, 2016

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	Master Netting Arrangements	Other Credit Enhancements	Total
Receivables	$ 1,046,328	$ -	$ 629,302	$ 1,675,630
Discount and loans	401,852,088	-	66,866,024	468,718,112
Held-for-trading financial assets - short-term bills	-	-	2,520,772	2,520,772
AFS financial assets - bonds	-	-	5,629,512	5,629,512

c) Credit risk exposures

The maximum exposure of the Bank's assets in the balance sheet is equivalent to the book value, while the pledged assets and other credit instruments are not considered. The off-balance sheet items related to the maximum credit exposure (without considering collateral or other credit enhancements and irrevocable maximum exposure) are as follows:

	December 31	
	2017	2016
Developed and noncancelable loan commitments	$ 13,858,240	$ 10,225,184
Noncancelable credit card commitments	723,940	1,018,299
Issued but unused letters of credit	8,100,576	8,913,916
Other guarantees	43,779,152	39,528,147

The Bank assessed that it could continually control and minimize credit risk exposure of off-balance-sheet items because it adopts stricter procedures and regularly audits credit accounts.

d) Information on concentration of credit risk

Concentration of credit risk exists if transaction counterparties are significantly concentrated on same individuals or groups engaged in activities with similar economic characteristics, which may lead their ability to fulfill contractual obligations to be affected by similar changes in economic or other conditions.

Concentration of credit risk can be on assets, liabilities or off-balance sheet items and can arise in the course of the enforcement and implementation of transactions (regardless of products or service) or in the combination of exposures across categories, including credit, due from and call loans to banks, marketable securities, receivables and derivatives, etc. The Bank maintained a diversified loan portfolio to mitigate the credit risk concentration to same customers; total transaction of same customers in discounts and loans and the balance of non-accrual loans are not material. The Bank's most significant concentrations of credit risk of discounts and loans and non-accrual loans by business, region, and collateral were summarized as follows:

i. Counterparty

	December 31			
	2017		2016	
Counterparty	**Amount**	**% to Total**	**Amount**	**% to Total**
Private sector	$ 397,144,365	62	$ 354,729,707	60
Consumer	232,958,879	36	221,223,700	37
Financial institution	3,780,626	1	10,353,102	2
Others	5,566,414	1	4,882,770	1
	$ 639,450,284	100	$ 591,189,279	100

ii. Region

	December 31			
	2017		2016	
Region	**Amount**	**% to Total**	**Amount**	**% to Total**
Taiwan	$ 540,073,011	84	$ 507,848,678	86
Asia Pacific except Taiwan	86,884,052	14	74,098,286	13
Europe	12,493,221	2	9,242,315	1
	$ 639,450,284	100	$ 591,189,279	100

iii. Collateral assumed

	December 31			
	2017		2016	
Collateral Assumed	**Amount**	**% of Total**	**Amount**	**% of Total**
Unsecured	$ 143,999,487	23	$ 116,995,242	20
Secured				
Properties	386,510,976	60	359,131,696	60
Guarantees	65,653,220	10	63,685,084	11
Financial collateral	21,152,050	3	23,397,024	4
Movable properties	5,083,199	1	5,471,724	1
Other collateral	17,051,352	3	22,508,509	4
	$ 639,450,284	100	$ 591,189,279	100

e) Information on credit risk quality

Part of the financial assets held by the Bank, including cash and cash equivalents, due from the central bank and call loans to banks, financial assets at fair value through profit or loss, investment in bills and bonds with resale agreements, guarantee deposits paid, security business, and clearing and settlement fund, etc. are assessed with very low credit risk because the counterparties have good credit ratings.

In addition to the above, the credit analysis of the remaining financial assets is as follows:

a) Credit analysis of discounts and loans and receivables

December 31, 2017	Neither Past Due Nor Impaired				Overdue but Unimpaired Amount (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Recognized Losses Amount (D)		Net Amount (A)+(B)+(C)-(D)
	Strong	Moderate	Special Mention	Subtotal (A)				Objective Evidence of Impairment	No Objective Evidence of Impairment	
Receivables										
Credit cards	$ 1,138,410	$ 590,339	$ 68,632	$ 1,797,381	$ 43,898	$ 61,895	$ 1,903,174	$ 54,761	$ 153,871	$ 1,694,542
Others	2,646,780	2,834,591	54,729	5,536,100	25,604	172,461	5,734,165	94,985	141,565	5,497,615
Discount and loans	399,724,446	171,189,472	54,047,553	624,961,471	7,328,708	7,160,105	639,450,284	2,231,706	6,961,871	630,256,707

December 31, 2016	Neither Past Due Nor Impaired				Overdue but Unimpaired Amount (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Recognized Losses Amount (D)		Net Amount (A)+(B)+(C)-(D)
	Strong	Moderate	Special Mention	Subtotal (A)				Objective Evidence of Impairment	No Objective Evidence of Impairment	
Receivables										
Credit cards	$ 1,087,532	$ 605,495	$ 62,303	$ 1,755,330	$ 46,433	$ 69,544	$ 1,871,307	$ 58,509	$ 24,934	$ 1,787,864
Others	2,739,729	2,990,869	83,366	5,813,964	52,150	161,384	6,027,498	113,502	190,298	5,723,698
Discount and loans	380,937,930	145,160,295	48,615,618	574,713,843	8,844,522	7,630,914	591,189,279	2,498,874	6,583,138	582,107,267

b) Credit quality analysis of discounts and loans that are neither past due nor impaired

December 31, 2017	Neither Past Due Nor Impaired			
	Strong	Moderate	Special Mention	Total
Consumer banking				
Housing mortgages	$ 170,702,780	$ 4,684,742	$ 55,095	$ 175,442,617
Small scale credit loans	1,027,455	85,683	1,753	1,114,891
Others	21,014,231	666,962	1,947	21,683,140
Corporate banking				
Secured	95,742,767	114,509,786	38,355,788	248,608,341
Unsecured	111,237,213	51,242,299	15,632,970	178,112,482
Total	399,724,446	171,189,472	54,047,553	624,961,471

December 31, 2016	Neither Past Due Nor Impaired			
	Strong	Moderate	Special Mention	Total
Consumer banking				
Housing mortgages	$ 161,541,636	$ 5,508,781	$ 21,549	$ 167,071,966
Small scale credit loans	1,099,315	59,865	21,770	1,180,950
Others	19,239,496	647,472	2,534	19,889,502
Corporate banking				
Secured	100,395,626	88,727,854	34,954,325	224,077,805
Unsecured	98,661,857	50,216,323	13,615,440	162,493,620
Total	380,937,930	145,160,295	48,615,618	574,713,843

Delays caused by loan processing and other administrative issues may result in financial assets overdue but not impaired. According to the internal risk management rule of the Bank, financial assets past due within 90 days are normally not considered impaired, unless other circumstances reveal that the financial assets are impaired.

c) Age analysis of financial assets that were overdue but not impaired is as follows:

Items	December 31, 2017		
	Past Due Up to a Month	Past Due One to Three Months	Total
Receivables			
Credit cards	$ 40,542	$ 3,356	$ 43,898
Others	19,676	5,928	25,604
Discounts and loans			
Consumer banking			
Housing mortgages	1,799,140	1,044,229	2,843,369
Small scale credit loans	8,429	5,906	14,335
Others	82,106	118,582	200,688
Corporate banking			
Secured	1,787,503	1,277,217	3,064,720
Unsecured	703,021	502,575	1,205,596

Items	December 31, 2016		
	Past Due Up to a Month	**Past Due One to Three Months**	**Total**
Receivables			
Credit cards	$ 42,419	$ 4,014	$ 46,433
Others	45,060	7,090	52,150
Discounts and loans			
Consumer banking			
Housing mortgages	1,987,870	959,968	2,947,838
Small scale credit loans	10,741	4,088	14,829
Others	209,234	95,474	304,708
Corporate banking			
Secured	4,050,630	792,679	4,843,309
Unsecured	431,307	302,531	733,838

d) Credit quality analysis of security investment

(Amount in Thousands of New Taiwan Dollars)

