KGI Bank and Subsidiaries

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

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The Bank required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2016 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 "Consolidated Financial Statements". Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we do not prepare a separate set of consolidated financial statements of affiliates.

Very truly yours,

KGI BANK

March 23, 2017

Deloitte.

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INDEPENDENT AUDITORS' REPORT

KGI Bank

Opinion

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

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

Basis for Opinion

We conducted our audits in accordance with Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Bank and its subsidiaries 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 consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated 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 for the consolidated financial statements of the Bank and its subsidiaries for the year ended December 31, 2016 are stated as follows:

Impairment of Discounts, Loans and Receivables

Loan is the main business of the Bank, which is material to the consolidated financial statement as a whole as it accounts for 44% of the total assets of the consolidated financial statement. As stated in Note 5, to determine the impairment loss of discounts, loans and receivables, the management should (1) judge whether there is any objective evidence of impairment, (2) estimate the expected future cash flow based on historical loss on assets with similar credit risk, and (3) review periodically the methodology and assumptions adopted for both expected future cash flow and its timing to decrease the difference between estimated and actual amount of impairment. The methodology and assumptions adopted for the assessment of objective evidence of impairment and the amount and timing of future cash flows (e.g. impairment occurrence rate, and recovery rate) require the exercise of critical judgments and estimates; therefore, the impairment of discounts, loans and receivables is deemed to be a key audit matter for the year ended December 31, 2016.

Refer to Notes 4, 5 and 42 for the critical accounting policy, judgment, estimation uncertainty and related disclosure of the impairment for discounts, loans and receivables.

Our key audit procedures performed in respect of the above area included the following:

We understood and assessed the Bank's internal controls related to the discounts, loans and receivables. We verified whether the methodology used in impairment model and parameters of the assumptions reflected actual outcome appropriately. We assessed the consistency of the impairment occurrence rate and recovery rate, etc. used in estimating expected future cash flows and evaluating values of collateral. Finally, we performed sampling on discounts, loans and receivables cases to verify whether the allowance thereof complies with the law and related regulations issued by the authorities.

Other Matter

We have also audited the parent company only financial statements of the Bank as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion and a modified unqualified opinion thereon, respectively.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the ability of the Bank and its subsidiaries 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 and its subsidiaries 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 financial reporting process of the Bank and its subsidiaries.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated 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 internal control of the Bank and its subsidiaries.

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 ability of the Bank and its subsidiaries 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 consolidated 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 and its subsidiaries to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated 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 and its subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank and its subsidiaries 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 consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Mei-Hui Wu and Cheng-Hung Kuo.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 23, 2017

<u>*Notice to Readers*</u>

The accompanying consolidated financial statements are intended only to present the consolidated 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 consolidated financial statements are those generally accepted and applied in the Republic of China.

For the convenience of readers, the independent auditors' report and the accompanying consolidated 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 consolidated financial statements shall prevail.

KGI BANK AND SUBSIDIARIES

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

	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 38)	$ 6,844,281	1	$ 8,152,612	1
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Notes 7, 38 and 39)	71,884,564	13	87,125,284	16
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 38)	97,839,572	17	79,062,398	14
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4 and 9)	795,850	-	36,176,824	7
RECEIVABLES, NET (Notes 4, 10, 38 and 39)	28,853,761	5	41,174,997	8
CURRENT TAX ASSETS (Notes 4 and 36)	16	-	31,312	-
ASSETS HELD FOR SALE, NET (Notes 4 and 15)	12,290	-	-	-
DISCOUNTS AND LOANS, NET (Notes 4, 11 and 38)	252,376,992	44	217,780,328	40
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 4, 12 and 39)	88,722,046	15	55,250,667	10
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET (Notes 4 and 13)	733,888	-	701,633	-
OTHER FINANCIAL ASSETS, NET (Notes 14 and 39)	3,883,814	1	268,704	-
PROPERTY AND EQUIPMENT, NET (Notes 4, 15 and 39)	5,937,605	1	6,034,773	1
INVESTMENT PROPERTY, NET (Notes 4, 16 and 39)	671,022	-	560,471	-
INTANGIBLE ASSETS, NET	256,303	-	205,124	-
DEFERRED TAX ASSETS (Notes 4 and 36)	4,477,043	1	5,059,326	1
OTHER ASSETS, NET (Notes 17, 26, 38 and 39)	8,853,552	2	8,600,643	2
TOTAL	$ 572,142,599	100	$ 546,185,096	100
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from the Central Bank and banks (Notes 18 and 38)	$ 30,917,374	5	$ 9,561,475	2
Financial liabilities at fair value through profit or loss (Notes 4, 8 and 38)	39,408,142	7	26,184,655	5
Notes and bonds issued under repurchase agreements (Notes 4, 8, 12 and 19)	62,138,314	11	61,010,030	11
Payables (Notes 20 and 38)	4,189,647	1	4,269,459	1
Current tax liabilities (Notes 4, 36 and 38)	379,732	-	187,682	-
Deposits and remittances (Notes 21 and 38)	343,447,506	60	354,170,845	65
Bank debentures payable (Note 22)	2,684,236	1	2,612,172	-
Principal received on structured notes	21,875,414	4	22,300,825	4
Commercial paper payable, net (Note 23)	2,557,309	-	2,107,782	-
Other borrowings (Notes 24 and 38)	3,162,103	1	3,872,209	1
Other financial liabilities	877	-	4,792	-
Provisions (Notes 4, 25 and 26)	236,659	-	379,698	-
Deferred tax liabilities (Notes 4 and 36)	78,585	-	58,580	-
Other liabilities (Note 27)	2,146,125	-	1,566,487	-
Total liabilities	513,222,023	90	488,286,691	89
EQUITY (Notes 4 and 28)				
Equity attributable to owners of parent				
Capital				
Common stock	46,061,623	8	46,061,623	9
Capital surplus				
Additional paid-in capital	7,245,710	1	7,245,710	1
Other capital surplus	3,570	-	1,568	-
Total capital surplus	7,249,280	1	7,247,278	1
Retained earnings				
Legal reserve	2,573,818	-	1,626,036	-
Special reserve	409,670	-	-	-
Unappropriated earnings	3,735,739	1	3,159,273	1
Total retained earnings	6,719,227	1	4,785,309	1
Other Equity				
Exchange differences on translation of foreign financial statements	29,311	-	168,161	-
Unrealized losses on available-for-sale financial assets	(1,334,152)	-	(577,831)	-
Total other equity	(1,304,841)	-	(409,670)	-
Total equity of parent company	58,725,289	10	57,684,540	11
Non-controlling interests	195,287	-	213,865	-
Total equity	58,920,576	10	57,898,405	11
TOTAL	$ 572,142,599	100	$ 546,185,096	100

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

KGI BANK AND SUBSIDIARIES

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

	2016		2015		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUES (Notes 4, 29 and 38)	$ 9,067,339	84	$ 11,185,216	102	(19)
INTEREST EXPENSES (Notes 4, 29 and 38)	(3,304,744)	(31)	(3,857,876)	(35)	(14)
NET INTEREST	5,762,595	53	7,327,340	67	(21)
NET REVENUES OTHER THAN INTEREST					
Service fee income, net (Notes 4, 30 and 38)	1,506,240	14	1,502,861	14	-
Gains on financial assets or liabilities measured at fair value through profit or loss, net (Notes 4 and 31)	1,726,287	16	1,445,569	13	19
Realized gains on available-for-sale financial assets, net (Notes 4 and 32)	1,176,388	11	2,027,304	19	(42)
Foreign exchange gain (loss), net (Note 4)	355,524	3	(1,388,706)	(13)	126
Share of the profit of associates for using equity method (Note 4)	13,554	-	17,138	-	(21)
Other non-interest income, net (Notes 33 and 38)	248,535	3	26,416	-	841
Total net revenues other than interest	5,026,528	47	3,630,582	33	38
TOTAL NET REVENUE	10,789,123	100	10,957,922	100	(2)
REVERSAL OF ALLOWANCE (ALLOWANCE) FOR BAD DEBTS EXPENSE AND GUARANTEE LIABILITY PROVISION (Note 4)	(258,744)	(2)	416,765	4	(162)
OPERATING EXPENSES (Notes 26, 34, 35 and 38)					
Employee benefits expense	(3,437,649)	(32)	(3,220,196)	(30)	7
Depreciation and amortization expense	(305,431)	(3)	(261,261)	(2)	17
Other general and administrative expenses	(2,031,637)	(19)	(2,074,541)	(19)	(2)
Total operating expenses	(5,774,717)	(54)	(5,555,998)	(51)	4

(Continued)

KGI BANK AND SUBSIDIARIES

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

	2016		2015		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INCOME BEFORE INCOME TAX	$ 4,755,662	44	$ 5,818,689	53	(18)
INCOME TAX EXPENSE (Notes 4 and 36)	(927,070)	(9)	(617,272)	(6)	50
NET INCOME	3,828,592	35	5,201,417	47	(26)
OTHER COMPREHENSIVE INCOME (Note 4)					
Items that will not be reclassified subsequently to profit or loss, net of tax					
Losses on remeasurements of defined benefit plans	(109,967)	(1)	(111,788)	(1)	(2)
Share of the other comprehensive income (loss) of associates accounted for using the equity method	33	-	(39)	-	185
Income tax related to the items that will not be reclassified subsequently to profit or loss	18,801	-	18,585	-	1
Items that will be reclassified subsequently to profit or loss, net of tax					
Exchange differences on translation of foreign financial statements	(127,209)	(1)	46,843	1	(372)
Unrealized losses on available-for-sale financial assets	(807,356)	(7)	(547,141)	(5)	48
Share of the other comprehensive income (loss) of associates accounted for using the equity method	37,568	-	(1,572)	-	2,490
Other comprehensive loss, net of tax	(988,130)	(9)	(595,112)	(5)	66
TOTAL COMPREHENSIVE INCOME, NET OF TAX	$ 2,840,462	26	$ 4,606,305	42	(38)

(Continued)

KGI BANK AND SUBSIDIARIES

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

	2016		2015		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
NET PROFIT ATTRIBUTABLE TO:					
Shareholders of parent company	$ 3,827,023	35	$ 4,017,475	37	(5)
Former owner of business combination under common control	-	-	1,165,910	10	(100)
Non-controlling interests	1,569	-	18,032	-	(91)
	$ 3,828,592	35	$ 5,201,417	47	(26)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Shareholders of parent company	$ 2,840,568	26	$ 2,607,484	24	9
Former owner of business combination under common control	-	-	1,981,749	18	(100)
Non-controlling interests	(106)	-	17,072	-	(101)
	$ 2,840,462	26	$ 4,606,305	42	(38)
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 37)					
Basic	$ 0.83		$ 1.13		

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

KGI BANK AND SUBSIDIARIES

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

	Equity Attributable to Owners of Parent										
			Retained Earnings			Other Equity					
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Total	Equity to Former Owner of Business Combination under Common Control	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2015	$ 15,307,334	$ 137,331	$ 915,755	$ 142,987	$ 2,405,405	$ 36,313	$ (31,466)	$ 18,913,659	$ -	$ -	$ 18,913,659
Retrospective adjustment of equity attributable to the former owner's reorganization of entities under its common control	-	-	-	-	-	-	-	-	36,018,251	219,975	36,238,226
BALANCE AT JANUARY 1, 2015 AS RESTATED	15,307,334	137,331	915,755	142,987	2,405,405	36,313	(31,466)	18,913,659	36,018,251	219,975	55,151,885
Appropriation of earnings											
Legal reserve	-	-	710,281	-	(710,281)	-	-	-	-	-	-
Cash dividends - common stocks	-	-	-	-	(1,838,110)	-	-	(1,838,110)	-	-	(1,838,110)
Reversal of special reserve	-	-	-	(142,987)	142,987	-	-	-	-	-	-
Change in equity of associate accounted for using equity method	-	103	-	-	-	-	-	103	-	-	103
Net income for the year ended December 31, 2015	-	-	-	-	4,017,475	-	-	4,017,475	-	11,825	4,029,300
Other comprehensive income (loss) for the year ended December 31, 2015, net of income tax	-	-	-	-	(92,654)	102,919	(1,420,256)	(1,409,991)	-	(1,134)	(1,411,125)
Total comprehensive income (loss) for the year ended December 31, 2015	-	-	-	-	3,924,821	102,919	(1,420,256)	2,607,484	-	10,691	2,618,175
Total comprehensive income of former owner of business combination under common control	-	-	-	-	-	-	-	-	1,981,749	6,381	1,988,130
Reorganization	30,754,289	7,108,440	-	-	(765,549)	28,929	873,891	38,000,000	(38,000,000)	-	-
Share-based payments	-	1,404	-	-	-	-	-	1,404	-	-	1,404
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	(23,182)	(23,182)
BALANCE AT DECEMBER 31, 2015	46,061,623	7,247,278	1,626,036	-	3,159,273	168,161	(577,831)	57,684,540	-	213,865	57,898,405
Appropriation of earnings											
Legal reserve	-	-	947,782	-	(947,782)	-	-	-	-	-	-
Special reserve	-	-	-	409,670	(409,670)	-	-	-	-	-	-
Cash dividends - common stocks	-	-	-	-	(1,801,821)	-	-	(1,801,821)	-	-	(1,801,821)
Change in equity of associate accounted for using equity method	-	63	-	-	-	-	-	63	-	-	63
Net income for the year ended December 31, 2016	-	-	-	-	3,827,023	-	-	3,827,023	-	1,569	3,828,592
Other comprehensive loss for the year ended December 31, 2016, net of income tax	-	-	-	-	(91,284)	(138,850)	(756,321)	(986,455)	-	(1,675)	(988,130)
Total comprehensive income (loss) for the year ended December 31, 2016	-	-	-	-	3,735,739	(138,850)	(756,321)	2,840,568	-	(106)	2,840,462
Share-based payments	-	1,939	-	-	-	-	-	1,939	-	-	1,939
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	(18,472)	(18,472)
BALANCE AT DECEMBER 31, 2016	$ 46,061,623	$ 7,249,280	$ 2,573,818	$ 409,670	$ 3,735,739	$ 29,311	$ (1,334,152)	$ 58,725,289	$ -	$ 195,287	$ 58,920,576

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

KGI BANK AND SUBSIDIARIES

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 4,755,662	$ 5,818,689
Adjustments for:		
Depreciation expenses	211,843	175,042
Amortization expenses	93,588	86,219
Allowance (reversal of allowance) for bad debts expense and guarantee liability provision	258,744	(416,765)
Interest expense	3,304,744	3,857,876
Interest income	(9,067,339)	(11,185,216)
Dividend income	(295,668)	(294,819)
Share of profits of associates accounted for using equity method	(13,554)	(17,138)
Others	2,355	1,842
Changes in operating assets and liabilities		
Increase in due from the Central Bank and call loans to banks	(16,049,616)	(12,455,322)
Increase in financial assets at fair value through profit or loss	(18,777,174)	(26,029,011)
Decrease in receivables	12,531,829	16,446,664
(Increase) decrease in discounts and loans	(34,717,956)	8,630,578
(Increase) decrease in available-for-sale financial assets	(34,283,671)	63,377,611
Decrease in held-to-maturity financial assets	-	18,600,000
(Increase) decrease in other financial assets	(3,615,110)	4,041,436
Increase in other assets	(196,548)	(1,851,966)
Increase (decrease) in deposits from the Central Bank and banks	21,355,899	(3,119,303)
Increase in financial liabilities at fair value through profit or loss	13,223,487	1,831,071
Increase (decrease) in notes and bonds issued under repurchase agreements	1,128,284	(7,818,415)
Increase (decrease) in payables	(343,443)	50,064
(Decrease) increase in deposits and remittances	(10,723,339)	37,594,497
Decrease in other financial liabilities	(429,327)	(38,378,448)
Increase (decrease) in other liabilities	262,503	(323,178)
Cash (outflow) inflow generated from operations	(71,383,807)	58,622,008
Interest received	8,708,287	11,807,755
Dividend received	314,568	319,120
Interest paid	(2,972,263)	(3,992,739)
Income taxes paid	(168,134)	(184,184)
Net cash flows generated from (used in) operating activities	(65,501,349)	66,571,960
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(255,448)	(414,768)
Acquisition of intangible assets	(128,024)	(84,375)
Proceeds from disposal of property and equipment	15,843	5,370
Net cash flows used in investing activities	(367,629)	(493,773)

(Continued)

KGI BANK AND SUBSIDIARIES

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

	2016	2015
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	$ (342,911)	$ (536,775)
Increase in commercial paper payable	449,527	1,201,245
Repayments in bank debentures payable	-	(9,928,132)
Repayments of long-term borrowings	(367,195)	(642,671)
Cash dividends paid	(1,801,821)	(1,838,110)
Changes in non-controlling interest	(18,472)	(23,182)
Net cash flows used in financing activities	(2,080,872)	(11,767,625)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(29,791)	(8,225)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(67,979,641)	54,302,337
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	110,638,094	56,335,757
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 42,658,453	$ 110,638,094

Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets as of December 31, 2016 and 2015:

	December 31	
	2016	2015
Cash and cash equivalents in consolidated balance sheets	$ 6,844,281	$ 8,152,612
Due from the Central Bank and call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7	35,018,322	66,308,658
Securities purchased under agreements to resell qualifying as cash and cash equivalents under the definition of IAS 7	795,850	36,176,824
Cash and cash equivalents in consolidated statements of cash flows	$ 42,658,453	$ 110,638,094

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

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

KGI Bank (the Bank) engages in banking operations regulated by the Banking Act of the Republic of China (the Banking Act).