December 31, 2017	Neither Past Due Nor Impaired						Past Due but Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Recognized Losses Amount (D)	Net Amount (A)+(B)+(C)-(D)
	Excellent	Good	Moderate	Normal	Unrated	Subtotal (A)					
AFS financial assets											
Bonds	$ 47,220,435	$ 20,579,999	$ 36,765,613	$ 12,404,846	$ 1,527,753	$ 118,498,646	$	$	$ 118,498,646	$	$ 118,498,646
Shares	4,071				3,562,671	3,566,742			3,566,742		3,566,742
Bills	2,987,553		24,773,729			27,761,282			27,761,282		27,761,282
Others					3,585,605	3,585,605			3,585,605		3,585,605
Held-to-maturity financial assets											
Bonds	3,004,646	1,375,887	264,400			4,644,933			4,644,933		4,644,933
Bills	98,800,000					98,800,000			98,800,000		98,800,000
Financial assets at FVTPL											
Bonds			260,218		445,200	705,418			705,418		705,418

(Amount in Thousands of New Taiwan Dollars)

December 31, 2016	Neither Past Due Nor Impaired						Past Due but Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Recognized Losses Amount (D)	Net Amount (A)+(B)+(C)-(D)
	Excellent	Good	Moderate	Normal	Unrated	Subtotal (A)					
AFS financial assets											
Bonds	$ 70,877,182	$ 19,060,910	$ 26,079,780	$ 13,742,674	$ 816,113	$ 130,576,659	$ -	$ 96,666	$ 130,673,325	$ 96,666	$ 130,576,659
Shares	-	-	-	-	3,243,256	3,243,256	-	-	3,243,256	-	3,243,256
Bills	-	-	22,178,286	-	-	22,178,286	-	-	22,178,286	-	22,178,286
Other	-	-	-	-	7,928,479	7,928,479	-	-	7,928,479	-	7,928,479
Held-to-maturity financial assets											
Bonds	93,735	714,668	117,258	-	-	925,661	-	-	925,661	-	925,661
Bills	61,300,000	-	-	-	-	61,300,000	-	-	61,300,000	-	61,300,000
Financial assets at FVTPL											
Bonds	-	161,110	155,942	-	451,108	768,160	-	-	768,160	-	768,160

3) Market risk

a) The sources and definition of market risk

Market risk is the risk resulting from changes in fair value and future cash flows of balance sheet and off-balance sheet financial instruments caused by changes in market prices, interest rates, foreign exchange rate, including equity securities price and commodity price. Changes in above risk elements can cause risks to shift the net profit of the Bank or its investment structures.

The Bank's financial instruments are exposed to equity securities, interest rate and foreign exchange rate risks. Major market price risk positions of equity securities include domestic listed stocks and funds. Major interest risks include bonds and interest rate derivative instruments such as fixed and floating interest rate swap and bond options whereas the major foreign exchange risks include foreign currency positions held by the Bank.

b) Market risk management policies

The Bank monitors its market risk positions and tolerable loss according to the risk management objectives and limits approved by the board of directors.

The Bank also builds a market risk information system, which enables the Bank to effectively monitor the management of facilities, assessment of gains and losses, analysis of sensitivity factors of the Bank's financial instrument positions, etc. The results of the monitoring, assessment and analysis are reported in risk control meetings and serve as references for the decision making of management.

The Bank splits market risk exposure into trading and held-for-fixed-income portfolios which are controlled by both the Bank's operation and risk management sections. Routine control reports are reviewed by the Bank's board of directors and relevant committees.

c) Market risk management process

i. Recognition and measurement

The Bank's operation and risk management sections both identify market risk factors of exposure positions, which are used to measure market risks. Market risk factors include interest rates, foreign exchange rates and market price of equity securities, and exposures, gains and losses, and sensitivity (PVO1, Delta, Beta) etc. Measurement of investment portfolio is affected by interest rate risk, foreign exchange risk and price of equity securities.

ii. Monitoring and reporting

The Bank's risk management department regularly reviews market risk management objective, positions and control of gains and losses, sensitivity analysis and pressure test, and reports to the board of directors. Therefore, the board of directors have a good understanding of market risk control. The Bank has established explicit notification process, and limit and stop-loss regulations for various transactions. Stop-loss orders must be taken when the limit is reached, otherwise the trading department's reasons and plans must be approved by management, and the department should report to the relevant committee regularly.

d) Interest rate management policies

i. Definition of interest rate risk

Interest rate risk represents risks of variation of fair value of trading position and loss in earnings resulting from interest rate variation. Major relevant products include interest rate-related financial securities and derivatives instrument.

ii. Purpose of interest risk management

Interest rate risk management enhances the Bank's ability to measure, control and avoid negative influence of interest rate variation on earnings and economic values of balance sheet items. In addition, it enhances capital efficiency and strengthens operation.

iii. Procedures of interest risk management

The Bank carefully chooses investment target through conducting research about issuers' credit, financial status, country risks and interest rate trend. The Bank also establishes trading amount limits and stop-loss limits, including limits for trading departments, trading personnel and trading commodities, etc., which are approved by top management and the board of directors.

The Bank identifies re-pricing risk of interest rate and yield curve risk, and measures possible effects on the Bank's earnings and economic values of changes in interest rates. On a monthly basis, the Bank reports the analysis and monitoring of limits on interest rate risk position and various interest rate management objectives to the Strategy Management Committee and the board of directors.

Report to the Strategy Management Committee is required when certain risk management objective has exceeded limit in order to resolve response action.

iv. Measurement methods

The Bank measures risks of price reset period gaps from difference in maturity date and price reset date of assets, liabilities, and off-balance sheet items. The Bank also established interest rate sensitivity monitoring indexes for major periods in order to maintain long-term profitability and business growth. Such interest rate indexes and results of pressure tests are reviewed by management regularly. In addition, the Bank regularly uses DV01 to measure portfolio affected by interest rates.

e) Foreign exchange rate risk management

i. Definition of foreign exchange risk

Foreign exchange risk means losses resulting from currency exchange at different times. The Bank's foreign exchange rate risk results mainly from spot and forward foreign exchange. The Bank's foreign exchange rate risk is relatively insignificant due to the fact that transactions are basically settled immediately on transaction date.

ii. Policies, procedures and measurement method for foreign exchange rate risk management

In order to keep foreign exchange rate risk within a tolerable range, the Bank has established trading limits, stop-loss limits and maximum losses for trading departments and trading personnel.

The Bank performs pressure tests on a quarterly basis and applies 3% threshold to major foreign exchange rates and reports test results to the board of directors.

f) Equity securities price risk management

i. Definition of equity securities price risk

The market risk of equity securities held by the Bank includes individual and general risk from price fluctuation of both individual equity security and the entire equity security market.

ii. Purpose of equity security price risk management

The main purpose of equity security price risk management is to prevent financial status from deteriorating and to avoid decrease in earnings due to violent fluctuations in equity security prices, and to enhance capital efficiency and strengthen operations.

iii. Procedures of equity security price risk management

The Bank regularly uses β value to measure the degree of influence on investment portfolio system risk. Stop-loss point is set according to the policy approved by the Assets and Liabilities Management Committee. Stop-loss action must be taken when stop-loss limit is reached, unless top Management approvals otherwise on submissions of a request from an investment department.

iv. Measurement method

The Bank's control of security price risk is based on risk values.

g) Market valuation technique

The Bank assesses its exposures to market risk and the anticipated loss under market pressures by using assumptions on several market position changes. Limits of various financial instruments are set by the board of directors and monitored by the Assets and Liabilities Management Committee. The Bank also performs sensitivity analysis based on major risk factors of various financial products in order to monitor the changes in various market risk factors of financial products.

i. Sensitivity analysis

i) Interest rate risk

The Bank has assessed the possible impact on income were the global yield curve to have moved between -100 to +100 base points simultaneously on December 31, 2016 and 2015.

ii) Foreign exchange rate risk

The Bank assesses the possible impact on income when exchange rates of the NTD against various currencies fluctuates between -3% and +3% while other factors remain unchanged.

iii) Equity securities price risk

The Bank has assessed the possible impact on income were equity security prices on December 31, 2017 and 2016 to have risen or fallen by 10% while other factors remained unchanged.

The analysis assumed that the trends of equity instruments are consistent with historical data.

ii. Sensitivity analysis is summarized as follows:

December 31, 2017			
Major Risk	**Variation Range**	**Amount**	
		Equity	**Profit or Loss**
Foreign exchange risk	Various currencies/NTD increased 3%	$ 1,758,054	$ 29,702
Foreign exchange risk	Various currencies/NTD decreased 3%	(1,758,054)	(29,702)
Interest rate risk	Rate curve increased 100BPS	(3,202,950)	(33,984)
Interest rate risk	Rate curve decreased 100BPS	3,202,950	33,984
Price risk of equity securities	Price of equity securities increased 10%	280,136	179
Price risk of equity securities	Price of equity securities decreased 10%	(280,136)	(179)

December 31, 2016			
Major Risk	**Variation Range**	**Amount**	
		Equity	**Profit or Loss**
Foreign exchange risk	Various currencies/NTD increased 3%	$ 1,845,658	$ 25,281
Foreign exchange risk	Various currencies/NTD decreased 3%	(1,845,658)	(25,281)
Interest rate risk	Rate curve increased 100BPS	(4,170,214)	(12,308)
Interest rate risk	Rate curve decreased 100BPS	4,170,214	12,308
Price risk of equity securities	Price of equity securities increased 10%	441,797	2,502
Price risk of equity securities	Price of equity securities decreased 10%	(441,797)	(2,502)

4) Liquidity risk

a) The sources and definition of liquidity risk

Liquidity risk is the possibility that the Bank is unable to liquidate assets or obtain financing to fulfill matured financial liabilities, resulting the possibility of financial loss. Liquidity risk may be present when, for example, deposits are withdrawn in advance of the original date of settlement, the market becomes worse and borrowing from other banks becomes difficult, the clients' credit deteriorates leading to the occurrence of defaults, liquidation of financial instruments becomes difficult, early redemption of interest-sensitive instruments happens, etc. The aforementioned factors may reduce cash balance to be used in the areas of loans, trading, and investment. In some extreme circumstances, the lack of liquidity may lead to a decrease in overall assets and liabilities, the need to liquidate the Bank's assets and the possibility of being unable to fulfill loan commitments. Liquidity risks include inherent risks that may be affected by some specific industry events or overall market conditions. These events include, but are not limited to, credit, merger and acquisitions, systemic breakdowns and natural disasters.

b) The management policies are as follows:

The Bank's management procedures are monitored by the independent department of risk management and the procedures are as follows:

i. Regular financing and monitoring of cash flow to ensure the fulfillment of future requirements.

ii. Maintenance of appropriate position of high liquidity assets which are easily realizable.

iii. Monitoring of liquidity ratios of balance sheet accounts according to internal management procedures and external monitoring rules.

iv. Managing the maturity date of debt instruments.

The procedures for monitoring and reporting liquidity risk are applied and measured based on the estimated cash flows (the time gap is based on how the Bank manages the liquidity risk) of 1 day, 10 days, and 1 month. Estimates of future cash flows are based on the maturity analysis of financial assets and liabilities. The risk management department also monitors the use of loan commitments, discount facilities, guarantee letters, and other types of contingent liabilities, and furthermore reports the related information to the risk management committee and the board of directors regularly.

The Bank holds a certain position of highly liquid interest bearing assets to fulfill its obligation and for future needs. To manage the liquidity risk, the Bank holds the following assets: Cash and cash equivalents, due from the Central Bank and banks, and financial assets at fair value through profit or loss, etc.

c) Maturity analysis

The Bank analyzed cash outflows of non-derivative financial liabilities according to the remaining terms from date of the balance sheet to maturity date of the contract. The disclosure of cash outflows of non-derivative financial liabilities is based on the cash flows of contracts so the items may not correspond with all items in the balance sheet.

December 31, 2017	Due in One Month	Due Between One Month and Three Months	Due Between Three Months and Six Months	Due Between Six Months and One Year	Due After One Year	Total
Due to the Central Bank and banks	$ 8,331,836	$ -	$ -	$ -	$ -	$ 8,331,836
Securities sold under repurchase agreements	23,183,519	6,461,947	135,398	11,203	-	29,792,067
Payables	20,084,266	180,692	222,513	73,886	89	20,561,446
Deposits and remittances	491,859,956	170,933,202	79,488,589	100,356,686	7,516,668	850,155,101
Bank debentures	-	-	-	-	45,150,000	45,150,000
Other financial liabilities	2,077,200	-	971,217	-	-	3,048,417

December 31, 2016	Due in One Month	Due Between One Month and Three Months	Due Between Three Months and Six Months	Due Between Six Months and One Year	Due After One Year	Total
Due to the Central Bank and banks	$ 13,080,686	$ -	$ -	$ -	$ -	$ 13,080,686
Securities sold under repurchase agreements	8,313,896	1,229,764	137,377	505,175	-	10,186,212
Payables	18,859,964	173,464	152,263	60,910	97	19,246,698
Deposits and remittances	489,200,036	120,825,599	68,803,914	103,315,876	7,639,600	789,785,025
Bank debentures	-	-	-	3,000,000	35,150,000	38,150,000
Other financial liabilities	2,810,902	-	469,485	-	-	3,280,387

The Bank evaluated the contractual maturity date to comprehend all derivative financial instruments on the balance sheet. The maturity analysis of derivative financial liabilities is based on the contractual cash flows, therefore the amounts may not correspond with related items on the balance sheet. Maturity analysis of derivative financial liabilities is as follows:

i. Derivative financial liabilities in net settlement

December 31, 2017	Due in One Month	Due Between One Month and Three Months	Due Between Three Months and Six Months	Due Between Six Months and One Year	Due After One Year	Total
Derivative financial liabilities at FVTPL						
Foreign exchange derivatives	$ 65,149	$ 38,509	$ 21,863	$ 14,572	$	$ 140,093
Rate derivatives	2,781	1,115		1,411	21,888	27,195

December 31, 2016	Due in One Month	Due Between One Month and Three Months	Due Between Three Months and Six Months	Due Between Six Months and One Year	Due After One Year	Total
Derivative financial liabilities at fair value through profit or loss						
Foreign exchange derivatives	$ 46,225	$ 52,350	$ 53,213	$ 70,674	$ -	$ 222,462
Rate derivatives	-	-	-	474	31,587	32,061

ii. Derivative financial liabilities in total settlement

December 31, 2017	Due in One Month	Due Between One Month and Three Months	Due Between Three Months and Six Months	Due Between Six Months and One Year	Due After One Year	Total
Derivative financial liabilities at FVTPL						
Foreign exchange derivatives						
Cash inflow	$ 11,574,994	$ 2,175,167	$ 767,805	$ 1,285,641	$ --	$ 15,803,607
Cash outflow	11,775,128	2,204,761	782,456	1,341,156	-	16,103,501

December 31, 2016	Due in One Month	Due Between One Month and Three Months	Due Between Three Months and Six Months	Due Between Six Months and One Year	Due After One Year	Total
Derivative financial liabilities at FVTPL						
Foreign exchange derivatives						
Cash inflow	$ 3,199,316	$ 2,308,951	$ 2,579,862	$ 2,996,213	$ -	$ 11,084,342
Cash outflow	3,317,970	2,394,912	2,719,713	3,186,453	-	11,619,048

The analysis of cash outflows of off-balance sheet items is illustrated according to the remaining terms from date of the balance sheet to maturity date of the contract. For financial guarantee contracts, the largest amount is categorized under the first instance of being asked to fulfill the guarantees. The disclosure of cash outflows of off-balance-sheet items is based on the cash flows of contracts so part items may not correspond with all items in the balance sheet.