As of December 31, 2016, the Bank had a main office, an international banking department, a trust department, an insurance department, various major departments, an offshore banking unit (OBU), and 51 domestic branches.

On April 8, 2014, the Bank's extraordinary shareholders' meeting resolved to the exchange of 0.2 share of China Development Financial Holding Corporation (CDFH) and NT$13.4 for one share of the Bank. On August 11, 2014, the Bank's board of directors approved September 15, 2014 as the date of the share swap after this transaction was approved by the Financial Supervisory Commission (FSC). Upon completion of the share swap, the Bank became CDFH's wholly owned subsidiary and the trading of the Bank's shares on the Taiwan Stock Exchange was terminated.

On October 9, 2014, under the approval of the board of directors, who had been authorized to exercise the functions of the shareholders' meeting, Cosmos Bank's Articles of Incorporation were amended and the bank's name became KGI Bank. The FSC approved the name change on November 10, 2014, and the Ministry of Economic Affairs approved the Bank's revised articles and change of registration on November 25, 2014.

On March 2, 2015 and April 13, 2015, the Bank's board of directors again exercised the functions of the shareholders' meeting and approved the transfer to the Bank from China Development Industrial Bank (CDIB) of (a) the assets and liabilities associated with the commercial banking business of CDIB and (b) CDIB's holdings of shares in CDIB's leasing subsidiaries and in the Taiwan Financial Asset Service Corporation in accordance with Article 185 of the Company Act and Article 27 of the Business Mergers and Acquisitions Act. On April 16, 2015, the transaction was approved by the FSC, and the chairman was authorized by the board of directors to approve the date of transfer of business on May 1, 2015.

The assets and liabilities transferred from CDIB were as follows:

	Amount
Assets	
Financial assets	$ 395,229,150
Other assets	30,994
	395,260,144
Liabilities	
Financial liabilities	357,055,701
Other liabilities	204,443
	357,260,144
Net amount	$ 38,000,000

The above transfer was treated as organization restructuring under joint control, regarding the date CDFH had control over the Bank as the date consolidated.

The Bank's board of director approved application for operating insurance broker business according to Regulations Governing Insurance Brokers and conducted the short-form merger with the subsidiary Cosmos Insurance Brokers Co., Ltd. according to Business Mergers and Acquisitions Act. The Bank was the survivor company after the merger. The application and the merger were approved by the FSC on May 12, 2016. For cooperating to operate insurance broker business, the Bank's board of director approved June 30, 2016 as the date of the merger.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were reported to the board of directors and authorized for issue on March 23, 2017.

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

a. The international Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC), and Interpretations of IAS (SIC) endorsed by the FSC for application starting from 2017 and amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks

Order No. 1050026834 and Order No. 10610000830 issued by the FSC stipulated that starting January 1, 2017, the Bank and subsidiaries should apply the IFRS, IAS, IFRIC and SIC (collectively, the IFRSs) issued by the IASB and endorsed by the FSC for application starting from 2017 and the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks.

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

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

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

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

The initial application in 2017 of the above IFRSs and related amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks would not have any material impact on the Bank and subsidiaries' accounting policies, except for the following:

1) Amendment to IAS 36 "Recoverable Amount Disclosures for Non-financial Assets"

   The amendment clarifies that the recoverable amount of an asset or a cash-generating unit is disclosed only when an impairment loss on the asset has been recognized or reversed during the period. Furthermore, if the recoverable amount of an item of property and equipment for which impairment loss has been recognized or reversed is fair value less costs of disposal, the Bank and subsidiaries are required to disclose the fair value hierarchy. If the fair value measurements are categorized within Level 2 or Level 3, the valuation technique and key assumptions used to measure the fair value are disclosed. The discount rate used is disclosed if such fair value less costs of disposal is measured by using present value technique. The amendment will be applied retrospectively.

2) IFRIC 21 "Levies"

   IFRIC 21 provides guidance on when to recognize a liability for a levy imposed by a government. It addresses the accounting for a liability whose timing and amount is certain and the accounting for a provision whose timing or amount is not certain. The Bank and subsidiaries accrues related liability when the transaction or activity that triggers the payment of the levy occurs. Therefore, if the obligating event occurs over a period of time (such as generation of revenue over a period of time), the liability is recognized progressively. If an obligation to pay a levy is triggered upon reaching a minimum threshold (such as a minimum amount of revenue or sales generated), the liability is recognized when that minimum threshold is reached.

3) Annual Improvements to IFRSs: 2010-2012 Cycle

   The amended IFRS 8 "Operating Segments" requires the Bank and subsidiaries to disclose the judgments made by management in applying the aggregation criteria to operating segments, including a description of the operating segments aggregated and the economic indicators assessed in determining whether the operating segments have "similar economic characteristics". The amendment also clarifies that a reconciliation of the total of the reportable segments' assets to the Bank and subsidiaries' assets should only be provided if the segments' assets are regularly provided to the chief operating decision-maker. The judgements made in applying aggregation criteria should be disclosed retrospectively upon initial application of the amendment in 2017.

   When the amended IFRS 13 "Fair Value Measuremeent" becomes effective in 2017, the short-term receivables and payables with no stated interest rate will be measured at their invoice amounts without discounting, if the effect of not discounting is immaterial.

4) Annual Improvements to IFRSs: 2011-2013 Cycle

   The scope in IFRS 13 of the portfolio exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even if those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32.

IAS 40 “Investment Property” was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive and application of both standards may be required to determine whether the investment property acquired is acquisition of an asset or a business combination. The amendment will be applied prospectively to acquisitions of investment property on or after January 1, 2017.

5) Amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks

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 by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments include emphasis on certain recognition and measurement considerations as well as requirements for disclosures of related party transactions.

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, 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.

The amendments also require additional disclosure if there is a significant difference between the actual operation after business combination and the expected benefit on acquisition date.

The disclosures of related party transactions and impairment of goodwill will be enhanced when the above amendments are retrospectively applied in 2017.

The above new, amended and revised standards or interpretations and Amendments to the Regulations Governing the Preparation of Public Financial Reports endorsed by the FSC will be applied starting from 2017. The above new, amended and revised standards or interpretations have no significant impact on the Bank and subsidiaries.

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

The Bank and subsidiaries have not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

The FSC announced that the Bank and subsidiaries should apply IFRS 9 and IFRS 15 starting January 1, 2018. As of the date the consolidated financial statements were authorized for issue, the FSC has not announced the effective dates of other new IFRSs.

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 “Classification and Measurement of Share-based Payment Transactions”	January 1, 2018
IFRS 9 “Financial Instruments”	January 1, 2018
Amendments to IFRS 9 and IFRS 7 “Mandatory Effective Date of IFRS 9 and Transition Disclosures”	January 1, 2018
Amendments to IFRS 10 and IAS 28 “Sale or Contribution of Assets between an Investor and its Associate or Joint Venture”	To be determined by IASB
IFRS 15 “Revenue from Contracts with Customers”	January 1, 2018
Amendment to IFRS 15 “Clarification to IFRS 15”	January 1, 2018
IFRS 16 “Leases”	January 1, 2019

(Continued)

New IFRSs	Effective Date Announced by IASB (Note 1)
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

(Concluded)

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

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

1) IFRS 9 "Financial Instruments"

Recognition and measurement of financial assets

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

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

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

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

Except for above, all other financial assets are measured at fair value through profit or loss. However, the Bank and subsidiaries 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 impairment of financial assets

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

For purchased or originated credit-impaired financial assets, the Bank and subsidiaries 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.

Transition

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

2) IFRS 15 "Revenue from Contracts with Customers"

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations.

When applying IFRS 15, the Bank and subsidiaries shall recognize revenue by applying the following steps:

a) Identify the contract with the customer;
b) Identify the performance obligations in the contract;
c) Determine the transaction price;
d) Allocate the transaction price to the performance obligations in the contracts; and
e) Recognize revenue when the entity satisfies a performance obligation.

When IFRS 15 and related amendment are effective, an entity 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.

3) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments stipulated that, when the Bank and subsidiaries sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate, the gain or loss resulting from the transaction is recognized in full. Also, when the Bank and subsidiaries loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Bank and subsidiaries sells or contributes assets that do not constitute a business to an associate, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate, i.e. the Bank and subsidiaries' share of the gain or loss is eliminated. Also, when the Bank and subsidiaries loses control of a subsidiary that does not contain a business but retains significant influence or joint control in an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the unrelated investors' interest in the associate, i.e. the Bank and subsidiaries' share of the gain or loss is eliminated.

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

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

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

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

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

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

6) Annual Improvements to IFRSs 2014-2016 Cycle

Several standards, including IFRS 12 "Disclosure of Interests in Other Entities" and IAS 28 "Investments in Associates and Joint Ventures," were amended in this annual improvement.

The amendment to IFRS 12 clarifies that when an entity's interest in a subsidiary, a joint venture or an associate is classified as held for sale or is included in a disposal group that is classified as held for sale, the entity is not required to disclose summarized financial information of that subsidiary, joint venture or associate in accordance with IFRS 12. However, all other requirements in IFRS 12 apply to interests in entities classified as held for sale in accordance with IFRS 5.

The amendment to IAS 28 clarified that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organization, or a mutual fund, or a unit trust or similar entities (including investment-linked insurance funds), the Bank and subsidiaries may elect to measure that investment at fair value through profit or loss. The Bank and subsidiaries shall make this election separately for each associate or joint venture at the initial recognition of the associate or joint venture.

The Bank and subsidiaries shall apply the aforementioned amendments retrospectively.

7) Amendments to IAS 40 "Transfers of Investment Property"

The amendments clarify that the Bank and subsidiaries should transfer to, or from, investment property when, and only when, the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments also clarify that the evidence of the change in use is not limited to those illustrated in IAS 40.

The Bank and subsidiaries may elect to apply the amendments prospectively and reclassify the property as required to reflect the conditions that exist on the date of initial application. The Bank and subsidiaries are also required to disclose the reclassified amounts and such amounts should be included in the reconciliation of the carrying amount of investment property. Alternatively, the Bank and subsidiaries may elect to apply the amendments retrospectively if, and only if, that is possible without the use of hindsight.

8) IFRIC 22 "Foreign Currency Transactions and Advance Consideration"

IAS 21 stipulate that a foreign currency transaction shall be recorded on initial recognition in the functional currency by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency on the date of the transaction. IFRIC 22 further explains that the date of the transaction is the date on which an entity recognizes a non-monetary asset or non-monetary liability from payment or receipt of advance consideration. If there are multiple payments or receipts in advance, the entity shall determine the date of the transaction for each payment or receipt of advance consideration.

The Bank and subsidiaries shall apply IFRIC 22 either retrospectively or prospectively to all assets, expenses and income in the scope of the Interpretation initially recognized on or after (a) the beginning of the reporting period in which the entity first applies IFRIC 22, or (b) the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies IFRIC 22.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The accompanying consolidated financial statements have been prepared in conformity with Regulations Governing the Preparation of Financial Reports by Public Banks, and the IFRSs as endorsed by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The operating cycle in the banking industry cannot be reasonably identified; thus, asset and liability accounts were not classified as current or noncurrent. Nevertheless, these accounts were properly categorized in accordance with the nature of each account and sequenced according to their liquidity. Please refer to Note 42 for the maturity analysis of assets and liabilities.

Principles for Preparing Consolidated Financial Statements

The consolidated financial report includes the financial reports of the Bank and subsidiaries. All significant intra-group transactions, balances, income and expenses have been eliminated in full upon consolidation.

The consolidated entities were as follows:

Investor	Subsidiary	Business Features	Holding Percentage (%)		Note
			December 31, 2016	December 31, 2015	
The Bank	Cosmos Insurance Brokers Co., Ltd.	Insurance broker	-	100.00	Please refer to Note 1.
	CDIB Management Consulting Corporation	Management and consulting	100.00	100.00	
CDIB Management Consulting Corporation	CDC Finance & Leasing Corporation	Leasing	76.04	76.04	
	CDIB International Leasing Corporation	Leasing	100.00	100.00	

Foreign Currencies

The Bank recognizes foreign-currency transactions in the respective currencies in which they are denominated, while the Bank and subsidiaries other than the Bank recognizes at the rates of exchange prevailing at the dates of transactions. Foreign-currency gains or losses of the Bank are recorded in New Taiwan dollars using rates in effect at the time 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 occurred.

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 consolidated financial statements, the assets and liabilities of the Bank and subsidiaries' 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. Exchange differences arising are recognized in other comprehensive income (attributed to the shareholders of the parent company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the parent company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents include time deposits with maturities of three months or less from the date of acquisition and excess margin of futures classified as cash equivalents. Their carrying amounts are similar to fair value.

Investments in Associates

An associate is an entity over which the Bank and subsidiaries have significant influence and that is not a subsidiary.

The Bank and subsidiaries uses the equity method to account for their investments in associates.

Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Bank and subsidiaries' share of profit or loss and other comprehensive income of the associate. The Bank and subsidiaries also recognize the changes in the Bank and subsidiaries' share of equity of associates.

Any excess of the cost of acquisition over the Bank and subsidiaries' share of the net fair value of the identifiable assets and liabilities of an associate 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 and subsidiaries' 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 the Bank and subsidiaries subscribe for additional new shares of the associate at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Bank and subsidiaries' proportionate interest in the associate. The Bank and subsidiaries records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Bank and subsidiaries' share of equity of associates. If the Bank and subsidiaries' ownership interest is reduced due to the additional subscription of the new shares of associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Bank and subsidiaries' share of losses of an associate equals or exceeds its interest in that associate (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Bank and subsidiaries' net investment in the associate), the Bank and subsidiaries' discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Bank and subsidiaries has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Bank and subsidiaries discontinue the use of the equity method from the date on which it ceases to have significant influence over the associate. 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 associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Bank and subsidiaries account for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

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

Financial Instruments

Financial assets and financial liabilities are recognized when the Bank and subsidiaries become 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 and liabilities

   All regular way purchases or sales of financial assets and liabilities are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

   1) Measurement category

      a) Financial assets or liabilities at fair value through profit or loss

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

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

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

ii. The financial 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 and subsidiaries' documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

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

Financial assets or liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Other financial liabilities are measured at amortized cost using the effective interest method. Fair value is determined in the manner described in Note 41.