December 31, 2017	Due in One Month	Due Between One Month and Three Months	Due Between Three Months and Six Months	Due Between Six Months and One Year	Due After One Year	Total
Developed and noncancelable loan commitments	$ 462,269	$ 545,745	$ 785,050	$ 1,160,470	$ 10,904,706	$ 13,858,240
Noncancelable credit card commitments	69,788	139,503	209,291	305,358		723,940
Issued but unused letters of credit	3,104,447,	3,923,988	715,471	271,530	85,140	8,100,576
Other guarantees	5,004,188	8,793,636	5,794,198	8,510,093	15,677,037	43,779,152

December 31, 2016	Due in One Month	Due Between One Month and Three Months	Due Between Three Months and Six Months	Due Between Six Months and One Year	Due After One Year	Total
Developed and noncancelable loan commitments	$ 279,764	$ 175,742	$ 487,052	$ 951,392	$ 8,331,234	$ 10,225,184
Noncancelable credit card commitments	96,738	193,477	290,215	437,869	-	1,018,299
Issued but unused letters of credit	2,624,165	4,755,948	1,154,772	153,552	225,479	8,913,916
Other guarantees	4,357,686	4,993,347	7,262,568	8,939,532	13,975,014	39,528,147

d. Transfer of financial assets

In the daily transactions of the Bank, most of the transferred financial assets not eligible for full derecognition are repurchase notes and bonds. The cash flows of the transactions have been transferred to outsiders and the liabilities for repurchasing the transferred financial assets in a fixed amount have been recognized; the Bank may repurchase the transferred financial assets in the future. The Bank is not eligible to conduct, sell, or pledge the transferred financial assets during the effective period prior to derecognition. However, the Bank is still exposed to the interest risks and credit risks. As a result, the transferred financial assets are not derecognized. The following tables show the transferred financial assets not qualified for derecognition and related financial liabilities.

December 31, 2017

Type of Financial Assets	The Book Value of Financial Assets Transferred	The Book Value of Related Financial Liabilities	The Fair Value of Financial Assets Transferred	The Fair Value of Related Financial Liabilities	Net Amount
AFS financial assets - purchased call options	$ 29,738,732	$ 29,792,067	$ 29,738,732	$ 29,792,067	$ (53,335)

December 31, 2016

Type of Financial Assets	The Book Value of Financial Assets Transferred	The Book Value of Related Financial Liabilities	The Fair Value of Financial Assets Transferred	The Fair Value of Related Financial Liabilities	Net Amount
AFS financial assets - purchased call options	$ 9,522,319	$ 10,816,212	$ 9,522,319	$ 10,186,212	$ (663,893)

e. Offsetting financial assets and financial liabilities

The Bank is eligible to present certain derivative assets and derivative liabilities on a net basis on the balance sheet since the offsetting criteria are met. Cash collateral has also been received for the net amount of the derivative assets and derivative liabilities. The cash collateral does not meet the offsetting criteria, but it can be offset against the net amount of the derivative assets and derivative liabilities in the case of default and insolvency or bankruptcy, in accordance with an associated collateral arrangement.

The tables below present the quantitative information on financial assets and financial liabilities that have been offset in the balance sheet or that are covered by enforceable master netting arrangements or similar agreements.

December 31, 2017

				Related Amounts Not Set Off in the Balance Sheet		
Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet	Net Amounts of Financial Assets Presented in the Balance Sheet	Financial Instruments	Cash Collateral Received	Net Amount
Repurchase, securities lending and similar agreements	$ 195,061	$ -	$ 195,061	$ (195,061)	$ -	$ -

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Repurchase, securities lending and similar agreements	$ 29,792,067	$ -	$29,792,067	$ (29,738,732)	$ -	$ 53,335

December 31, 2016

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Set Off in the Balance Sheet		Net Amount
				Financial Instruments	Cash Collateral Pledged	
Repurchase, securities lending and similar agreements	$ 10,186,212	$ -	$ 10,186,212	$ (9,522,319)	$ -	$ 663,893

35. AVERAGE AMOUNT AND AVERAGE INTEREST RATE OF INTEREST-EARNING ASSETS AND INTEREST-BEARING LIABILITIES

Average amount and average interest rate of interest-earning assets and interest-bearing liabilities that are affected by interest rate fluctuations were as follows:

Average balances were calculated by the daily average balances of interest-earning assets and interest-bearing liabilities.

	For the Year Ended December 31, 2017	
	Average Balance	Average Rate (%)
Interest-earning assets		
Cash and cash equivalents - due from other banks	$ 14,197,759	0.39
Due from the Central Bank and call loans to banks	86,322,902	0.94
Financial assets at FVTPL	2,390,117	1.61
Securities purchased under agreements to resell	94,808	0.32
Credit card revolving balances	692,383	12.83
Discounts and loans (excluding nonperforming loans)	611,856,214	2.23
AFS financial assets	157,259,879	1.56
Held-to-maturity financial assets	80,709,990	0.56
Bills purchased	3,901	2.44
Interest-bearing liabilities		
Due to the Central Bank and banks	12,435,877	1.67
Securities sold under agreements to repurchase	24,878,497	0.34
Borrowings from the Central Bank and banks	5	0.00
Negotiable certificates of deposit	6,277,153	0.48
Demand deposits	222,297,456	0.14
Savings deposits	130,647,358	0.31
Time deposits	312,626,818	0.88
Time-savings	134,171,025	1.03
Bank debentures	40,991,398	1.64
Structured deposit instruments principal	1,894,661	1.41

	For the Year Ended December 31, 2016	
	Average Balance	Average Rate (%)
Interest-earning assets		
Cash and cash equivalents - due from other banks	$ 14,640,128	0.54
Due from the Central Bank and call loans to banks	88,351,313	0.71
Financial assets at FVTPL	21,043,186	0.54
Securities purchased under agreements to resell	382,373	0.38
Credit card revolving balances	719,194	12.42
Discounts and loans (excluding nonperforming loans)	562,286,901	2.25
AFS financial assets	154,102,485	1.61
Held-to-maturity financial assets	73,094,455	0.66
Bills purchased	4,594	1.92
Interest-bearing liabilities		
Due to the Central Bank and banks	16,236,614	1.02
Securities sold under agreements to repurchase	19,198,075	0.32
Borrowings from the Central Bank and banks	3,140	0.67
Negotiable certificates of deposit	2,517,892	0.42
Demand deposits	229,441,952	0.09
Savings deposits	124,087,541	0.33
Time deposits	292,703,290	0.84
Time-savings	132,927,273	1.18
Bank debentures	38,150,000	1.63
Structured deposit instruments principal	3,292,668	0.37

36. CAPITAL MANAGEMENT

All the Bank's risks were included in the scope of assessment of capital adequacy according to "Regulations Governing the Capital Adequacy". The business objectives and project budget were approved by the board of directors, and furthermore the Bank considered development strategy, capital adequacy, debt ratio, and dividend policy in its assessment plan. The contents of this plan included stress tests, estimates of capital adequacy ratio to ensure achievement of the objective of capital adequacy and strengthening of the capital structure.

According to the Banking Act and its related regulations, the Bank should maintain a capital adequacy ratio of at least 8.625% to stabilize its financial foundation. If the capital adequacy ratio falls below 9.25%, the Regulator will restrict the distribution earnings.

The following table, which lists the equity capital, risk-weighted assets, and risk exposure, is prepared according to the "Regulations Governing the Capital Adequacy and Capital Category of Banks" that was modified by FSC of the ROC (Ref. No. 10200362920) on January 9, 2014.

The Bank conformed to the regulations on capital management as of December 31, 2017 and 2016.