Investments in equity instruments under financial assets at fair value through profit or loss that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are subsequently measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

b) Available-for-sale financial assets

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

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

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

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

c) Loans and receivables

Loans and receivables are initially recognized at its fair value, which is usually the transaction price, plus significant transaction costs, service fees paid or received, premiums or discounts, etc. After initial recognition, loans and receivables shall be measured subsequently using the effective interest method in accordance with related rules. If the effect of discounting is not significant, the loans and receivables can be measured at initial undiscounted value in accordance with Regulations Governing the Preparation of Financial Reports by Public Banks.

2) Impairment of financial assets

a) Financial assets measured at amortized cost

The Bank and subsidiaries' discounts and loans, accounts receivable, interest receivable, and other receivables are assessed for impairment at each balance sheet date and 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 above credit losses, the estimated future cash flows of the asset have been affected. Loans and receivables that are assessed as not impaired individually are further assessed for impairment on a collective basis.

For financial assets measured 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 (reflected the effect of collateral), discounted at the financial asset's original effective interest rate.

Based on the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual loans, credit assets classified as normal (this balance should be net of the balance of borrowings by ROC government agencies from the Bank), special mention, substandard, with doubtful collectability and uncollectable or loss incurring are evaluated on the basis of the borrowers'/clients' financial condition and delinquency record on interest payments, and these assets have allowances at 1%, 2%, 10%, 50% and 100%, respectively, of outstanding credit. The doubtful accounts of credit cards receivables are evaluated on the basis of Regulations Governing Institutions Engaging In Credit Card Business. The minimum allowance for credit assets on or off balance sheet is equal to the book value of the above listed.

Based on the Order No. 10300329440 issued by the FSC, for the Bank to have an enhanced risk coverage toward collateral and exposures in Mainland China, the minimum provision for the loan loss reserve is 1.5% of the mortgage and construction loans that have been classified as normal assets before 2016. Based on the Order No. 10410001840 issued by the FSC, for the Bank to have an enhanced control of the exposure to the risk in Mainland China, the minimum provision for the credit loss reserve is 1.5% of the credit include short-term trade finance that were granted to companies based in Mainland China before 2015 and classified as normal assets.

Credit deemed uncollectable may be written off under the approval of the board of directors.

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.

b) Available-for-sale financial asset

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

In respect of available-for-sale equity securities, impairment loss previously recognized in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available-for-sale debt securities, impairment losses 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.

c) Financial assets measured at cost

When objective evidences indicate that financial assets measured at cost are impaired, the amount of the loss is recognized as “loss on asset impairment’ and cannot be reversed.

5) Derecognition of financial assets or liabilities

The Bank and subsidiaries derecognize 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; and derecognize a financial liability when obligations are discharged, cancelled or they expire.

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

b. 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 a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Derivatives embedded in nonderivative 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.

Securities Purchased and Sold Under Resell and Repurchase Agreements

For securities purchased under resell agreements, the payment to a counter-party is treated as a financing transaction. For securities sold under repurchase agreements, the payment by a counter-party and the related interest revenue or interest expense are recognized on the accrual basis.

Property and Equipment

Property and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss when it is probable that future economic benefits associated with the item will flow to the Bank and subsidiaries and the cost of the item can be measured reliably.

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

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

Non-current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through a continuous use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

Investment Properties

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

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

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

Nonfinancial Asset Impairment

The Bank and subsidiaries evaluate the possibility of impairment loss on nonfinancial assets as of the balance sheet date. If there is sufficient objective evidence of asset impairment, the Bank and subsidiaries recognizes impairment whenever the recoverable amount of the asset or the cash-generating unit is below the carrying amount of an asset, and this impairment loss either is charged to accumulated impairment or reduces the carrying amount of an asset directly. After the recognition of an impairment loss, the depreciation (amortization) charged to the assets should be adjusted in future years at the revised asset carrying amount (net of accumulated impairment), less its salvage value, on a systematic basis over its remaining service life. If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income and debited to accumulated impairment or is used to increase the carrying amount of the asset. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

Provisions and Contingent Liabilities

Provisions are recognized when the Bank and subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank and subsidiaries 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.

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the entity, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Employee Benefits

a. Short-term employee benefits

   The undiscounted amount of benefits expected to be paid in respect of service rendered by employees in an accounting period is recognized in that period.

b. Retirement benefits

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

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

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

c. Other long-term employee benefits

   Other long-term employee benefits are accounted for in the same way as the accounting required for defined benefit plan except that remeasurement is recognized in profit or loss.

Taxation

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

a. Current tax

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

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

Since 2015, the Bank has used the linked-tax system for income tax filings. Under this system, the Bank adjusts the current/deferred income tax assets (liabilities), income tax payable (receivable) and income tax expense (profit) on a systematic and consistent basis. Related payables and receivables are recorded in each book of the Bank's qualified subsidiaries.

Based on the "Basic Income Tax Act," if the basic income tax is greater than the amount of regular income tax, the income tax payable should be the basic income tax. The incremental tax payable is recorded as current income tax expense.

b. Deferred tax

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 acquisition to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

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

c. Current and deferred tax for the period

Current and deferred taxes 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 taxes are also recognized in other comprehensive income or directly in equity respectively.

Revenue Recognition

Interest revenue arose from credits are estimated on an accrual basis. All interest accrued shall be suspended from the date the loans are classified as nonperforming loans. Interest earned from nonperforming loans shall be recognized as interest income when collected.

Service fee income is recognized when collected or when the majority of project is completed. Service fee income is received when loans and receivables are recognized. The service fee income which is caused by loans or receivables shall be recognized as interest revenue when they meet a suggested policy announced by the Bankers Association of the Republic of China. This policy requires an individual loan that meets the materiality criteria to have its effective interest rate be consistent with its interest revenue. Overall, the service fees shall be adjusted from the original agreed interest rate to the effective interest rate.

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.

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank and subsidiaries' net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank and subsidiaries' net investment outstanding in respect of the leases.

Rental income (expense) from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the lessee's benefit from the use (consumption) of the leased asset. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank and subsidiaries' accounting policies, which are described in Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

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

Impairment loss on loans and receivables

The management reviews loan and receivable portfolios to assess impairment periodically. To determine whether an impairment loss should be recognized, the management exercises its judgments on whether there is any indication of impairment. For the purpose of impairment assessment, the management determines the expected future cash flows based on historical loss on assets with similar credit risks. The management also reviews periodically the methodology and assumptions adopted for both expected future cash flow and its timing to decrease the difference between estimated and actual amount of impairment.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Due from banks	$ 4,339,174	$ 6,062,891
Cash on hand	1,244,322	1,277,725
Cash in banks	494,670	475,987
Checks for clearing	619,580	220,931
Excess margin of futures	146,535	115,078
	$ 6,844,281	$ 8,152,612

Reconciliations of cash and cash equivalents between the consolidated statements of cash flows and the consolidated balance sheets as of December 31, 2016 and 2015 are shown in the consolidated statements of cash flows.

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

	December 31	
	2016	2015
Due from the Central Bank	$ 37,130,000	$ 44,020,000
Call loans to banks	13,568,474	32,785,506
Deposit reserve - demand accounts	8,078,055	6,675,432
Deposit reserve - checking accounts	12,358,953	2,791,414
Due from the Central Bank - interbank settlement funds	600,599	700,828
Deposit reserve - foreign currencies	148,483	152,104
	$ 71,884,564	$ 87,125,284

Under a directive issued by the Central Bank of the ROC, New Taiwan dollar - denominated deposit reserve are determined monthly at prescribed rates based on average balance of the Bank's deposits. Deposit reserve - demand account should not be used, except for adjusting the deposit reserve account monthly.

In addition, separate foreign-currency deposit reserves are determined at prescribed rates based on balances of foreign-currency deposits. These reserves may be withdrawn anytime at no interest.

For the certificates of deposit issued by the Central Bank of the ROC pledged as collateral for day-term overdraft, please refer to Note 39.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
Financial assets held for trading		
Derivative instruments		
Interest rate swap contracts	$ 9,633,684	$ 4,866,036
Currency swap contracts	11,634,089	11,267,269
Option contracts	2,836,207	3,357,704
Others	1,330,628	483,568
Non-derivative financial assets		
Bank debentures	20,819,329	33,176,658
Convertible (exchangeable) corporate bonds	3,121,853	2,184,662
Corporate bonds	1,979,093	2,370,073
Government bonds	2,320,164	982,889
Commercial papers	2,797,870	-
Others	3,849	217,063
	56,476,766	58,905,922
Financial assets designated as at FVTPL		
Government bonds	39,174,578	19,299,321
Others	2,188,228	857,155
	41,362,806	20,156,476
Financial assets at FVTPL	$ 97,839,572	$ 79,062,398

(Continued)

	December 31	
	2016	2015
Financial liabilities held for trading		
Derivative instruments		
Interest rate swap contracts	$ 10,427,499	$ 5,263,561
Currency swap contracts	11,275,914	11,379,184
Option contracts	4,539,652	4,712,267
Others	1,273,065	477,145
	27,516,130	21,832,157
Financial liabilities designated as at FVTPL		
Bank debentures payable	11,892,012	4,352,498
Financial liabilities at FVTPL	$ 39,408,142	$ 26,184,655

(Concluded)

As of December 31, 2016 and 2015, bank debentures issued by the Bank and designated as at FVTPL were as follows:

Name	December 31 2016	December 31 2015	Issuance Period	Method of Paying Principal and Interests	Interest Rate
04 KGIB 1	$ -	$ 1,050,000	2006.05.18-2016.05.18	Principal due on maturity; interest payable annually	2.15%
15KGIB 1	3,421,574	3,504,996	2015.03.24-2045.03.24 (Note 1)	Principal due on maturity	0%
P16KGIB 1	3,550,690	-	2016.05.03-2046.05.03 (Note 2)	Principal due on maturity	0%
P16KGIB 2	3,550,690	-	2016.05.27-2046.05.27 (Note 2)	Principal due on maturity	0%
P16KGIB 3	2,582,320	-	2016.11.08-2046.11.08 (Note 1)	Principal due on maturity	0%
	13,105,274	4,554,996			
Valuation adjustments	(1,213,262)	(202,498)			
	$ 11,892,012	$ 4,352,498			

Note 1: Based on 100% of the carrying value of each bond principal plus the interest; the Bank may redeem all the debentures after two years from the issue date.

Note 2: Based on 100% of the carrying value of each bond principal plus the interest; the Bank may redeem all the debentures after one year from the issue date.

The contract (nominal) amounts of the Bank and subsidiaries' outstanding derivative financial instruments as of December 31, 2016 and 2015 are summarized as follows:

	Contract Amount	
	December 31	
	2016	2015
Currency swap contracts	$ 1,240,148,072	$ 1,167,714,201
Interest rate swap contracts	829,752,256	488,633,722
Option contracts	216,325,745	233,499,625
Forward exchange contracts	29,499,827	33,209,003
Cross-currency swap contracts	23,941,077	8,830,876
Asset swap contracts	2,185,975	1,832,764
Non-deliverable forward contracts	852,483	1,609,868
Commodity swap contracts	104,891	1,143,416
Futures contracts	-	297,594

As of December 31, 2016 and 2015, financial assets at fair value through profit or loss with aggregate carrying values of $33,509,311 thousand and $35,862,865 thousand, respectively, had been sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

The Bank and subsidiaries have not applied hedged accounting.

The Bank and subsidiaries have not pledged any financial assets at fair value through profit or loss as collateral or as guarantee.

9. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	December 31	
	2016	2015
Commercial paper	$ 745,844	$ 35,413,781
Bank debentures	-	132,827
Government bonds	50,006	630,216
	$ 795,850	$ 36,176,824
Agreed-upon resell amounts	$ 795,943	$ 36,189,449
Last maturity date	January 2017	March 2016

10. RECEIVABLES, NET

	December 31	
	2016	2015
Accounts receivable - forfaiting	$ 7,912,584	$ 26,685,120
Lease receivables	6,424,942	7,462,931
Credit cards	2,649,551	2,707,234
Interest receivable	1,754,592	1,395,540
Accounts receivables factoring without recourse	9,590,021	1,234,873
Acceptances receivable	171,441	992,975

(Continued)

	December 31	
	2016	2015
Rental deposits	$ 467,748	$ 511,397
PEM receivable	926,028	960,040
Others	1,034,922	1,472,342
	30,931,829	43,422,452
Less: Unrealized interest	(378,214)	(521,616)
Allowance for bad debts	(1,699,854)	(1,725,839)
Net amount	$ 28,853,761	$ 41,174,997

(Concluded)

As of December 31, 2016 and 2015, the rental deposits receivable amounting to $467,748 thousand and $511,397 thousand, respectively, resulted from the relocation to Bank-owned property, of which, deposits from Prince Motors and Cosmos Construction Management Corporation amounted to $101,901 thousand, and the allowance for bad debts on these deposits was $44,001 thousand.

However, a third party regarded the property rights of the Dun Nan building as fraudulently infringing upon the rights of the creditors. Although the Bank lost its lawsuit in the first trial, the lawyers have replied that the Bank has a high possibility of winning the lawsuit if the Bank continues to appeal and has no impact on the receivables received by the Bank. Please refer to Note 40 for details.

From May 2007 to February 2008, the Bank sold structured notes, which were issued by GVEC Resource Inc. (GVEC), amounting to US$48,920 thousand through a specific trust fund. PEM Group, which GVEC was subordinate to, was found to have committed fraud by the U.S. Securities and Exchange Commission (SEC). In view of its social responsibility, the Bank's board of directors decided to buy back the structured notes before March 31, 2010 and ask for compensation from PEM Group.

PEM Group had invested in life insurance policy products, etc. In order to recover its creditor's rights effectively and to protect shareholders' equity, the Bank's board of directors adopted a resolution on December 21, 2010, to take over all the insurance policies and hold these policies in the form of trust. The Bank completed the transfer of the life insurance policies from PEM Group on March 7, 2011. The Bank measured the policies' cost based on an actuarial report less administration fees, and then recognized the cost amounting to $218,386 thousand (US$7,423 thousand). At the same time, the Bank wrote off the initial cost and provision for life insurance policies amounting to $433,061 thousand (US$14,721 thousand).

As of December 31, 2016, the PEM receivable amounting to $926,028 thousand (US$28,688 thousand) was measured as the abovementioned PEM receivable plus premiums paid thereon, less any recovery amount. After assessing the possibility of recovery based on the latest information provided by the receiver of PEM Group and the trust entity, the balance of the PEM receivable and its allowance for bad debts was as follows:

(In Thousands of USD/TWD)

	December 31, 2016	
	USD	TWD
Life insurance policies	$ 13,112	$ 423,237
Non-life insurance policies	15,576	502,791
	28,688	926,028
Less: Allowance for bad debts	(16,215)	(523,404)
Net amount	$ 12,473	$ 402,624

	December 31, 2015	
	USD	TWD
Life insurance policies	$ 13,112	$ 433,556
Non-life insurance policies	15,922	526,484
	29,034	960,040
Less: Allowance for bad debts	(16,561)	(547,600)
Net amount	$ 12,473	$ 412,440

The changes in the Bank and subsidiaries' allowance for bad debts of receivables were as follows:

	For the Years Ended December 31	
	2016	2015
Balance, January 1	$ 1,725,839	$ 1,682,093
Provisions	178,717	280,384
Write-offs	(168,720)	(267,347)
Effect of exchange rate changes	(35,982)	30,709
Balance, December 31	$ 1,699,854	$ 1,725,839

For the impairment loss analysis of receivables, please refer to Note 42.

For the receivables pledged as collaterals for subsidiaries' borrowings, please refer to Note 39.

11. DISCOUNTS AND LOANS, NET

	December 31	
	2016	2015
Short-term loans	$ 60,824,456	$ 45,337,996
Medium-term loans	152,145,653	132,596,923
Long-term loans	42,061,948	41,698,553
Overdue loans	708,046	541,860
Export negotiations	139,441	750,976
	255,879,544	220,926,308
Less: Allowance for bad debts	(3,429,672)	(3,115,696)
Less: Discounts on loans	(72,880)	(30,284)
Net amount	$ 252,376,992	$ 217,780,328

The changes in the Bank's allowance for bad debts of discounts and loans were as follows:

	For the Years Ended December 31	
	2016	2015
Balance, January 1	$ 3,115,696	$ 3,447,239
Provisions (reversal)	121,292	(655,675)
Recovery of written-off credits	802,286	1,137,538
Write-offs	(563,785)	(829,902)
Reduction and exemption	(31,610)	(20,932)
Effects of exchange rate changes	(14,207)	37,428
Balance, December 31	$ 3,429,672	$ 3,115,696

For the impairment loss analysis of discounts and loans, please refer to Note 42.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	2015
Government bonds	$ 65,719,269	$ 19,856,627
Bank debentures	13,051,597	20,924,625
Corporate bonds	5,149,833	9,032,190
Stocks	4,801,347	5,437,225
	$ 88,722,046	$ 55,250,667

As of December 31, 2016 and 2015, available-for-sale financial assets, with aggregate carrying values of $28,629,003 thousand and $25,014,339 thousand, respectively, had been sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

For the available-for-sale financial assets pledged as collaterals by the Bank and subsidiaries, please refer to Note 39.

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET

Immaterial associates:

	December 31			
	2016		2015	
	Carrying Amount	%	Carrying Amount	%
CDIB & Partners Investment Holding Corporation	$ 733,152	4.95	$ 700,638	4.95
Others	736		995	
	$ 733,888		$ 701,633	

Aggregate information of associates that are not individually material.

	For the Years Ended December 31	
	2016	2015
The Bank and subsidiaries' share of:		
Net income	$ 13,554	$ 17,138
Other comprehensive income	37,601	(1,611)
Total comprehensive income	$ 51,155	$ 15,527

The above investments accounted for using equity method and the Bank and subsidiaries' share of earnings and other comprehensive income had been calculated on the basis of audited financial statements.

The Bank and subsidiaries had not pledged any of the equity-method investments as collateral.

14. OTHER FINANCIAL ASSETS

	December 31	
	2016	2015
Financial assets measured at cost, net	$ 255,659	$ 262,919
Due from banks (original maturities over three months)	3,045,833	-
Debt instruments with no active market	581,022	-
Overdue receivables	14,726	27,574
Pledged time deposits	1,300	1,300
	3,898,540	291,793
Less: Allowance for bad debts - overdue receivables	(14,726)	(23,089)
Net amount	$ 3,883,814	$ 268,704

For the other financial assets pledged as collaterals by the Bank and subsidiaries, please refer to Note 39.

15. PROPERTY AND EQUIPMENT, NET

	December 31	
	2016	2015
Land	$ 3,673,053	$ 3,756,724
Buildings and facilities	1,718,854	1,802,437
Machinery and computer equipment	121,605	109,000
Leased assets	240,303	231,352
Leasehold improvement	153,079	96,284
Transportation equipment	521	15,575
Miscellaneous equipment	26,910	22,907
Prepayments for acquisition of properties	3,280	494
	$ 5,937,605	$ 6,034,773

The changes in the Bank and subsidiaries' property and equipment were as follows:

	Land	Buildings and Facilities	Machinery and Computer Equipment	Leased Assets	Leasehold Improvement	Transportation Equipment	Miscellaneous Equipment	Prepayments for Acquisition of Properties	Total
Cost									
Balance at January 1, 2015	$ 3,760,981	$ 2,581,045	$ 948,621	$ 149,728	$ 23,971	$ 135,172	$ 290,121	$ 6,079	$ 7,895,718
Additions	-	12,688	48,840	206,938	92,223	12,943	7,556	33,580	414,768
Deduction	-	-	(851,156)	(72,519)	(5,107)	(112,402)	(259,580)	-	(1,300,764)
Reclassification	-	-	32,600	(15,216)	21,574	-	-	(39,165)	(207)
Effect of exchange rate changes	-	-	(150)	-	(275)	-	(47)	-	(472)
Balance at December 31, 2015	3,760,981	2,593,733	178,755	268,931	132,386	35,713	38,050	494	7,009,043
Accumulated depreciation and impairment									
Balance at January 1, 2015	(4,257)	(735,040)	(879,482)	(72,877)	(8,740)	(124,316)	(266,673)	-	(2,091,385)
Depreciation	-	(56,256)	(30,046)	(41,694)	(29,795)	(5,535)	(8,086)	-	(171,412)
Deduction	-	-	851,098	65,604	2,104	109,713	259,592	-	1,288,111
Reclassification	-	-	(11,388)	11,388	207	-	-	-	207
Effect of exchange rate changes	-	-	63	-	122	-	24	-	209
Balance at December 31, 2015	(4,257)	(791,296)	(69,755)	(37,579)	(36,102)	(20,138)	(15,143)	-	(974,270)
Balance at December 31, 2015, net	$ 3,756,724	$ 1,802,437	$ 109,000	$ 231,352	$ 96,284	$ 15,575	$ 22,907	$ 494	$ 6,034,773
Cost									
Balance at January 1, 2016	$ 3,760,981	$ 2,593,733	$ 178,755	$ 268,931	$ 132,386	$ 35,713	$ 38,050	$ 494	$ 7,009,043
Additions	-	10,014	53,976	80,825	69,274	3,544	13,175	24,640	255,448
Deduction	-	(675)	(43,022)	(23,798)	(5,905)	(10,655)	(5,204)	-	(89,259)
Reclassification	(83,671)	(44,581)	5,649	(2,883)	30,650	(21,655)	(4,969)	(21,742)	(143,202)
Effect of exchange rate changes	-	-	(949)	-	(1,372)	-	(270)	(112)	(2,703)
Balance at December 31, 2016	3,677,310	2,558,491	194,409	323,075	225,033	6,947	40,782	3,280	7,029,327
Accumulated depreciation and impairment									
Balance at January 1, 2016	(4,257)	(791,296)	(69,755)	(37,579)	(36,102)	(20,138)	(15,143)	-	(974,270)
Depreciation	-	(59,586)	(44,552)	(55,362)	(36,467)	(3,836)	(8,337)	-	(208,140)
Deduction	-	467	43,019	8,065	4,839	10,655	5,204	-	72,249
Reclassification	-	10,778	(2,104)	2,104	(5,218)	6,893	4,205	-	16,658
Effect of exchange rate changes	-	-	588	-	994	-	199	-	1,781
Balance at December 31, 2016	(4,257)	(839,637)	(72,804)	(82,772)	(71,954)	(6,426)	(13,872)	-	(1,091,722)
Balance at December 31, 2016, net	$ 3,673,053	$ 1,718,854	$ 121,605	$ 240,303	$ 153,079	$ 521	$ 26,910	$ 3,280	$ 5,937,605

The board of directors held in September 2016 approved selling the building located in Sanchong, thus it was transferred from property and equipment to assets held for sale. Further, the building had no impairment loss which evaluated by the external independent appraiser appointed by the Bank.

Property and equipment were depreciated on a straight-line basis at the following estimated service lives:

Buildings and facilities	4-60 years
Machinery and computer equipment	1-8 years
Transportation equipment	2-15 years
Miscellaneous equipment	2-10 years
Leasehold improvement	1-10 years
Leased assets	1-10 years

For the property and equipment pledged as collaterals by the Bank and subsidiaries, please refer to Note 39.

16. INVESTMENT PROPERTY, NET

	December 31	
	2016	2015
Land	$ 543,570	$ 466,875
Buildings and facilities	127,452	93,596
	$ 671,022	$ 560,471

The changes in the Bank and subsidiaries' investment properties were as follows:

	For the Years Ended December 31	
	2016	2015
Cost		
Beginning balance	$ 773,349	$ 773,349
Reclassification	128,788	-
Ending balance	902,137	773,349
Accumulated depreciation		
Beginning balance	(61,962)	(58,332)
Depreciation	(3,703)	(3,630)
Reclassification	(14,534)	-
Ending balance	(80,199)	(61,962)
Accumulated impairment		
Beginning balance	(150,916)	(150,916)
Impairment	-	-
Ending balance	(150,916)	(150,916)
Carrying amount, net	$ 671,022	$ 560,471

Investment property was depreciated on a straight-line basis at the following estimated service lives:

Buildings and facilities	
Main building and parking spaces	20-60 years

The fair value of the Bank and subsidiaries' investment property was based on the assessment of an external independent appraiser and is reviewed by the Bank and subsidiaries' management that considers the validity of appraisal report in 2016 and 2015 and regard the fair value as effective. The comparative approach was based on the prices of similar transactions, and the income approach was based on the estimated income generated by a property and capitalization rate. Based on these valuations, the fair values of the Bank and subsidiaries' investment properties as of December 31, 2016 and 2015 were $886,233 thousand and $710,905 thousand, respectively.

For the investment properties pledged as collaterals by the Bank and subsidiaries, please refer to Note 39.

17. OTHER ASSETS, NET

	December 31	
	2016	2015
Guarantee deposits paid	$ 7,912,082	$ 8,182,045
Prepaid expenses	627,305	141,284
Prepaid pension costs	126,223	23,227
Others	187,942	254,087
	$ 8,853,552	$ 8,600,643

For the other assets pledged as collaterals by the Bank and subsidiaries, please refer to Note 39.

18. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	December 31	
	2016	2015
Call loans from banks	$ 29,702,027	$ 8,334,746
Deposits from Chunghwa Post Co., Ltd.	1,215,347	1,226,729
	$ 30,917,374	$ 9,561,475

19. NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS

	December 31	
	2016	2015
Bank debentures	$ 24,880,975	$ 46,751,563
Corporate bonds	5,747,596	10,105,712
Government bonds	31,509,743	4,152,755
	$ 62,138,314	$ 61,010,030
Repurchase amounts	$ 62,218,952	$ 61,075,384
Last maturity date	March 2017	March 2016

20. PAYABLES

	December 31	
	2016	2015
Accounts payable factoring	$ 832,360	$ 133,615
Accrued interest	966,137	633,673
Accrued expenses	881,548	881,373
Acceptances	171,441	992,975
Funds for clearing	245,276	270,396
Checks for clearing	619,580	220,931
Others	473,305	1,136,496
	$ 4,189,647	$ 4,269,459

21. DEPOSITS AND REMITTANCES

	December 31	
	2016	2015
Time deposits	$ 205,674,615	$ 234,874,821
Savings deposits	98,220,082	88,713,219
Demand deposits	33,124,542	28,579,863
Checking deposits	4,307,826	1,891,110
Negotiable certificates of deposits	1,896,300	100,700
Remittances	224,141	11,132
	$ 343,447,506	$ 354,170,845

22. BANK DEBENTURES PAYABLE

Name	December 31 2016	December 31 2015	Issuance Period	Method of Paying Principle and Interests	Interest Rate
04 KGIB 2	$ 2,750,000	$ 2,750,000	2008.01.09-2017.12.13	Principal due on maturity	0.00%
Unamortized discount	(65,764)	(137,828)			
Net amount	$ 2,684,236	$ 2,612,172			
Fair value	$ 2,672,291	$ 2,592,759			

23. COMMERCIAL PAPER PAYABLE, NET

	December 31 2016	December 31 2015
Commercial paper payable	$ 2,558,000	$ 2,111,000
Less: Unamortized discount	(691)	(3,218)
	$ 2,557,309	$ 2,107,782
Interest rate	1.03%-1.87%	1.15%-2.02%
Last maturity date	October 2017	November 2016

24. OTHER BORROWINGS

	December 31 2016	December 31 2015
Short-term credit borrowings	$ 1,680,550	$ 1,993,461
Note issuance facility	799,676	1,299,341
Short-term secured borrowings	215,000	245,000
Long-term credit borrowings	466,877	334,407
	$ 3,162,103	$ 3,872,209
Interest rate	1.05%-4.75%	1.30%-5.25%
Last maturity date	December 2019	July 2018

25. PROVISIONS

	December 31 2016	December 31 2015
Provision for guarantee liabilities	$ 97,555	$ 104,564
Provision for employee benefits	23,559	155,692
Others	115,545	119,442
	$ 236,659	$ 379,698

26. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Bank and domestic subsidiaries adopted a pension plan under the Labor Pension Act (the LPA), which is a state-managed defined contribution plan. Under the LPA, the Bank and subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. The total pension expenses recognized were $117,327 thousand and $98,056 thousand for the years ended December 31, 2016 and 2015, respectively.

The Bank's foreign subsidiaries recognized their contributions as pension expenses in accordance with their local laws and regulations amounting to $7,140 thousand and $5,744 thousand for the years ended December 31, 2016 and 2015, respectively.

b. Defined benefit plan

The Bank and domestic subsidiaries adopted a defined benefit pension plan for all formal employees based on the Labor Standards Act. Pension benefits are calculated on the bases of the length of service and average monthly salaries and wages at the time of retirement.

The Bank places its monthly contributions to the non-managers' pension fund at authorized ratios, which is deposited in the Bank of Taiwan and administered by the pension fund monitoring committee. Managers' pension funds are managed by the Employee Retirement Fund Management Committee and deposited in KGI's Chungho Branch 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 amounts included in the consolidated balance sheets in respect of the Bank's defined benefit plans were as follows:

	December 31	
	2016	**2015**
Present value of defined benefit obligation	$ 971,968	$ 852,802
Fair value of plan assets	(1,082,632)	(855,174)
Net defined benefit asset	$ (110,664)	$ (2,372)

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

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Net Defined Benefit Liability (Asset)**
Balance at January 1, 2015	$ 527,318	$ (831,256)	$ (303,938)
Service cost			
Current service cost	4,892	-	4,892
Net interest expense (income)	11,868	(15,787)	(3,919)
Others	821	-	821
Recognized in profit or loss	17,581	(15,787)	1,794

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	$ -	$ 35	$ 35
Actuarial (gain) loss - changes in demographic assumptions	21,275	-	21,275
Actuarial (gain) loss - changes in financial assumptions	27,974	-	27,974
Actuarial (gain) loss - experience adjustments	62,504	-	62,504
Recognized in other comprehensive income	111,753	35	111,788
Contributions from the employer	-	(16,459)	(16,459)
Benefits paid	(8,293)	8,293	-
Business transfer stated in the Note 1	204,443	-	204,443
Balance at December 31, 2015	852,802	(855,174)	(2,372)
Service cost			
Current service cost	8,055	-	8,055
Net interest expense (income)	13,745	(14,002)	(257)
Recognized in profit or loss	21,800	(14,002)	7,798
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	7,761	7,761
Actuarial (gain) loss - changes in demographic assumptions	22,892	-	22,892
Actuarial (gain) loss - changes in financial assumptions	29,683	-	29,683
Actuarial (gain) loss - experience adjustments	49,631	-	49,631
Recognized in other comprehensive income	102,206	7,761	109,967
Contributions from the employer	-	(226,057)	(226,057)
Benefits paid	(4,840)	4,840	-
Balance at December 31, 2016	$ 971,968	$ (1,082,632)	$ (110,664)

(Concluded)

Through the defined benefit plans under the Labor Standards Act, the Bank and subsidiaries are 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 of Labor Funds, Ministry of Labor 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 and corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.

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

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

The Bank

	December 31	
	2016	**2015**
Discount rates	1.375%	1.625%
Expected rates of salary increase	3.000%	3.000%

CDIB Management Consulting Corporation and subsidiaries

	December 31	
	2016	**2015**
Discount rates	1.350%	1.200%
Expected rates of salary increase	2.500%	2.500%

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

	December 31	
	2016	**2015**
Discount rate		
0.25% increase	$ (31,640)	$ (27,948)
0.25% decrease	$ 33,097	$ 29,238
Expected rate of salary increase		
0.25% increase	$ 31,978	$ 28,290
0.25% decrease	$ (30,742)	$ (27,192)

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.