	December 31	
	2017	**2016**
Analysis items		
Eligible capital		
Ordinary equity	$ 96,267,310	$ 92,483,284
Other Tier I capital		-
Tier II capital	9,416,196	2,636,241
Eligible capital	$ 105,683,506	$ 95,119,525
Risk-weighted assets		
Credit risk		
Standardized approach	$ 684,131,737	$ 649,358,638
Credit valuation adjustments	52,918	55,933
Internal rating based approach	N/A	N/A
Synthetic securitization	128,727	169,503
Operational risk		
Basic indicator approach	37,712,634	36,834,395
Standardized approach/alternative standardized approach	N/A	N/A
Advanced measurement approach	N/A	N/A
Market risk		
Standardized approach	24,654,615	36,377,200
Internal models approach	N/A	N/A
Total risk-weighted assets	$ 746,680,631	$ 722,795,669
Capital adequacy ratio	14.15%	13.16%
Ratio of ordinary equity to risk-weighted assets	12.89%	12.80%
Ratio of Tier I capital to risk-weighted assets	12.89%	12.80%
Leverage ratio	8.49%	8.81%

Note 1: Eligible capital and risk-weighted assets are calculated under the “Regulations Governing the Capital Adequacy Ratio of Banks” and “Explanation of Methods for Calculating the Eligible Capital and Risk-weighted Assets of Banks”.

Note 2: Formulas used were as follows:

1) Eligible capital = Ordinary equity + Other Tier I capital + Tier II capital.

2) Total risk-weighted assets = Risk-weighted assets for credit risk + Capital requirements for operational risk and market risk × 12.5.

3) Capital adequacy ratio = Eligible capital ÷ Total risk-weighted assets.

4) Ratio of ordinary equity to risk-weighted assets = Ordinary equity ÷ Total risk-weighted assets.

5) Ratio of Tier I capital to risk-weighted assets = (Ordinary equity + Other Tier I capital) ÷ Total risk-weighted assets.

6) Leverage ratio = Net value of tier I capital ÷ Net value of exposure measurement.

37. ASSET QUALITY, CONCENTRATION OF CREDIT EXTENSIONS, INTEREST RATE SENSITIVITY, PROFITABILITY AND MATURITY ANALYSIS OF ASSETS AND LIABILITIES

a. Assets quality: As stated in Table 1

b. Concentration of credit risks

Top 10 credit extensions of the Bank were as follows:

Ranking (Note 1)	December 31, 2017		
	Group Enterprise (Note 2)	**Total Balances of Credit Extensions (Note 3)**	**Ratio of Credit Extensions to Net Worth (%)**
1	A Group (real estate activities for sale and rental)	$ 6,984,188	5.71%
2	B Group (head office)	6,047,732	4.94%
3	C Group (manufacture of wearing apparel)	4,384,764	3.58%
4	D Group (manufacture of computers)	4,197,543	3.43%
5	E Group (manufacture of metallic furniture)	3,892,169	3.18%
6	F Group (Chemical materials and wholesale)	3,510,810	2.87%
7	G Group (manufacture of computers)	3,507,761	2.87%
8	H Group (television broadcasting and subscription programming)	3,329,000	2.72%
9	I Group (manufacture of electric wires and cables)	3,305,735	2.70%
10	J Group (Semiconductor packaging and test)	3,000,000	2.45%

Ranking (Note 1)	December 31, 2016		
	Group Enterprise (Note 2)	**Total Balances of Credit Extensions (Note 3)**	**Ratio of Credit Extensions to Net Worth (%)**
1	B Group (head offices)	$ 6,530,563	5.43
2	A Group (real estate activities for sale and rental)	5,420,412	4.51
3	C Group (manufacture of wearing apparel)	4,093,952	3.41
4	H Group (head offices)	3,729,000	3.10
5	E Group (manufacture of metallic furniture)	3,722,078	3.10
6	I Group (manufacture of electric wires and cables)	3,669,314	3.05
7	G Group (manufacture of computers)	3,356,371	2.79
8	K Group (head offices)	3,350,922	2.79
9	L Group (activities of other holding companies)	3,110,233	2.59
10	M Group (smelting and refining of iron and steel)	3,056,246	2.54

Note 1: The top 10 credit extensions ranking is compiled by total credit balance, excluding government-owned or state-owned enterprises. If the borrower is an affiliate of a group enterprise, the credit balance of the borrower is then aggregated to the Bank enterprise's credit balance. The borrower is marked by specific codes as well as its major industry. The major industry of a borrower is determined by its maximum exposures by industries. The classification of industry should be in line with the Standard Industrial Classification System of the Republic of China published by the Directorate-general of Budget, Accounting and Statistics under the Executive Yuan.

Note 2: "Group Enterprise" conforms to the definition of Article 6 of the "Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings."

Note 3: Credit balance includes each item of loan (including import bill negotiated, export bill negotiated, discounts, overdrafts, marginal receivables, and short-term, short-term secured, medium-term, medium-term secured, long-term, long-term secured and nonperforming loans), exchange bills negotiated, accounts receivable - without recourse factoring, acceptances receivable and grantees issued.

c. Interest rate sensitivity information

Interest Rate Sensitivity Analysis
December 31, 2017

(In NT$ Thousands)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-sensitive assets	$ 627,377,467	$ 14,326,046	$ 11,897,066	$ 54,654,693	$ 708,255,272
Interest-sensitive liabilities	291,462,340	246,518,755	53,969,888	49,696,224	641,647,207
Interest sensitivity gaps	335,915,127	(232,192,709)	(42,072,822)	4,958,469	66,608,065
Net equity					122,409,799
Ratio of interest-sensitive assets to liabilities					110.38%
Ratio of interest sensitivity gaps to net equity					54.41%

Interest Rate Sensitivity Analysis
December 31, 2016

(In NT$ Thousands)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-sensitive assets	$ 560,103,327	$ 11,857,960	$ 3,062,876	$ 64,427,633	$ 639,451,796
Interest-sensitive liabilities	214,767,707	247,226,667	63,224,580	41,021,130	566,240,084
Interest sensitivity gaps	345,335,620	(235,368,707)	(60,161,704)	23,406,503	73,211,712
Net equity					120,233,504
Ratio of interest-sensitive assets to liabilities					112.93%
Ratio of interest sensitivity gaps to net equity					60.89%

Note 1: The tables above refer only to the financial assets/liabilities denominated in New Taiwan dollars held by the whole bank, contingent assets and liabilities excluded.

Note 2: Interest rate-sensitive assets/liabilities refer to financial assets/liabilities in which returns are driven by interest rate fluctuations.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities. (The interest rate-sensitive assets and liabilities are in New Taiwan dollars).

Interest Rate Sensitivity Analysis
December 31, 2017

(In US$ Thousands)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-sensitive assets	$ 5,801,590	$ 87,900	$ 84,393	$ 1,479,082	$ 7,452,965
Interest-sensitive liabilities	2,279,237	4,695,896	508,088	37	7,483,258
Interest sensitivity gaps	3,522,353	(4,607,996)	(423,695)	1,479,045	(30,293)
Net equity					4,124,319
Ratio of Interest-sensitive assets to liabilities					99.60%
Ratio of interest sensitivity gaps to net equity					(0.73%)

Interest Rate Sensitivity Analysis
December 31, 2016

(In US$ Thousands)

Items	1 to 90 Days (Included)	91 to 180 Days (Included)	181 Days to One Year (Included)	Over One Year	Total
Interest-sensitive assets	$ 4,853,588	$ 126,861	$ 97,909	$ 1,041,959	$ 6,120,317
Interest-sensitive liabilities	1,692,839	4,350,788	579,813	15	6,623,455
Interest sensitivity gaps	3,160,749	(4,223,927)	(481,904)	1,041,944	(503,138)
Net equity					3,731,410
Ratio of Interest-sensitive assets to liabilities					92.40%
Ratio of interest sensitivity gaps to net equity					(13.48%)

Note 1: The tables above refer only to the financial assets/liabilities denominated in U.S. dollars held by the whole bank, contingent assets and liabilities excluded.

Note 2: Interest rate-sensitive assets/liabilities refer to financial assets/liabilities in which returns are driven by interest rate fluctuations.

Note 3: Interest rate sensitivity gap = Interest rate-sensitive assets - Interest rate-sensitive liabilities.

Note 4: Ratio of interest rate-sensitive assets to liabilities = Interest rate-sensitive assets ÷ Interest rate-sensitive liabilities. (The interest rate-sensitive assets and liabilities are in U.S. dollars).

d. Profitability

Items		December 31, 2017	December 31, 2016
Return on total assets	Before income tax	1.37	1.36
	After income tax	1.18	1.17
Return on equity	Before income tax	11.88	11.57
	After income tax	10.21	9.98
Profit margin		57.40	57.03

Note 1: Return on total assets = Income before (after) income tax ÷ Average total assets.

Note 2: Return on equity = Income before (after) income tax ÷ Average equity.

Note 3: Profit margin = Income after income tax ÷ Total net revenue.

Note 4: Income before (after) income tax represents income for the years ended December 31, 2017 and 2016.

e. Maturity analysis of assets and liabilities

1) New Taiwan dollars (thousands)

	Total	December 31, 2017					
		By Remaining Period to Maturity					
		0 to 10 Days	11 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	$ 751,174,401	$ 114,610,130	$ 66,158,634	$ 49,422,567	$ 64,503,870	$ 96,215,751	$ 360,263,449
Main capital outflow on maturity	959,707,096	58,321,271	96,136,710	177,362,153	122,944,382	188,435,899	316,506,681
Gap	(208,532,695)	56,288,859	(29,978,076)	(127,939,586)	(58,440,512)	(92,220,148)	43,756,768

	Total	December 31, 2016					
		By Remaining Period to Maturity					
		0 to 10 Days	11 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	$ 680,962,416	$ 76,064,594	$ 69,462,987	$ 53,868,539	$ 64,411,077	$ 94,177,832	$ 322,977,387
Main capital outflow on maturity	893,408,029	67,350,246	79,933,262	139,107,477	111,852,470	187,990,772	307,173,802
Gap	(212,445,613)	8,714,348	(10,470,275)	(85,238,938)	(47,441,393)	(93,812,940)	15,803,585

Note: This table includes only financial assets/liabilities denominated in New Taiwan dollars held by the head office and domestic branches.

2) U.S. dollars (thousands)

	Total	December 31, 2017				
		By Remaining Period to Maturity				
		1 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	$ 9,725,056	$ 1,317,963	$ 1,076,952	$ 1,028,980	$ 1,017,016	$ 5,284,145
Main capital outflow on maturity	12,733,460	2,145,987	1,840,395	1,602,570	2,383,892	4,760,616
Gap	(3,008,404)	(828,024)	(763,443)	(573,590)	(1,366,876)	523,529

	Total	December 31, 2016				
		By Remaining Period to Maturity				
		1 to 30 Days	31 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year
Main capital inflow on maturity	$ 8,344,723	$ 1,301,676	$ 1,036,613	$ 866,813	$ 939,859	$ 4,199,762
Main capital outflow on maturity	13,063,001	2,498,737	1,363,748	1,423,517	2,384,946	5,392,053
Gap	(4,718,278)	(1,197,061)	(327,135)	(556,704)	(1,445,087)	(1,192,291)

Note: This table includes only financial assets/liabilities denominated in U.S. dollars held by the head office, domestic branches and OBU.

38. THE CONTENTS AND AMOUNTS OF TRUST ACTIVITIES BY PROCESSING TRUST ENTERPRISE ACT

The trust account balance sheets, income statements and the details of trust assets are as follows:

Balance Sheet of Trust Account
December 31, 2017 and 2016

Trust Assets	2017	2016	Trust Liabilities	2017	2016
Bank deposits	$ 1,941,919	$ 1,293,449	Accounts payable	$ 201	$ -
Short-term investments	76,465,160	75,096,493	Depository of securities payable	47,209,686	48,947,788
Net asset value of collective investment trust funds	2,061,025	3,533,700	Trust capital	110,708,014	95,739,344
Accounts receivable	13,974	38,166	Accumulated (loss) gain and equity	(16,386,744)	(4,118,900)
Land	12,314,494	10,543,430			
Buildings and improvements, net	177,267	130,906			
Construction in progress	1,286,794	914,161			
Depository of securities	47,209,686	48,947,788			
Other assets	60,838	70,139			
Total trust assets	$ 141,531,157	$ 140,568,232	Total trust liabilities	$ 141,531,157	$ 140,568,232

Trust Assets List

Items	December 31 2017	December 31 2016
Cash in banks	$ 1,941,919	$ 1,293,449
Short-term investments		
Funds	57,319,104	57,918,782
Bonds	16,283,109	14,334,858
Ordinary shares	2,522,050	2,366,254
Structured instruments	340,897	476,599
Net asset value of collective trust accounts	2,061,025	3,533,700
Receivables	13,974	38,166
Land	12,314,494	10,543,430
Buildings and improvements, net	177,267	130,906
Construction in process	1,286,794	914,161
Depository of securities	47,209,686	48,947,788
Other assets	60,838	70,139
Total	$ 141,531,157	$ 140,568,232

Income Statements of Trust Account

	For the Year Ended December 31 2017	For the Year Ended December 31 2016
Trust income		
Cash dividends income	$ 100,616	$ 83,717
Interest revenue	7,703	9,338
Donation revenue	2,144	24
Realized capital gain	4,350	636
Unrealized capital gain	96,258	36,595
Other revenue	1,516	351
	212,587	130,661
Trust expenses		
Tax expenditures	7,567	469
Management fees	3,333	2,361
Service fees	1,519	2,961
Realized investment losses	892	3,625
Unrealized capital losses	2,990	129,275
Other expenses	21	49
	16,322	138,740
Income before income tax	196,265	(8,079)
Income tax expense	-	-
Net income	$ 196,265	$ (8,079)

39. EXCHANGE RATE INFORMATION FOR FOREIGN FINANCIAL ASSETS AND LIABILITIES

(Foreign Currencies in Thousands)

	December 31					
	2017			2016		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**	**Foreign Currencies**	**Exchange Rate**	**New Taiwan Dollars**
Financial assets						
Monetary items						
Cash and cash equivalents						
CNY	$ 1,809,507	4.5498	$ 8,232,895	$ 484,829	4.6254	$ 2,242,528
JPY	23,858,401	0.2632	6,279,531	17,729,142	0.2771	4,912,745
USD	149,419	29.6800	4,434,756	69,502	32.2220	2,239,493
Due from the Central Bank and call loans to banks						
USD	594,049	29.6800	17,631,374	1,075,599	32.2220	34,657,951
CNY	1,023,300	4.5498	4,655,810	445,300	4.6254	2,059,691
CAD	37,000	23.6249	874,121	45,000	23.9142	1,067,139
Receivables						
USD	36,079	29.6800	1,070,825	92,925	32.2220	2,994,229
EUR	29,520	35.4453	1,046,345	3,296	33.9797	111,997
JPY	2,126,413	0.2632	559,672	1,302,432	0.2771	360,904
Discounts and loans						
USD	4,974,317	29.6800	147,637,729	3,690,173	32.2220	118,904,754
HKD	2,634,690	3.7963	10,002,074	1,402,806	4.1545	5,827,958
EUR	187,457	35.4453	6,644,470	157,609	33.9797	5,355,507
AFS financial assets						
USD	1,653,716	29.6800	49,082,291	1,230,865	32.2220	39,660,932
AUD	181,849	23.1326	4,206,640	185,297	23.3400	4,324,832
CNY	820,434	4.5498	3,732,811	972,269	4.6254	4,497,133
Held-to-maturity financial assets						
USD	19,985	29.6800	593,155	14,947	32.2220	481,622
AUD	15,006	23.1326	347,128	15,008	23.3400	350,287
Financial assets at FVTPL						
USD	34,357	29.6800	1,019,716	37,101	32.2220	1,195,648
HKD	3,090	3.7963	11,731	4,957	4.1545	20,594
EUR	92	35.4453	3,261	174	33.9797	5,912
Nonmonetary items						
Structured corporate bonds contracts						
USD	23,767	29.6800	705,405	23,840	32.2220	768,172
Equity-method investments						
USD	1,967,774	29.6800	58,403,532	1,887,610	32.2220	60,822,569
HKD	98,324	3.7963	373,267	65,366	4.1545	271,563
Financial liabilities						
Monetary items						
Payables						
USD	83,571	29.6800	2,480,387	493,005	32.2220	15,885,607
JPY	1,379,695	0.2632	363,136	1,527,712	0.2771	423,324
EUR	3,421	35.4453	121,258	62,970	33.9797	2,139,702
Due to the Central Bank and banks						
USD	249,843	29.6800	7,415,340	127,737	32.2220	4,115,942
CNY	55,684	4.5498	253,351	1,288,398	4.6254	5,959,356
HKD	60,000	3.7963	227,778	200,000	4.1545	830,900
Deposits and remittances						
USD	7,375,340	29.6800	218,900,091	6,629,092	32.2220	213,602,602
CNY	4,265,705	4.5498	19,408,105	4,360,519	4.6254	20,169,145
EUR	375,405	35.4453	13,306,343	254,885	33.9797	8,660,916
Financial liabilities at FVTPL						
USD	9,884	29.6800	293,357	12,642	32.2220	407,351
EUR	125	35.4453	4,431	183	33.9797	6,218
HKD	-	3.7963	-	4,937	4.1545	20,511