The Bank

	December 31	
	2016	**2015**
The expected contributions to the plan for the next year	$ 16,639	$ 15,500
The average duration of the defined benefit obligation	13.2 years	13.4 years

CDIB Management Consulting Corporation and subsidiaries

	December 31	
	2016	**2015**
The expected contributions to the plan for the next year	$ 1,311	$ 447
The average duration of the defined benefit obligation	11.96 years	12.92 years

c. Early retirement plans

On December 6, 2007, the Bank signed with the bank's labor union an Employee benefit Proposal - Early Retirement Plan (ERP), under which the Bank would carry out the pension plan in stages. The board of director approved the ERP on December 11, 2007 and January 15, 2009. As of December 31, 2016 and 2015, provisions for preferential early retirement plans were $8,000 thousand and $134,837 thousand, respectively.

27. OTHER LIABILITIES

	December 31	
	2016	2015
Temporary receipts and suspense accounts	$ 444,564	$ 471,089
Guarantee deposits received	1,492,989	748,384
Advance receipts	129,686	255,253
Others	78,886	91,761
	$ 2,146,125	$ 1,566,487

28. EQUITY

a. Capital

Common stock

	December 31	
	2016	2015
Number of shares authorized (in thousands) (Note)	20,000,000	20,000,000
Shares authorized	$ 200,000,000	$ 200,000,000
Number of shares issued and fully paid (in thousands) (Note)	4,606,162	4,606,162
Shares issued	$ 46,061,623	$ 46,061,623

Note: Share par value NT$10.

On April 13, 2015, the Bank's board of directors, under an authorization to execute shareholders' meeting functions, decided to raise capital by $38,000,000 thousand through private placement. The Bank set May 4, 2015 as the effective date of this capital raise.

b. Capital surplus

	December 31	
	2016	2015
Additional paid-in capital	$ 7,245,710	$ 7,245,710
Issuance of employee share options	3,363	1,424
Change in capital surplus from investments in associates accounted for by using equity method	207	144
	$ 7,249,280	$ 7,247,278

The premium of additional paid-in capital (share premium from issuance of common shares, treasury share transactions, and excess of the consideration received over the carrying amount of the subsidiaries’ net assets during disposal or acquisition) and donations may be used to offset a deficit; in addition, when the Bank has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital once a year within a certain percentage of the Bank’s capital surplus.

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

c. Legal and special reserves

Under the Company Act, the Bank may, under a resolution approved in a shareholders’ meeting, capitalize the amount of its legal reserve that exceeds 25% of the capital by issuing new shares to shareholders or by distributing a cash dividend when it incurs no loss. In addition, under the Banking Act, the Bank should retain 30% of its after-tax earnings as legal reserve before distributing these earnings. Further, if the amount of legal reserve is less than the total amount of capital, the maximum amount of earnings that may be distributed in cash should not exceed 15% of the total capital. However, this restriction will not apply if the amount of legal reserve equals or exceeds the amount of the total capital or if the Bank is in sound financial condition and is in compliance with the Company Act.

Based on Order No. 1010012865 issued by the FSC on April 6, 2012, a special reserve equal to the net debit balance of other shareholders’ equity should be appropriated from the current after-tax net income and the prior year’s unappropriated earnings, but this special reserve is not distributable. This special reserve may be reversed to the extent that the net debit balance reverses.

Under Order No. 10510001510 issued by the FSC on May 25, 2016, the Public Bank shall appropriate 2016 to 2018 annual surplus which is based on 0.5% to 1% of net income for special reserve. From fiscal year of 2017, the Bank can reverse the amount of expenditure of employees’ transfer arising from financial technology development within the amount of the above special reserve.

d. Appropriation of earnings and dividend policy

In order to expand the Bank’s operations and consider the benefit of shareholders as well as comply with the Banking Act and relevant regulations, the Bank applies the residual dividend policy. In principle, the Bank pays dividends in the form of cash. The cash dividends should not be more than 15% of paid-in capital when legal reserve is less than paid-in capital.

The current year’s earnings will be first applied to cover losses of the past years as well as settle all taxes payable. After covering losses and settling taxes, the balance will then be used to appropriate legal reserve and special reserve and to reverse a special reserve in accordance with relevant laws and regulations. The remainder will then be used to pay the accrued dividends of the past years and dividend of the current year.

When the Bank’s legal reserve equals its paid-in capital, or when the Bank has complied with the FSC’s financial soundness requirements and has provided a legal reserve based on the Company Act, the Bank is no longer subject to the requirement for legal reserve appropriation and to the 15%-of-paid-in capital limit on cash dividend distribution.

The appropriation of earnings should be presented for approval at the shareholders’ meeting in the year following, and given effect to in the financial statements of the year following the year of earnings generation.

Under the Financial Holding Company Act, because the Bank has only one shareholder, CDFH, the Company Act provisions on shareholders’ meetings do not apply to the Bank and the board of directors is thus entitled to exercise shareholders’ meeting functions.

Appropriation of the 2015 and 2014 earnings for approved by board of directors which entitled to execute shareholders' meeting function on May 10, 2016 and May 21, 2015 respectively were as follows:

	2015	2014
Legal reserve	$ 947,782	$ 710,281
(Reversal of) special reserve	409,670	(142,987)
Cash dividends	1,801,821	1,838,110

The earnings appropriation of 2016 has not been approved by the board of directors as of the issuance date of auditors' report.

Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

29. NET INTEREST

	For the Years Ended December 31	
	2016	2015
Interest revenues		
Discounts and loans	$ 6,703,391	$ 7,346,179
Securities	923,038	1,559,117
Due from and call loans to banks	566,056	656,883
Accounts receivable - forfaiting	275,956	941,838
Credit card	163,518	195,518
Others	435,380	485,681
	9,067,339	11,185,216
Interest expenses		
Deposits	2,475,341	3,032,370
Notes and bonds issued under repurchase agreements	421,382	331,250
Structured notes	130,518	185,410
Due to/borrowings from the Central Bank and other banks	95,138	71,242
Others	182,365	237,604
	3,304,744	3,857,876
	$ 5,762,595	$ 7,327,340

30. SERVICE FEE INCOME, NET

	For the Years Ended December 31	
	2016	2015
Service fee revenues		
Insurance commission	$ 758,947	$ 691,513
Trust	284,264	372,901
Loans	239,752	164,970
Credit card	151,921	139,931
Cash card	120,627	142,965
Others	198,711	214,294
	1,754,222	1,726,574
Service fee expenses		
Agency	98,347	93,652
Interbank	44,794	32,724
Custodian	4,756	4,155
Trust	3,440	3,440
Others	96,645	89,742
	247,982	223,713
	$ 1,506,240	$ 1,502,861

31. GAINS (LOSSES) ON FINANCIAL ASSETS OR LIABILITIES MEASURED AT FVTPL

	For the Years Ended December 31	
	2016	2015
Realized gain (loss)		
Bonds	$ 1,044,714	$ 800,827
Stocks	(40,751)	(37,658)
Derivative instruments	58,879	166,184
Others	4,379	(1,869)
	1,067,221	927,484
Revaluation gain (loss)		
Bonds	113,200	367,820
Derivative instruments	726,102	387,397
Stocks	25,883	(34,180)
Others	(206,119)	(202,952)
	659,066	518,085
	$ 1,726,287	$ 1,445,569

For the years ended December 31, 2016 and 2015, the realized gain or loss on the Bank and subsidiaries financial assets or liabilities at FVTPL included (a) disposal loss of $56,622 thousand and $69,565 thousand, respectively, (b) interest revenues of $1,492,785 thousand and $1,108,854 thousand, respectively, (c) dividend incomes of $2,128 thousand and $26,803 thousand, respectively, and (d) and interest expenses of $371,070 thousand and $138,608 thousand, respectively.

32. REALIZED GAINS (LOSSES) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

	For the Years Ended December 31	
	2016	2015
Gain on bond disposal	$ 607,504	$ 1,621,820
Gain on stock disposal	305,367	162,195
Dividend income	263,517	243,394
Others	-	(105)
	$ 1,176,388	$ 2,027,304

33. OTHER NON-INTEREST INCOME

	For the Years Ended December 31	
	2016	2015
Net gains on financial assets at cost	$ 30,023	$ 24,622
Rental income	85,797	61,659
Provision	(600)	(72,803)
Others	133,315	12,938
	$ 248,535	$ 26,416

34. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Years Ended December 31	
	2016	2015
Employee benefit expense		
Salaries and wages	$ 2,888,558	$ 2,709,474
Employee insurance	210,796	192,643
Pension	132,276	105,594
Others	206,019	212,485
	$ 3,437,649	$ 3,220,196
Depreciation and amortization expenses	$ 305,431	$ 261,261

a. Compensation of employees for 2016 and 2015

To comply with the Company Act as amended in May 2015 and the amended Articles of Incorporation passed by the Bank's board of directors, which stipulate to distribute compensation of employees at the rates no less than 0.01% and no higher than 3% of net profit before income tax and employees' compensation. However, if the Bank had incurred cumulative losses, the profit should be used to offset the losses first. The distribution of the compensation of employees for 2016 and 2015 approved by the board of directors respectively on March 23, 2017 and March 24, 2016 were $4,703 thousand and $3,755 thousand.

If there is a change in the proposed amounts after the consolidated financial statements of the fiscal year were authorized for issue, the differences will be recorded as a change in the accounting estimate.

There was no difference between the amounts of the employees' compensation resolved by the board of directors and the respective amounts recognized in the consolidated financial statements for the years ended December 31, 2016 and 2015.

The information on the proposed and approved employees' compensation is available on the Market Observation Post System website of the Taiwan Stock Exchange.

b. Bonus of employees for 2014

The distribution of the 2014 employees' bonus approved by the board of directors authorized to assume the function of shareholders' meeting on May 21, 2015 was $1,800 thousand.

The amount of bonus of employees recognized in the year ended December 31, 2014, was approved on May 21, 2015 by the board of directors authorized to assume the function of shareholders' meeting; there was no difference between the amount recognized and approved.

The information on the proposed and approved employees' bonuses is available on the Market Observation Post System website of the Taiwan Stock Exchange.

35. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the Years Ended December 31	
	2016	**2015**
Taxation	$ 470,115	$ 508,953
Rental	325,413	289,079
Professional services	284,869	243,024
Marketing	161,604	198,654
Computer information	175,499	129,762
Others	614,137	705,069
	$ 2,031,637	$ 2,074,541

36. INCOME TAX

a. Income tax expense

	For the Years Ended December 31	
	2016	**2015**
Current income tax		
Current year	$ 278,048	$ 330,272
Prior year's adjustments	(9,704)	17
	268,344	330,289
Deferred income tax	658,726	286,983
Income tax expenses	$ 927,070	$ 617,272

The reconciliation of accounting profit and income tax expense were as follows:

	For the Years Ended December 31	
	2016	**2015**
Income tax expenses calculated at the statutory rate	$ 821,329	$ 915,475
Nondeductible expenses in determine taxable income	(331,613)	(731,141)
Unrecognized temporary differences	(168,785)	45,142
Prior year's adjustments	(9,704)	17
Additional income tax under the Alternative Minimum Tax Act	314,294	366,923
Loss carryforwards	300,000	-
Others	1,549	20,856
Income tax expenses recognized in profit or loss	$ 927,070	$ 617,272

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

As the status of 2017 appropriations of earnings is uncertain, the potential income tax consequences of 10% of 2016 unappropriated earnings are not reliably determinable.

b. Income tax benefit recognized in other comprehensive income were as follows:

	For the Years Ended December 31	
	2016	**2015**
Remeasurement of defined benefit plans	$ 18,801	$ 18,585

c. The estimated payables resulting from the use of the linked-tax system on the Bank's consolidated tax returns were as follows:

	December 31	
	2016	**2015**
Tax paid to the parent company	$ 379,060	$ 181,150

d. Deferred tax assets and liabilities

	December 31	
	2016	**2015**
Deferred tax assets		
Loss carryforwards	$ 3,897,631	$ 4,428,039
Allowance for bad debts	546,191	542,923
Provision for employee benefits	1,360	22,922
Others	31,861	65,442
	$ 4,477,043	$ 5,059,326

(Continued)

	December 31	
	2016	2015
Deferred tax liabilities		
Defined benefit plans	$ 58,708	$ 38,703
Land value increment tax	19,877	19,877
	$ 78,585	$ 58,580

(Concluded)

e. Unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

	December 31	
	2016	2015
Loss carryforwards		
Expire in 2017	$ 2,186,453	$ -
Expire in 2018	7,424,143	5,494,558
Expire in 2019	1,136,463	3,487,795
	$ 10,747,059	$ 8,982,353

f. Information about unused loss carry-forward

Loss carryforward as of December 31, 2016 comprised of:

Unused Amount	Expiry Year
$ 5,677,790	2017
13,762,127	2018
10,187,530	2019
2,624,589	2020
1,240,412	2021
$ 33,492,448	

g. Integrated income tax

	December 31	
	2016	2015
Imputation credits accounts - the Bank	$ 23,787	$ 40,281

The Bank's creditable tax ratio for the distribution of earnings of 2016 and 2015 were 0.64% (estimated) and 1.27%, respectively.

Under the Income Tax Law, for distribution of earnings generated after January 1, 1998, the imputation credits allocated to ROC resident shareholders of the Bank was calculated based on the creditable ratio as of the date of dividend distribution. The actual imputation credits allocated to shareholders of the Bank was based on the balance of the Imputation Credit Accounts (ICA) as of the date of dividend distribution. Therefore, the expected creditable ratio for the 2016 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the shareholders.

The Bank had no unappropriated earnings generated before January 1, 1998.

h. Income tax assessments

Since 2015, the Bank used the linked-tax system in filing together its income tax and unappropriated earnings returns and those of its parent company and eligible subsidiaries.

The income tax returns of the Bank, formerly Cosmos Insurance Brokers Co., Ltd., CDIB Management Consulting Corporation and CDC Finance & Leasing Corporation through 2014 had been examined by the tax authorities.

37. EARNINGS PER SHARE

	For the Years Ended December 31	
	2016	**2015**
Earnings used in the computation of the EPS		
Attributable to shareholders of parent company	$ 3,827,023	$ 4,017,475
Attributable to former owner of business combination under common control	-	1,165,910
	$ 3,827,023	$ 5,183,385
Weighted average outstanding common shares (shares in thousands)	4,606,162	4,606,162
Basic EPS (in dollars)	$0.83	$1.13

38. RELATED-PARTY TRANSACTIONS

The significant transactions and relationship with related parties (in addition to those disclosed in other notes) are summarized below:

Related Party	Relationship with the Bank and Subsidiaries
China Development Financial Holding Corporation	Parent company
China Development Industrial Bank	Subsidiary of the parent company
KGI Securities Co., Ltd.	Subsidiary of the parent company
Others	Other related parties

a. Due from banks (recognized as cash and cash equivalents)

	Amount	%
December 31, 2016	$ 234,544	3
December 31, 2015	65,144	1

For the years ended December 31, 2016 and 2015, the interest revenue from due from banks were $0 thousand.

b. Excess margin of futures (recognized as cash and cash equivalents)

	Amount	%
December 31, 2016	$ 18,005	-
December 31, 2015	18,004	-

c. Call loans to Banks (recognized as due from the Central Bank and call loans to banks)

	Amount	%
December 31, 2015	$ 4,629,240	5

For the years ended December 31, 2016 and 2015, the interest revenues from call loans to banks were $970 thousand and $2,268 thousand, respectively.

d. Credit card (recognized as receivable, net)

	Amount	%
December 31, 2016	$ 16,619	-
December 31, 2015	27,612	-

e. Receivables on securities sold (recognized as receivables, net)

	Amount	%
December 31, 2016	$ 18,039	-
December 31, 2015	117,459	-

f. Discounts and loans, net

	Amount	%	Interest Rate (%)
December 31, 2016	$ 912,472	-	1.54-15.00
December 31, 2015	999,266	-	1.43-18.25

For the years ended December 31, 2016 and 2015, the interest revenues from discounts and loans were $15,293 thousand and $16,502 thousand, respectively.

Balance as of December 31, 2016

(In Thousands of New Taiwan Dollars)

Category	Number of Accounts or Name of Related Party	Highest Balance	Ending Balance	Normal	Overdue	Type of Collateral	Was the Transaction Conducted at Arm's Length
Consumer loans	42	$ 32,490	$ 16,502	$ 16,502	$ -	None	Yes
Residential mortgage loans	78	1,227,071	883,732	883,732	-	Real estate	Yes
Others	14	30,505	12,238	12,238	-	Deposit/real estate	Yes

Balance as of December 31, 2015

(In Thousands of New Taiwan Dollars)

Category	Number of Accounts or Name of Related Party	Highest Balance	Ending Balance	Normal	Overdue	Type of Collateral	Was the Transaction Conducted at Arm's Length
Consumer loans	34	$ 24,394	$ 16,314	$ 16,314	$ -	None	Yes
Residential mortgage loans	60	1,145,950	974,484	974,484	-	Real estate	Yes
Others	7	113,608	8,468	8,468	-	Deposit/real estate	Yes

g. Purchase and sale of bonds

	Purchase of Bonds	Sale of Bonds
For the year ended December 31, 2016		
Subsidiary of the parent company	$ 6,817,930	$ 1,523,921
For the year ended December 31, 2015		
Subsidiary of the parent company	6,070,655	9,488,960

h. Guarantee deposits paid (recognized as other assets)

	Amount	%
December 31, 2016	$ 20,186	-
December 31, 2015	18,582	-

i. Call loans from banks (recognized as deposits from the Central Bank and banks)

	Amount	%
Other related parties	$ 4,322,790	14

For the years ended December 31, 2016 and 2015, the interest expense for call loans from banks were $5,891 thousand and $6,285 thousand, respectively.

j. Payables for securities purchased (recognized as payables)

	Amount	%
December 31, 2015	$ 193,325	5

k. Payables to parent (recognized as current tax liabilities)

	December 31			
	2016		2015	
	Amount	%	Amount	%
Parent company	$ 379,060	99	$ 181,150	97

The payables resulted from CDFH and its eligible subsidiaries adopting the linked-tax system in the filing of tax returns.

l. Accrued interest (recognized as payable)

	Amount	%
December 31, 2016	$ 14,443	-
December 31, 2015	12,267	-

m. Deposits

	Amount	%	Interest Rate (%)
December 31, 2016	$ 29,060,162	8	0-5.80
December 31, 2015	29,796,397	8	0-6.50

For the years ended December 31, 2016 and 2015, the interest expenses for deposits were $129,622 thousand and $57,700 thousand, respectively.

n. Short-term borrowings (recognized as other borrowings)

	Amount	%
December 31, 2015	$ 25,000	1

For the years ended December 31, 2016 and 2015, the interest expenses for short-term borrowings were $181 thousand and $2,819 thousand, respectively.

o. Service fee revenue (recognized as service fee income, net)

	Amount	%
2016	$ 9,626	1
2015	8,634	1

Service fee revenue was comprised of sale fund, the business of trusts and other agency business.

p. Rental income

	Amount	%
2016	$ 3,329	4
2015	944	2

The rent was based on market prices and receivable monthly.

q. Rental (recognized as other general and administrative expenses)

	Amount	%
2016	$ 77,656	4
2015	53,095	3

The rent was based on market prices and payable monthly or quarterly.

r. Donation (recognized as other general and administrative expenses)

	Amount	%
2016	$ 20,000	1

s. Other general and administrative expenses (Note)

	Amount	%
2016	$ 61,850	3
2015	9,279	-

Note: These expenses were for the use of the subsidiary of the parent company's workplace, IT equipment, financial consulting expense of issuing bank debentures and etc.

t. Outstanding derivative financial instruments

December 31, 2016

(In Thousands of New Taiwan Dollars)

Related Party	Contract Type	Contract Period	Contract Amount	Valuation Gain (Loss)	Balance Sheet	
					Account	Balance
Subsidiaries of the parent company	Asset swap-interest rate swap contracts	January 5, 2016 - June 3, 2019	$ 114,000	$ 3,883	Financial assets at FVTPL	$ 4,342
	Asset swap-option contracts	January 5, 2016 - May 20, 2019	114,000	2,020	Financial liabilities at FVTPL	5,081
	Interest rate swap contracts	November 4, 2016 - October 27, 2019	710,138	(4,120)	Financial liabilities at FVTPL	4,120

December 31, 2015

(In Thousands of New Taiwan Dollars)

Related Party	Contract Type	Contract Period	Contract Amount	Valuation Gain (Loss)	Balance Sheet	
					Account	Balance
Other related parties	Currency swap contracts	April 10, 2015 - November 17, 2016	$ 1,913,574	$ 415,513	Financial assets at FVTPL	$ 18,890
					Financial liabilities at FVTPL	30,786
Subsidiaries of the parent company	Asset swap-interest rate swap contracts	April 17, 2014 - November 13, 2017	47,000	(1,612)	Financial assets at FVTPL	459
	Asset swap-option contracts	April 17, 2014 - October 30, 2017	47,000	(258)	Financial liabilities at FVTPL	7,101

u. Compensation of key management personnel

	For the Years Ended December 31	
	2016	2015
Salary and short-term employee benefits	$ 157,236	$ 138,709
Post-employment benefits	2,415	2,247
Share-based payment	735	537
	$ 160,386	$ 141,493

In addition to the above, the Bank also paid housing rental, car rental and drivers' salaries, $7,263 thousand and $6,666 thousand for the years ended December 31, 2016 and 2015, respectively.

The terms of transactions with related parties were similar to those for third parties, except for certain preferential interest rate on deposits for the Bank's employees with limited deposit amounts.

Based on Articles 32 and 33 of the Banking Act, except for consumer loans and government loans, credits extended by the Bank to any related party were fully secured, and the other terms for these credits were similar to those for third parties.

39. PLEDGED ASSETS

The assets pledged as collaterals of the Bank and subsidiaries were as follows:

Assets	Object	Purpose	December 31 2016	December 31 2015
Due from the Central Bank and call loans to banks	Certificates of deposit issued by the Central Bank	As collaterals for day-term overdraft with the Central Bank	$ 21,230,000	$ 10,075,000
Lease receivables	Notes receivable	Commercial paper payable and short-term borrowing	2,983,362	3,424,754
Available-for-sale financial assets	Government bonds	Guarantees for provisional seizure	23,389	22,219
Available-for-sale financial assets	Government bonds	Guarantees and provisions	155,249	161,432
Available-for-sale financial assets	Stocks	Commercial paper payable	-	9,358
Property and equipment	Property	Commercial paper payable and short-term borrowing	13,244	13,556
Investment property, net	Investment property	Commercial paper payable and short-term borrowing	42,901	44,255
Other financial assets	Time deposits	Short-term borrowing	1,300	1,300
Other assets	Cash in banks - impound account	Commercial paper payable and short-term borrowing	48,012	49,178

40. COMMITMENTS AND CONTINGENCIES

a. In response to rapid business development, changes in external regulations and IT demands for innovative products and enhanced IT service levels, the Bank planned to outsource its IT operations. Thus, in their meeting held on October 30, 2012, the board of directors approved the plan to outsource the Bank’s IT operations to International Business Machines Corp., Taiwan (IBM Taiwan) for the next 10 years, starting from October 31, 2012. Throughout the validity period of the IT outsourcing contract, in addition to paying for extra services in accordance with professional rates, the Bank has to pay, starting from December 31, 2016, annual service fees for the basic framework, support service, IT application service and integration and transformation of its server and so on, with the service fees totaling $872,238 thousand for the remaining years.

b. In December 2012, a third party regards the property rights of Dun Nan buildings as fraudulently infringing upon the rights of the creditors (credit litigation amounted to $481,157 thousand). On February 14, 2014, although the Taipei District Court has adjudicated that the Bank has lost the lawsuit and has to return the amount received $1,786,318 thousand for re-allocation. The Bank has appealed against this sentence on March 10, 2014. On March 6, 2017, the Bank’s lawyers replied that the case has ethical conflicts and inconformity with fact-finding and evidence and has a high possibility of winning the case. The high court is hearing this case on second trial now.

41. FAIR VALUE AND HIERARCHY INFORMATION

a. The fair value hierarchy of financial instruments is defined as follows:

1) Level I fair values are quoted prices in active markets for financial instruments.

2) Level II fair values are those directly or indirectly observable inputs other than Level I quoted prices, such as the quoted prices of similar financial instruments in less active markets or price estimates arrived at through pricing models that use inputs such as interest rates, which are derived from or can be corroborated by observable market data.

3) Level III refers to inputs that are not based on observable market data.

b. Financial instrument measured at fair value

1) The fair value hierarchy of financial instruments measured at fair value is as follows:

December 31, 2016

(In Thousands of New Taiwan Dollars)

	Level I	Level II	Level III	Total
Measured on a recurring basis				
Non-derivative financial instruments				
Assets				
Financial assets at FVTPL				
Financial assets held for trading				
Bond investments	$ 27,993,775	$ 246,664	$ -	$ 28,240,439
Commercial paper payable	-	2,797,870	-	2,797,870
Others	3,849	-	-	3,849
Financial assets designated as at FVTPL	191,269	41,171,537	-	41,362,806
Available-for-sale financial assets				
Stock investments	4,801,347	-	-	4,801,347
Bond investments	37,816,486	46,104,213	-	83,920,699
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	$ -	$ 11,892,012	$ -	$ 11,892,012
Derivative financial instruments				
Assets				
Financial assets at FVTPL	-	25,256,903	177,705	25,434,608
Liabilities				
Financial liabilities at FVTPL	-	27,281,713	234,417	27,516,130

December 31, 2015

(In Thousands of New Taiwan Dollars)

	Level I	Level II	Level III	Total
Measured on a recurring basis				
Non-derivative financial instruments				
Assets				
Financial assets at FVTPL				
Financial assets held for trading				
Stock investments	$ 217,063	$ -	$ -	$ 217,063
Bond investments	38,608,846	105,436	-	38,714,282
Financial assets designated as at FVTPL	234,787	19,921,689	-	20,156,476
Available-for-sale financial assets				
Stock investments	5,437,225	-	-	5,437,225
Bond investments	38,853,112	10,632,605	327,725	49,813,442
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	-	4,352,498	-	4,352,498
Derivative financial instruments				
Assets				
Financial assets at FVTPL	2,946	17,052,611	2,919,020	19,974,577
Liabilities				
Financial liabilities at FVTPL	-	18,788,835	3,043,322	21,832,157

2) Basis of fair value determination

For financial assets and liabilities at fair value through profit or loss, and available-for-sale financial assets, fair value is determined at quoted market prices. When market prices of the Bank and subsidiaries' various financial instruments are not readily available, fair values are estimated by using appropriate valuation models or other banks' transaction prices. The information used by the Bank and subsidiaries for fair value estimation is consistent with that generally used in the market, and the pricing models used are commonly recognized by the industry as helpful tools in determining fair value. Related framework of the methodology can be outlined as analytical solution model (such as Black-Scholes model) and numeric model (such as Monte Carlo simulation).

3) Fair value adjustment

a) The limitation of valuation techniques and uncertain inputs

Valuation techniques incorporate assumptions that depend on the instrument type and available market data. However, certain inputs used in valuation techniques may be less readily determinable. In these circumstances, a valuation model would use additional parameters and/or model assumptions-model risk, liquidity risk, and so on-to make fair value adjustments. Thus, on the basis of its valuation management policies and relevant control procedures, the Bank's management considers valuation adjustments as necessary and appropriate. For the Bank to make appropriate valuation adjustments, all parameters and price information are evaluated thoroughly and market conditions are taken into consideration.

b) Credit risk valuation adjustment

Credit risk valuation adjustment consists of credit valuation adjustment and debit valuation adjustment.

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that the Corporation may not receive the full market value of the transactions.

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the Corporation may default, and that the Corporation may not pay full market value of the transactions.

The Bank does credit valuation adjustment using probability of default (PD) multiplied by loss given default (LGD) multiplied by exposure at default (EAD).

To estimate the PD to be used as basis for the allowance for doubtful accounts, the Bank refers to the ratings published by international credit rating institutions, valuation models and valuation method specified in IAS 39 "Financial Instruments: Recognition and Measurement".

For EAD calculation, the market values of OTC derivative instruments are estimated in calculating EAD. The Bank uses PD no lower than 60%.

The above parameters used in risk valuation adjustment that is based on the fair values of financial instruments reflect the credit risks of counterparties and the credit quality of the Bank.

4) Transfer between Level I and Level II

	For the Year Ended December 31, 2016		For the Year Ended December 31, 2015	
	Transfer from Level I to Level II	**Transfer from Level II To Level I**	**Transfer from Level I to Level II**	**Transfer from Level II to Level I**
Bond investments				
Financial assets at FVTPL	$ 226,823	$ -	$ -	$ 234,787
Available-for-sale financial assets	5,366,996	300,968	1,643,248	-

Because of changes in market liquidity, evaluation sources applied by some NTD government bonds will change. It makes the applicable level of bonds' fair value change from Level I into Level II or from Level II into Level I.

5) Reconciliation of Level III items of financial instruments

The movements of Level III financial assets were as follows:

For the Year Ended December 31, 2016

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Current Income (Loss) or Other Comprehensive Income	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Issue	Transfer to Level III	Sale, Disposal or Settlement	Transfer from Level III (b)	
Financial assets at FVTPL	$ 2,919,020	$ (854,281)	$ -	$ -	$ 45,689	$ 1,841,345	$ 177,705
Available-for-sale financial assets	327,725	(7,796)	-	-	319,929	-	-

For the Year Ended December 31, 2015

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Current Income (Loss) or Other Comprehensive Income	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Issue (a)	Transfer to Level III	Sale, Disposal or Settlement	Transfer from Level III	
Financial assets at FVTPL	$ 1,994,719	$ 1,736,345	$ 31,783	$ 1,819	$ 845,646	$ -	$ 2,919,020
Available-for-sale financial assets	311,154	16,571	-	-	-	-	327,725

a) Including amount due to business transfer stated in the Note 1.

b) Valuation method of part of the financial assets at FVTPL of the Bank changed from quoted price of prior party to observable data model, resulting Level III securities turn into Level II securities.

The movements of Level III financial liabilities were as follows:

For the Year Ended December 31, 2016

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Current Income (Loss) or Other Comprehensive Income	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Issue	Transfer to Level III	Sale, Disposal or Settlement	Transfer from Level III (b)	
Financial liabilities at FVTPL	$ 3,043,322	$ (894,907)	$ -	$ -	$ 66,393	$ 1,847,605	$ 234,417

For the Year Ended December 31, 2015

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Current Income (Loss) or Other Comprehensive Income	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Issue (a)	Transfer to Level III	Sale, Disposal or Settlement	Transfer from Level III	
Financial liabilities at FVTPL	$ 2,114,959	$ 1,708,624	$ 76,296	$ 2,234	$ 858,791	$ -	$ 3,043,322

a) Including amount due to business transfer stated in the Note 1.

b) Valuation method of part of the financial liabilities at FVTPL of the Bank changed from quoted price of prior party to observable data model, resulting Level III securities turn into Level II securities.

The total losses were $42,475 thousand and $48,725 thousand on the assets and liabilities held for the years ended December 31, 2016, and 2015 respectively.

6) Quantitative information about significant unobservable inputs (Level III) used in the fair value measurement

The table below lists quantitative unobservable inputs of Level III financial instruments:

	Fair Value at December 31, 2016	Valuation Technique(s)	Significant Unobservable Inputs	Interval	The Relationship Between Inputs and Fair Value
Measured on a recurring basis					
Derivative financial assets					
Financial assets at FVTPL	$ 177,705	HullWhite, Libor market model, discounted cash flow	Quantity/factor FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.
Derivative financial liabilities					
Financial liabilities at FVTPL	234,417	HullWhite, Libor market model, discounted cash flow	Quantity/factor FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.