40. ADDITIONAL DISCLOSURES

a. Information of significant transaction;

b. Other business investments are as follows:

1) Financing provided: The Bank - not applicable; investees - not applicable or none.

2) Endorsements/guarantees provided: The Bank - not applicable; investees - not applicable or none.

3) Marketable securities held: Refer to Table 2.

4) Marketable securities (for investees) or investee investments (for the Bank) acquired and disposed of at costs or prices of at least NT$300 million or 10% of the issued capital: None.

5) Acquisitions of individual real estate at costs of at least NT$300 million or 10% of the issued capital: None.

6) Disposals of individual real estate at prices of at least NT$300 million or 10% of the issued capital: None

7) Allowance for service fees to related-parties amounting to more than NT$5 million: None.

8) Receivables from related parties amounting to at least NT$300 million or 10% of the issued capital: None

9) Sale of non-performing loans: Refer to Table 3.

10) Application for approval of securitization product types and information according to the Financial Asset Securitization Clause of the Real State Securitization Act: None.

11) Other significant transactions that may affect decision making of financial statement users: None.

12) The information of reinvestment business and total shareholding: Refer to Table 4.

13) Derivative financial transactions: Refer to Note 8; investees - None.

c. Investment in mainland China:

1) Name of the investees in mainland China, main businesses and products, paid-in capital, method of investment, information on inflow or outflow of capital, percentage of ownership, investment income or loss, ending balance of investment, dividends remitted by the investee, and the limit of investment in mainland China: Refer to Table 5.

2) Significant direct or indirect transactions with the investees, prices and terms of payment, unrealized gain or loss: None.

41. SEGMENT INFORMATION

According to the Article 23 of “Regulations Governing the Preparation of Financial Reports by Public Banks”, the Bank does not prepare the segment information of IFRS 8.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

OVERDUE LOANS AND RECEIVABLES
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars, %)

Period			December 31, 2017					December 31, 2016				
Items			Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Loans (Note 1)	Loans	Ratio of Nonperforming Loans (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 744,556	$ 229,504,975	0.32	$ 3,534,816	474.75	$ 546,377	$ 208,815,874	0.26	$ 3,315,650	606.84
	Unsecured		210,116	177,557,033	0.12	2,996,802	1,426.26	207,984	160,796,728	0.13	2,924,781	1,406.25
Consumer banking	Housing mortgages (Note 4)		731,647	113,749,849	0.64	1,548,108	211.59	644,354	109,126,753	0.59	1,649,988	256.07
	Cash cards		-	-	-	-	-	-	-	-	-	-
	Small scale credit loans (Note 5)		7,854	549,833	1.43	12,013	152.95	9,167	473,433	1.94	16,207	176.80
	Others (Note 6)	Secured	364,301	112,508,318	0.32	1,177,545	323.23	253,830	104,587,353	0.24	1,097,716	432.46
		Unsecured	6,927	5,580,276	0.12	50,293	726.04	11,260	7,389,138	0.15	77,670	689.79
Total			2,065,401	639,450,284	0.32	9,319,577	451.22	1,672,972	591,189,279	0.28	9,082,012	542.87
			Nonperforming Receivables (Note 1)	Accounts Receivable	Ratio of Nonperforming Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)	Nonperforming Receivables (Note 1)	Accounts Receivable	Ratio of Nonperforming Receivables (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Credit cards			11,526	1,958,995	0.59	81,941	710.92	13,797	1,870,970	0.74	82,304	596.54
Accounts receivable factored without recourse (Note 7)			-	648,656	-	6,493	-	-	1,008,988	-	10,342	-

Note 1: Nonperforming loans represent the amounts of nonperforming loans reported to the authorities and disclosed to the public, as required by the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrued Loans."
Nonperforming credit card receivables represent the amounts of nonperforming receivables reported to the authorities and disclosed to the public, as required by the Banking Bureau's letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Ratio of nonperforming loans: Nonperforming loans ÷ Outstanding loan balance.
Ratio of nonperforming credit cards receivables: Nonperforming credit cards receivables ÷ Outstanding credit cards receivables balance.

Note 3: Coverage ratio of loans: Allowance for possible losses on loans ÷ Nonperforming loans.
Coverage ratio of credit cards receivable: Allowance for possible losses on credit cards receivable ÷ Nonperforming credit cards receivable.

Note 4: Housing mortgages are fully secured by real estate, which is purchased (owned) by the borrower, the spouse or the minor children of the borrower, and the mortgage rights are pledged to the financial institution for the purpose of purchasing or decorating houses.

Note 5: Small scale credit loans, as categorized in accordance with the Banking Bureau's letter, dated December 19, 2005 (Ref. No. 09440010950), are unsecured loans with small amounts exclusive of credit cards and cash cards.

Note 6: Other loans of consumer banking refer to secured or unsecured loans exclusive of housing mortgage, cash card, small scale credit loans and credit cards.

Note 7: As required by the Banking Bureau's letter, dated July 19, 2005 (Ref. No. 0945000494), factoring without recourse will be disclosed as nonperforming receivables within three months after the factors or insurance companies reject indemnification.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

OVERDUE LOANS AND RECEIVABLES
DECEMBER 31, 2017 AND 2016
(In Thousands of New Taiwan Dollars)

	December 31, 2017		December 31, 2016	
	Excluded NPL	**Excluded Overdue Receivables**	**Excluded NPL**	**Excluded Overdue Receivables**
As a result of debt consultation and loan agreements (Note 1)	$ -	$ -	$ -	$ -
As a result of consumer debt clearance (Note 2)	-	36,589	-	40,580

Note 1: The disclosure of excluded NPLs and excluded overdue receivables resulting from debt consultation and loan agreements is based on the Banking Bureau’s letter, dated April 25, 2006 (Ref. No. 09510001270).

Note 2: The disclosure of excluded NPLs and excluded overdue receivables resulting from consumer debt clearance is based on the Banking Bureau’s letter, dated September 15, 2008 (Ref. No. 09700318940).