	Fair Value at December 31, 2015	Valuation Technique(s)	Significant Unobservable Inputs	Interval	The Relationship Between Inputs and Fair Value
Measured on a recurring basis					
Non-derivative financial assets					
Available-for-sale financial assets					
Bond investments	$ 327,725	Discounted cash flow	Credit spread	Adjusted daily based on market information	When credit spread or yields rate is higher, fair value is lower.
Derivative financial assets					
Financial assets at FVTPL	2,919,020	HullWhite, Libor market model, discounted cash flow	Quantity/factor FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.
Derivative financial liabilities					
Financial liabilities at FVTPL	3,043,322	HullWhite, Libor market model, discounted cash flow	Quantity/factor FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.

7) Pricing process of Level III fair value

The Bank’s risk management department is responsible for the pricing process of Level III fair value. The pricing models and conditions assumed are conform to market practice; the basis of the theory are commonly recognized by the industry as a basis of valuation in conducting measurement of fair value. Further, the department confirms whether the sources of the information are independent or not, reasonably reflecting the prices in normal circumstances, and examines and adjusts fair value periodically to insure results of the valuation is reasonable.

c. Fair value of the instruments not carried at fair value

1) Assets and liabilities measured at cost, excluding investment properties, bank debentures payable and debt instruments with no active market, have carrying amounts that are reasonably close to their fair value or their fair value cannot be measure reliably; thus, their fair values are not disclosed.

2) Information of fair value hierarchy

December 31, 2016

(In Thousands of New Taiwan Dollars)

	Level I	Level II	Level III	Total
Financial assets				
Debt instruments with no active market	$ -	$ -	$ 581,022	$ 581,022
Non-financial assets				
Investment properties	-	-	886,233	886,233
Financial liabilities				
Bank debentures payable	-	2,672,291	-	2,672,291

December 31, 2015

(In Thousands of New Taiwan Dollars)

	Level I	Level II	Level III	Total
Non-financial assets				
Investment properties	$ -	$ -	$ 710,905	$ 710,905
Financial liabilities				
Bank debentures payable	-	2,592,759	-	2,592,759

3) Valuation techniques

a) Because the maturity date is close to the balance sheet date, the fair value of the financial assets can be reasonably estimated by referring to their book value in the balance sheet. The technique applies to cash and cash equivalent, due from the Central Bank and call loans to banks, securities purchased under resell agreements, receivables, other financial assets, guarantee deposits paid, deposits from the Central Bank and banks, notes and bonds issued under repurchase agreements, payables, deposits and remittances, other financial liabilities and guarantee deposits received, etc.

b) Investments accounted for using the equity method - unlisted stocks and financial assets measured at cost both are unlisted financial assets, which have no quoted market prices in an active market owing to the variation interval of the estimate of the fair value is not quite small and the possibilities of the estimates in the interval cannot be assessed reasonably. The fair value cannot be reliably measured; thus, the Bank and subsidiaries do not disclose their fair value.

c) The floating rates are usually adopted as the interest of the loan, which reflects market interest; thus, it is reasonable to estimate the fair value of a loan by referring to its book value together with the consideration in the collectability.

d) Due to the lack of quoted market price in an active market, the fair value of debt instruments with no active market is estimated by referring to quoted price of counter-parties.

e) The fair value of the payables of the Bank debenture is estimated by referring to the discounted expected cash flow, of which the discount rate is reference to interest rates with similar maturity date.

f) For valuation technique of investment property, refer to Note 16.

42. FINANCIAL RISK MANAGEMENT

a. Risk management policies and framework

The Bank has an appropriate risk management system covering market, credit and operating risks and follows risk management procedures.

The Bank also analyzes, monitors and prepares reports on overall risk management. These reports are submitted to senior managements and to committees or board members with risk management functions. Updates on actual risks encountered when there are significant changes in macroeconomic conditions or in the financial market are generated for more effective risk monitoring and handling.

The Bank's risk management focuses not only on individual departments but also the overall impact of risks on a corporate level.

The Bank identifies risks using consistent standard asset portfolio classifications, with classifications correlating with each other, and establishes a consistent measure applicable to the different types of exposure.

The Bank's risk management groupings are as follows:

1) Board of directors

The Bank's board of directors supervises the operation of a risk management structure and promotes a risk management culture, ensures the efficiency of risk management, reviews important risk control reports and bears the ultimate responsibility for risk management.

2) Risk management committee

The risk management committee supervises the implementation of risk management policies, inspects risk control reports and deals with related issues.

3) Business and management department

The department is responsible for ensuring compliance with risk management regulations while conducting operations to control daily risks.

4) Risk management department

The risk management department is a unit independent from operating departments and is in charge of risk management planning and system operation and providing overall risk management information to senior management and the board of directors.

5) Audit department

The department is in charge of establishing all risk mechanisms and auditing the implementation of and compliance with these mechanisms.

Risk management is a joint duty of all the Bank's departments - business, legal, regulatory compliance, finance, accounting, administration, operating, audit department, and so on - that should be done diligently through interdepartmental coordination in overall risk management.

b. Credit risk

1) Definition and source of credit risk

Credit risk is the risk of financial loss to the Bank if a creditor or counterparty fails to meet its contractual obligations or has negative changes in its credit quality. Credit risk management covers all operating activities that involve credit risk, including loans, call loans to banks, banking book securities investment, financial derivatives, repurchase agreement transactions and other operating activities.

2) Credit risk management policy

The Bank has standard control procedures for credit risk identification, measurement, and generation of disclosures and reports to be used for a rational identification, measurement, disclosure, and effective control of credit risk. These procedures include applying standard screening criteria for target clients, credit investigations for credit approval or rejection, careful deliberation of applications for certain exceptions, credit review, management of non-performing loans and requests, and control over all related documents and information. The Bank also adjusts the credit risk structure accordingly so that credit portfolios are within the Bank's risk appetite. Further, the Bank assesses the changes in the economy to adjust risk structure and develops strategies in response to these changes to alleviate shareholders' value and ensure the risk is bearable.

Based on the risk management policies, the management process is carried out as follows:

a) Credit investigation

In screening target clients, the Bank asks for all the necessary documents from the clients in order to get their backgrounds accurately and control credit portfolios within the acceptable range.

b) Credit approval

Cases that have passed the credit investigation are reviewed by the credit authority of each level. The credit authorities approve credits in accordance with the Bank's credit limit structure and authorization policies. The Bank's credit approval structure and policies are based not only on the Banking Act and other government rules for credit extended to the same person or affiliated enterprises/groups, industry and country, but also on the professionalism of the Bank's credit authorities and the quality of asset control. The amounts of credit authorized are reviewed by the credit authorities occasionally.

c) Post-lending loan review

The corporate banking segment of the Bank tracks the borrowers' financial and business conditions, generates risk assessment reports on credit asset portfolios regularly, operates a risk warning system and adjusts business development strategies as needed to cope with economic conditions and changes in asset quality through the use of an account management scheme and a regular-reassessment system. For delinquent loans, the Bank uses the concentration management method, together with information systems and analysis models, to conduct regular loan reviews for the enhanced management of overdue loans and expedite the collection of nonperforming loans.

d) Risk report and information disclosures

The risk management department is responsible for measuring risk, preparing quarterly risk report, including all risk management index and risk capital requirement assessment and reporting to risk management committee and board of directors.

3) Mitigation of risks or hedging of credit risk

Considering the asset hedge market and liquidity, the Bank takes the necessary risk reduction strategies, mainly on loan objects and hedge transactions involving assets with doubtful collectability or a long period of duration, including methods for increasing appropriate collaterals with good liquidity, or transferring to credit guarantee institutions such as the Small and Medium Credit Guarantee Fund to maximize the collateral. For determining the value of foreclosed collaterals, liquid securities will be evaluated at their market value; other collaterals will be subject to field surveys by appraisal firms for their fair value assessment, which will be used as a basis for demanding additional collaterals or adjusting the credit amount to ensure that risks are within the Bank's tolerance range.

If clients are found to have bad credit features, the Bank will strengthen the monitoring of the credit of borrower and guarantor and take measures, such as demanding an early repayment or additional collateral in mitigating the Bank's credit risk. In addition, the Bank sets different credit limits for counterparties involved in derivative transactions and enters into collateral support agreements with counterparties to ensure that risks are under control.

4) Maximum exposure to credit risk

Without taking collateral or other credit enhancements mitigation effect into account, the maximum exposure to credit risk from on-balance sheet financial assets was equal to their carrying values; the maximum exposure of credit risk from off-balance sheet financial instruments was as follows:

	December 31	
	2016	**2015**
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 102,215,434	$ 95,728,457

The Bank believes that stringent selection processes and conducting regular review afterwards are the reasons why they can continuously control and minimize the credit risk exposure from their off-balance sheet items.

The Bank's pledged collaterals associated with credit include discounts, loans and receivables which contain real estate, properties (e.g. Machinery), rights certificates and securities (e.g. Certificates of deposit, stocks), notes receivable arose from borrowing of business transactions, deposits guaranteed by authorities of treasury department of government, banks or guarantee institutions authorized by government (e.g. SME credit guarantee fund and standby letter of credit) and mortgages set in accordance with the laws including registration of land rights. Financial assets held by the Bank are part of corporate bonds guaranteed by financial institutions as credit enhancement.

5) Concentration of credit risk

Concentrations of credit risk arise when a number of counterparties or exposure have comparable economic characteristics, or such counterparties are engaged in similar activities, or operate in the same geographical areas or industry sectors, so that their collective ability to meet contractual obligations is uniformly affected by changes in economic or other conditions.

Credit risk concentration can arise in a bank's assets, liabilities, or off-balance sheet items through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. It includes credits, due from and call loans to banks, investments, receivables and derivatives. To manage credit risk concentration, the Bank maintains a diversified portfolio and monitors its exposure continually. The Bank's most significant concentrations of credit risk are summarized as follows:

a) By industry

	December 31, 2016		December 31, 2015	
	Amount	**%**	**Amount**	**%**
Public and private enterprises	$ 173,659,505	67.87	$ 144,211,746	65.28
Natural persons	81,877,228	32.00	76,343,186	34.56
Non-profit organizations	342,811	0.13	371,376	0.16
Total	$ 255,879,544	100.00	$ 220,926,308	100.00

b) By region

	December 31, 2016		December 31, 2015	
	Amount	**%**	**Amount**	**%**
Domestic	$ 199,963,503	78.15	$ 178,752,940	80.91
Overseas	55,916,041	21.85	42,173,368	19.09
Total	$ 255,879,544	100.00	$ 220,926,308	100.00

c) By collateral

	December 31, 2016		December 31, 2015	
	Amount	**%**	**Amount**	**%**
Credit	$ 159,432,165	62.31	$ 137,464,454	62.22
Secured				
Financial collaterals	5,533,267	2.16	6,047,359	2.74
Real estate	69,541,082	27.18	58,966,463	26.69
Guarantees	15,837,714	6.19	13,689,559	6.20
Other	5,535,316	2.16	4,758,473	2.15
Total	$ 255,879,544	100.00	$ 220,926,308	100.00

6) Credit quality and impairment assessment

Some financial assets such as cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under resell agreement, parts of receivables, parts of other financial assets, guarantee deposits paid, deposits for business operations and clearing and settlement fund are regarded as having very low credit risk because of the counterparties' good credit ratings.

In addition to the above, the credit analysis of other financial assets was as follows:

a) Credit quality analysis of discounts and loans and receivables

December 31, 2016	Neither Overdue Nor Impaired Amount (A)	Overdue But Not Yet Impaired Amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
					With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables							
Credit card and credit business	$ 20,187,004	$ 48,726	$ 60,944	$ 20,296,674	$ 36,825	$ 274,288	$ 19,985,561
Other	7,908,772	98,184	1,916,337	9,923,293	1,328,120	75,347	8,519,826
Discounts and loans	253,320,668	1,415,205	1,143,671	255,879,544	523,710	2,905,962	252,449,872

December 31, 2015	Neither Overdue Nor Impaired Amount (A)	Overdue But Not Yet Impaired Amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
					With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables							
Credit card and credit business	$ 31,474,699	$ 54,359	$ 82,095	$ 31,611,153	$ 44,059	$ 441,654	$ 31,125,440
Other	9,003,149	5,637	1,890,064	10,898,850	1,178,715	84,500	9,635,635
Discounts and loans	218,352,917	1,578,720	994,671	220,926,308	517,140	2,598,556	217,810,612

Note: The total of discounts and loans is the original amount without adjustments for premiums or discounts.

b) The credit analysis of discounts and loans and receivables that were neither overdue nor impaired as shown by rating standards was as follows:

December 31, 2016	Neither Overdue Nor Impaired Amount				
	Excellent	Good	Normal	No Ratings	Total (A)
Consumer banking					
Mortgage loans	$ 20,619,402	$ 7,823,627	$ 60,603	$ -	$ 28,503,632
Cash card	8,183,177	2,716,848	639,023	2,772,738	14,311,786
Micro credit loans	16,524,651	2,030,135	155,321	81,658	18,791,765
Other - secured	15,126,807	1,443,817	96,230	59,219	16,726,073
Other - unsecured	43,490	-	-	2,764	46,254
Corporate banking					
Secured	14,348,674	19,565,638	15,836,689	757,145	50,508,146
Unsecured	26,744,197	68,938,717	25,144,016	3,606,082	124,433,012
Total	$ 101,590,398	$ 102,518,782	$ 41,931,882	$ 7,279,606	$ 253,320,668

December 31, 2015	Neither Overdue Nor Impaired Amount				
	Excellent	Good	Normal	No Ratings	Total (A)
Consumer banking					
Mortgage loans	$ 17,864,395	$ 8,315,062	$ 9,373	$ -	$ 26,188,830
Cash card	8,616,261	2,757,230	721,108	3,317,166	15,411,765
Micro credit loans	15,765,075	2,048,055	94,379	86,296	17,993,805
Other - secured	12,592,495	1,076,063	116,301	83,256	13,868,115
Other - unsecured	54,469	-	-	4,794	59,263
Corporate banking					
Secured	16,074,747	21,936,111	9,384,955	3,016,334	50,412,147
Unsecured	20,983,684	52,954,031	16,647,518	3,833,759	94,418,992
Total	$ 91,951,126	$ 89,086,552	$ 26,973,634	$ 10,341,605	$ 218,352,917

December 31, 2016	Neither Overdue Nor Impaired Amount				
	Excellent	Good	Normal	No Ratings	Total (A)
Credit card and credit business					
Credit card	$ 802,014	$ 561,693	$ 730,325	$ 418,963	$ 2,512,995
Accounts receivable - forfaiting	1,205,206	3,471,384	-	3,235,994	7,912,584
Accounts receivable - factoring without recourse	6,479,896	2,963,430	-	146,658	9,589,984
Acceptances	-	64,383	107,058	-	171,441
Total	$ 8,487,116	$ 7,060,890	$ 837,383	$ 3,801,615	$ 20,187,004

December 31, 2015	Neither Overdue Nor Impaired Amount				
	Excellent	Good	Normal	No Ratings	Total (A)
Credit card and credit business					
Credit card	$ 772,327	$ 565,877	$ 801,291	$ 422,276	$ 2,561,771
Accounts receivable - forfaiting	14,699,335	9,825,446	-	2,160,340	26,685,121
Accounts receivable - factoring without recourse	43,968	499,491	6,454	684,919	1,234,832
Acceptances	54,073	917,910	20,992	-	992,975
Total	$ 15,569,703	$ 11,808,724	$ 828,737	$ 3,267,535	$ 31,474,699

c) Credit analysis of marketable securities

December 31, 2016	Neither Overdue Nor Impaired				Overdue but Not Yet Impaired Amount (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)	Net Amount (A)+(B)+ (C)-(D)
	Excellent	Good	Normal	Total (A)					
Available-for-sale financial assets									
- investment in bonds	$ 83,920,699	$ -	$ -	$ 83,920,699	$ -	$ -	$ 83,920,699	$ -	$ 83,920,699
Debt instruments with no active market	581,022	-	-	581,022	-	-	581,022	-	581,022

Note 1: Available-for-sale financial assets other than the above investment in bonds have an initial cost of $5,556,000 thousand, loss on valuation of $754,653 thousand and accumulated impairment of $0 thousand.