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

Holding Company Name	Name	Security Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2017				Note
				Shares (Thousands)	Carrying Amount	Percentage of Ownership (%)	Market Value or Net Asset Value	
Shancom Reconstruction Inc.	Empresa Inversiones Generales, S.A.	Indirect subsidiary	Investment in subsidiaries	1	$ 1,659,525	100.00	$ 1,659,525	
	Krinein Company	Indirect subsidiary	Investment in subsidiaries	2	478,422	100.00	478,422	
	Safehaven Investment Corporation	Indirect subsidiary	Investment in subsidiaries	1	47,079	100.00	47,079	
Wresqueue Limitada	Prosperity Realty Inc.	Indirect subsidiary	Investment in subsidiaries	4	68,264	100.00	319	
China Travel Service (Taiwan)	Silks Place Taroko	-	Equity-method investments	20,372	186,816	45.00	186,816	
	CTS Travel International Ltd.	Indirect subsidiary	Investment in subsidiaries	600	6,952	100.00	6,952	
	Joy Tour Service Co., Ltd.	-	Financial assets carried at cost	100	1,000	10.00	-	
	Shanghai Commercial & Savings Bank, Ltd.	The Bank	Financial assets carried at cost	28	859	-	-	
SCSB Life Insurance Agency	Geniron.Com.	-	Financial assets carried at cost	950	2,089	4.13	-	
	Prism Communication International Limited	-	Financial assets carried at cost	1,250	-	-	-	
SCSB Property Insurance Agency	Geniron.Com.	-	Financial assets carried at cost	950	2,089	4.13	-	
	Prism Communication International Limited	-	Financial assets carried at cost	1,250	-	-	-	
SCSB Asset Management Ltd.	SCSB Leasing (China) Co., Ltd.	Indirect subsidiary	Investment in subsidiaries	NA	911,807	100.00	911,807	
Krinein Company	Shanghai Commercial Bank (HK)	Indirect subsidiary	Investment in subsidiaries	1,920	9,282,202	9.60	9,282,202	
Empresa Inversiones Generales, S.A.	Shanghai Commercial Bank (HK)	Indirect subsidiary	Investment in subsidiaries	9,600	46,411,009	48.00	46,411,009	

TABLE 3

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD. AND SUBSIDIARIES

INFORMATION OF SALE OF NON-PERFORMING LOANS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Date	Instruments	Content	Carrying Amount (Note)	Price	Gain on disposal	Collateral Condition	Relationship between SCSB
August 29, 2017	SC Lowy Primary Investments, Ltd.	Loans	$ -	$ 30,522	$ 30,522	None	None

Note: The book value is total or partial write-off of bad debts.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

RELATED INFORMATION OF INVESTEES
FOR THE YEAR ENDED DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars) (Share in Thousands)

Investee Company	Location	Main Businesses and Products	Percentage of Ownership (%)	Carrying Amount	Investment Income (Loss) Recognized	Consolidated Investment (Note 2)				Note
						Shares (In Thousands)	Shares (Pro Forma)	Shares (In Thousands)	Percentage of Ownership (%)	
Equity-method investments										
Financial business										
SCSB Asset Management Ltd.	Taipei City	Purchase and management of creditor's rights of financial institutions	100.00	$ 1,637,786	$ 75,300	160,000	-	160,000	100.00	
SCSB Life Insurance Agency	Taipei City	Insurance	100.00	191,579	83,583	5,000	-	5,000	100.00	
SCSB Property Insurance Agency	Taipei City	Insurance	100.00	57,959	2,240	5,000	-	5,000	100.00	
SCSB Marketing Ltd.	Taipei City	Marketing	100.00	7,780	1,480	500	-	500	100.00	
Paofoong Insurance Company Ltd.	Hong Kong	Insurance	40.00	269,803	21,938	500	-	500	100.00	
Shanghai Commercial Bank (HK)	Hong Kong	Banking and financial	57.60	55,861,579	5,445,883	11,520	-	11,520	57.60	
SCSB Leasing (China) Co., Ltd.	China	Leasing operation	100.00	911,807	33,877	Not applicable	-	Not applicable		
Non-financial business										
China Travel Service (Taiwan)	Taipei City	Travel services	99.99	316,327	24,944	38,943	-	38,943	99.99	
Kuo Hai Real Estate Management	Taipei City	Building material distribution	34.69	-	-	3,000	-	3,000	34.69	
Shancom Reconstruction Inc.	Liberia	Securities investment	100.00	58,089,977	5,228,648	5	-	5	100.00	
Wresqueue Limitada	Liberia	Securities investment	100.00	312,375	9,267	176	-	176	100.00	
Empresa Inversiones Generales, S.A.	Panama	Securities investment	100.00	1,659,525	1,784,493	1	-	1	100.00	
Krinein Company	Cayman Islands	Securities investment	100.00	478,422	359,294	2	-	2	100.00	
Safehaven Investment Corporation	Liberia	Securities investment	100.00	47,079	344	1	-	1	100.00	
Prosperity Realty Inc.	America	Real estate services	100.00	68,264	7,945	4	-	4	100.00	
Silks Place Taroko	Hualien	Travel services	45.00	186,816	26,464	20,372	-	20,372	45.00	
CTS Travel International Ltd.	Taipei City	Travel services	100.00	6,952	59	600	-	600	100.00	

Note 1: Investees are categorized into financial business and non-financial business.

Note 2: The Bank, board of directors' chairman, supervisors, managing directors, and the shares of investee companies invested in by related parties which comply with corporation law are considered.

THE SHANGHAI COMMERCIAL & SAVINGS BANK, LTD.

INVESTMENT IN MAINLAND CHINA
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars and Foreign Currency)

1. Investee company name, main business and products, total amount of paid-in capital, investment type, investment outflows and inflows, % ownership, investment gain (loss), carrying amount as of December 31, 2016 and inward remittance of earnings:

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type (Note 1)	Accumulated Outflow of Investment as of December 31, 2016	Investment Flows		Accumulated Outflow of Investment as of December 31, 2017	% Ownership of Direct or Indirect Investment	Investment Gain (Loss) (Note 2)	Carrying Amount as of December 31, 2017 (Note 3)	Accumulated Inward Remittance of Earnings as of December 31, 2017
					Outflow	Inflow					
SCSB Leasing (China) Co., Ltd.	Leasing operation	US$ 30,000	(c)	US$ 30,000	US$ -	US$ -	US$ 30,000	100.00	$ 33,877 (US$ 1,115)	$ 911,807 (US$ 30,721)	$ -
Bank of Shanghai	Approved by local government	US$ 1,196,589	(Note 4)	US$ 73,848	US$ -	US$ -	US$ 73,848	2.70	- (US$ -)	7,836,127 (US$ 264,020)	-
Shanghai Commercial Bank Ltd. - Shenzhen Branch	Approved by local government	US$ 61,475	(Note 4)	US$ 36,339	US$ -	US$ -	US$ 36,339	57.60	93,657 (US$ 3,082)	887,122 (US$ 29,890)	-
Shanghai Commercial Bank Ltd. - Shanghai Branch	Approved by local government	US$ 110,503	(Note 4)	US$ 64,717	US$ -	US$ -	US$ 64,717	57.60	23,060 (US$ 759)	1,909,268 (US$ 64,328)	-

2. Upper limit on investment in mainland China:

Accumulated Investment in Mainland China as of December 31, 2017 (Note 4)	Investment Amounts Authorized by Investment Commission, MOEA (Note 3)	Upper Limit on Investment Authorized by Investment Commission MOEA
$6,081,551 (US$204,904)	$6,112,596 (US$205,950)	$97,819,856

Note 1: Routes of investment in mainland China are listed below:

a. To directly invest.
b. To invest via countries other than Taiwan or China.
c. Others.

Note 2: In the column of "Investment Gain (Loss)"

a. It should be specified if the investment company preparing with no investment gain (loss);

b. It should be specified if the investment gain (loss) is allocated to one of the following three categories:

1) Financial report audited by an international accounting firm associated with an accounting firm in Taiwan.
2) Financial report audited by the accounting firm associated with the parent company in Taiwan.
3) Others.

Note 3: Calculated using the exchange rate on December 31, 2017.

Note 4: To invest via the subsidiary of the Bank, "Shanghai Commercial Bank (HK)".