Note 2: Financial assets measured at cost have an initial cost of $296,423 thousand and accumulated impairments of $40,764 thousand.

December 31, 2015	Neither Overdue Nor Impaired				Overdue but Not Yet Impaired Amount (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)	Net Amount (A)+(B)+ (C)-(D)
	Excellent	Good	Normal	Total (A)					
Available-for-sale financial assets									
- investment in bonds	$ 49,813,442	$ -	$ -	$ 49,813,442	$ -	$ -	$ 49,813,442	$ -	$ 49,813,442

Note 1: Available-for-sale financial assets other than the above investment in bonds have an initial cost of $6,574,790 thousand, loss on valuation of $1,137,565 thousand and accumulated impairment of $0 thousand.

Note 2: Financial assets measured at cost have an initial cost of $303,683 thousand and accumulated impairments of $40,764 thousand.

7) Analysis of overdue but not yet impaired financial assets

Delays in processing borrowers' repayments and other administrative reasons could result in financial assets becoming overdue but not impaired. Based on the Bank's assessment of credits, financial assets overdue within 90 days are not considered impaired unless other evidence proves otherwise.

Items	December 31, 2016		
	1 Month	Over 1 Month - 3 Months	Total
Credit card	$ 23,777	$ 24,949	$ 48,726
Discount and loans			
Consumer banking			
Mortgage loans	269,849	32,498	302,347
Cash card	258,200	72,214	330,414
Micro credit loans	306,991	69,996	376,987
Other - secured	132,069	16,131	148,200
Other - unsecured	236	-	236
Corporate banking			
Secured	25,493	229,889	255,382
Unsecured	618	1,021	1,639

Items	December 31, 2015		
	1 Month	Over 1 Month - 3 Months	Total
Credit card	$ 29,346	$ 25,013	$ 54,359
Discount and loans			
Consumer banking			
Mortgage loans	265,087	58,556	323,643
Cash card	287,792	71,877	359,669
Micro credit loans	481,712	68,717	550,429
Other - secured	240,793	25,445	266,238
Other - unsecured	1,361	-	1,361
Corporate banking			
Secured	50,367	22,141	72,508
Unsecured	2,258	2,614	4,872

8) Analysis of impairment for financial assets

Analysis of impairment for discounts, loans and receivables and accumulated impairments was as follows:

Items		Discounts and Loans		Allowance for Bad Debts	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
With objective evidence of impairment	Assessment of individual impairment	$ 376,736	$ 209,879	$ 72,202	$ 84,667
	Assessment of collective impairment	766,935	784,792	451,508	432,473
With no objective evidence of impairment	Assessment of collective impairment	254,735,873	219,931,637	2,905,962	2,598,556
Total		255,879,544	220,926,308	3,429,672	3,115,696

Items		Receivables		Allowance for Bad Debts	
		December 31, 2016	December 31, 2015	December 31, 2016	December 31, 2015
With objective evidence of impairment	Assessment of individual impairment	$ 1,900,712	$ 1,884,175	$ 1,315,493	$ 1,169,447
	Assessment of collective impairment	76,569	87,984	49,452	53,327
With no objective evidence of impairment	Assessment of collective impairment	28,242,686	40,537,844	349,635	526,154
Total		30,219,967	42,510,003	1,714,580	1,748,928

9) Management policies on foreclosed collaterals

Foreclosed collaterals are recorded at cost, using lower-at-cost or market as of the balance sheet date. If collaterals were not disposed of within the statutory period, the Bank should apply for an extension of the disposal period and increase its provision for possible losses, if necessary.

The Bank and subsidiaries' foreclosed collaterals were mainly securities, land and buildings. As of December 31, 2016 and 2015, the carrying amounts of the collaterals were $0 thousand. Foreclosed collaterals assumed are classified as other assets in the balance sheets.

10) Disclosures required under the Regulations Governing the Preparation of Financial Reports by Public Banks

a) Asset quality of nonperforming loans and overdue receivable

Item			December 31, 2016				
			Nonperforming Loan (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Loan Loss Reserves (LLR)	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 153,513	$ 50,916,170	0.30%	$ 605,608	394.50%
	Unsecured		324,861	124,754,280	0.26%	1,505,056	463.29%
Consumer banking	Mortgage (Note 4)		39,967	28,859,486	0.14%	384,928	963.12%
	Cash card		175,281	14,985,877	1.17%	417,765	238.34%
	Micro credit (Note 5)		160,697	19,434,610	0.83%	290,606	180.84%
	Other (Note 6)	Secured	6,479	16,881,472	0.04%	225,073	3,473.86%
		Unsecured	2,389	47,649	5.02%	636	26.59%
Total			863,187	255,879,544	0.34%	3,429,672	397.33%
			Overdue Receivable	Account Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio
Credit card			25,200	2,621,513	0.96%	50,580	200.72%
Account receivable - factoring without recourse (Note 7)			46	9,590,067	0.00%	138,798	303,013.14%

Item			December 31, 2015				
			Nonperforming Loan (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Loan Loss Reserves (LLR)	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 198,376	$ 50,656,014	0.39%	$ 609,454	307.22%
	Unsecured		156,970	94,575,365	0.17%	1,225,613	780.79%
Consumer banking	Mortgage (Note 4)		22,106	26,545,251	0.08%	356,874	1,614.38%
	Cash card		228,108	16,187,477	1.41%	479,420	210.17%
	Micro credit (Note 5)		130,395	18,753,073	0.70%	253,514	194.42%
	Other (Note 6)	Secured	14,303	14,147,202	0.10%	189,988	1,328.31%
		Unsecured	2,686	61,926	4.34%	833	31.00%
Total			752,944	220,926,308	0.34%	3,115,696	413.80%
			Overdue Receivable	Account Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio
Credit card			40,847	2,693,158	1.52%	56,968	139.47%
Account receivable - factoring without recourse (Note 7)			84	1,234,916	0.01%	18,010	21,428.45%

Note 1: Nonperforming loans are reported in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans" issued by the Ministry of Finance. Overdue credit card receivables are regulated by Order No. 0944000378 announced by the FSC on July 6, 2005.

Note 2: NPL ratio = NPL/Total loans. For credit card business: Delinquency ratio = Overdue credit card receivables/Credit card receivables balance.

Note 3: Coverage ratio = LLR/NPL. Coverage ratio of credit receivables: Allowance for credit losses/Overdue credit card receivables.

Note 4: Household mortgage refers to financing obtained to buy, build, or fix houses owned by the borrower or the borrower's spouse or children, with the house used as loan collateral.

Note 5: Micro credit is covered by a Banking Bureau pronouncement dated December 19, 2005 (Order No. 09440010950) and is excluded from credit card and cash card loans.

Note 6: "Others" under consumer loans refers to secured or unsecured loans other than mortgage loans, cash cards, micro credit, and credit cards.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Order No. 094000494), allowance for bad debt is recognized once no compensation is made by a factor or insurance company within three months for accounts receivable - factoring without recourse.

b) Exemption on nonperforming loans and overdue receivables

Items	December 31, 2016		December 31, 2015	
	Excluded NPL	Excluded Overdue Receivables	Excluded NPL	Excluded Overdue Receivables
Amounts of executed contracts on negotiated debts not reported (Note 1)	$ 36,467	$ 182	$ 53,096	$ 216
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	29,330	3,928	37,718	4,831
Total	$ 65,797	$ 4,110	$ 90,814	$ 5,047

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

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

c) Concentration of credit risk

December 31, 2016

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth (%)
1	A Group - 016102 wireless telecommunication industry	$ 6,208,240	10.57
2	B Group - 012711 computer manufacturing	4,165,657	7.09
3	C Group - 015100 civil aviation transportation	4,025,770	6.86
4	D Group - 014510 merchandise brokers	3,227,900	5.50
5	E Group - 012641 LCD and related components manufacturing	3,064,630	5.22
6	F Group - 011599 manufacture of other paper products not elsewhere classified	3,055,979	5.20
7	G Group - 012740 data storage media	2,950,000	5.02
8	H Group - 016700 real estate brokerage	2,779,993	4.73
9	I Group - 012611 IC manufacturing	2,628,808	4.48
10	J Group - 016811 real estate activities for sale and rental with own or leased property	2,628,185	4.48

December 31, 2015

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth (%)
1	A Group-016100 telecommunication industry	$ 5,881,320	10.20
2	H Group-016700 real estate brokerage	4,265,522	7.39
3	B Group-012711 computer manufacturing	3,914,028	6.79
4	G Group-012740 data storage media	3,650,000	6.33
5	C Group-015100 civil aviation transportation	3,148,506	5.46
6	K Group-012641 LCD and related components manufacturing	3,084,530	5.35
7	L Group-017112 engineering activities and related technical consultancy	2,965,947	5.14
8	M Group-012630 printed circuit boards manufacturing	2,896,983	5.02
9	N Group-012413 iron and steel rolls over extends and crowding	2,656,132	4.61
10	E Group-012641 LCD and related components manufacturing	2,547,683	4.42

c. Liquidity risk

1) Definition and source of liquidity risk

Liquidity risk of the Bank refers to the risks of bearing financial loss because of the inability to liquidate assets or obtain financing to provide funds to meet the financial obligation, such as early termination of deposits, deteriorating of the source and condition of financing from banks influenced by specific market, abnormal recover of funds due to default from borrowers, inability to liquidate financial instruments and early exertion of rights of rescission of interest sensitive product by the assured. The aforementioned situation may reduce cash source of loan, transactions and investment. In some extreme cases, the lack of liquidity may result in a decrease in the overall position of the balance sheet, sale of assets and failure to perform loan commitments.

2) Management policies of liquidity risk

To control liquidity risk, the Bank calculates the maximum cumulative cash outflow (MCO) to monitor the daily funding gap by each major currency. The Bank also actively deconcentrates funding sources, due dates of funding settlement, and the counterparties to the due from other banks and call loans to other banks, as well as maintains an adequate amount of corporate cash in banks to enhance its liquidity position.

3) Maturity gap analysis of financial assets and non-derivative financial liabilities held for liquidity purposes

a) Financial assets held for liquidity management

The Bank holds cash and highly liquid and high-grade assets to pay off obligations and meet any potential emergency funding needs. The assets held for liquidity management include cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, discounts and loans, and available-for-sale financial assets.

b) Maturity analysis of non-derivative financial liabilities

The following tables show the cash outflows on the Bank's non-derivative financial liabilities based on contract maturities. However, because the amounts disclosed were based on contractual cash flows, some of them will not match the amounts shown in the balance sheets.

(In Thousands of New Taiwan Dollars)

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 23,484,126	$ 460,583	$ 253,739	$ 416,899	$ -	$ 24,615,347
Notes and bonds issued under repurchase agreements	21,868,872	459,685	-	-	-	22,328,557
Deposits and remittances	73,974,018	40,709,082	45,443,242	59,670,662	22,038,891	241,835,895
Bank debentures payable	-	-	-	2,750,000		2,750,000
Other capital outflow on maturity	1,634,569	616,498	282,125	404,150	483,030	3,420,372
Total	$ 120,961,585	$ 42,245,848	$ 45,979,106	$ 63,241,711	$ 22,521,921	$ 294,950,171

(In Thousands of New Taiwan Dollars)

December 31, 2015	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 1,184,126	$ 233,883	$ 259,430	$ 649,290	$ -	$ 2,326,729
Notes and bonds issued under repurchase agreements	3,555,537	439,228	-	-	-	3,994,765
Deposits and remittances	38,936,723	74,633,425	38,705,271	62,391,930	19,763,994	234,431,343
Bank debentures payable	-	-	1,056,148	-	2,750,000	3,806,148
Other capital outflow on maturity	1,149,059	626,503	329,557	210,316	993,105	3,308,540
Total	$ 44,825,445	$ 75,933,039	$ 40,350,406	$ 63,251,536	$ 23,507,099	$ 247,867,525

(In Thousands of U.S. Dollars)

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 133,000	$ 30,000	$ -	$ -	$ -	$ 163,000
Notes and bonds issued under repurchase agreements	554,336	678,966	-	-	-	1,233,302
Deposits and remittances	783,074	543,615	501,747	942,410	26,490	2,797,336
Bank debentures payable	-	-	-	-	368,413	368,413
Other capital outflow on maturity	22,947	15,779	3,121	1,884	42,700	86,431
Total	$ 1,493,357	$ 1,268,360	$ 504,868	$ 944,294	$ 437,603	$ 4,648,482

(In Thousands of U.S. Dollars)

December 31, 2015	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 72,000	$ 129,000	$ -	$ -	$ -	$ 201,000
Notes and bonds issued under repurchase agreements	1,326,354	397,933	-	-	-	1,724,287
Deposits and remittances	1,615,814	562,184	532,550	367,017	14,143	3,091,708
Bank debentures payable	-	-	-	-	99,690	99,690
Other capital outflow on maturity	4,570	7,355	2,647	446	9,713	24,731
Total	$ 3,018,738	$ 1,096,472	$ 535,197	$ 367,463	$ 123,546	$ 5,141,416

4) Maturity analysis of derivative instruments

Contractual maturities were assessed to have an understanding of derivative instruments presented in the consolidated balance sheet. Amounts disclosed in the table were based on contractual cash flows; however, some of these amounts did not match those in the balance sheets. The maturity analysis of derivative instruments was as follows:

(In Thousands of New Taiwan Dollars)

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	$ (171,492,690)	$ (231,995,114)	$ (167,321,858)	$ (17,638,218)	$ (327,000)	$ (588,774,880)
Cash inflow	164,681,784	234,004,664	162,867,950	18,831,464	-	580,385,862
Interest rate derivatives instruments						
Cash outflow	(1,750,715)	(441,025)	(1,361)	(912,497)	(15,023,911)	(18,129,509)
Cash inflow	214,301	423,840	-	-	-	638,141
Others						
Cash outflow	-	-	-	-	-	-
Cash inflow	714	-	-	-	-	714
Cash outflow subtotal	(173,243,405)	(232,436,139)	(167,323,219)	(18,550,715)	(15,350,911)	(606,904,389)
Cash inflow subtotal	164,896,799	234,428,504	162,867,950	18,831,464	-	581,024,717
Net cash flow	$ (8,346,606)	$ 1,992,365	$ (4,455,269)	$ 280,749	$ (15,350,911)	$ (25,879,672)

(In Thousands of New Taiwan Dollars)

December 31, 2015	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	$ (210,247,189)	$ (193,308,282)	$ (154,000,151)	$ (16,434,098)	$ (327,000)	$ (574,316,720)
Cash inflow	208,228,429	193,153,076	112,725,144	36,762,530	-	550,869,179
Interest rate derivatives instruments						
Cash outflow	(1,311,706)	(642,549)	(24,974)	(1,001,557)	(11,936,792)	(14,917,578)
Cash inflow	186,298	430,290	33,537	-	52,369	702,494
Others						
Cash outflow	(770)	-	-	-	-	(770)
Cash inflow	-	-	-	-	-	-
Cash outflow subtotal	(211,559,665)	(193,950,831)	(154,025,125)	(17,435,655)	(12,263,792)	(589,235,068)
Cash inflow subtotal	208,414,727	193,583,366	112,758,681	36,762,530	52,369	551,571,673
Net cash flow	$ (3,144,938)	$ (367,465)	$ (41,266,444)	$ 19,326,875	$ (12,211,423)	$ (37,663,395)

(In Thousands of U.S. Dollars)

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	$ (5,801,671)	$ (7,928,173)	$ (5,383,285)	$ (1,081,788)	$ (149,201)	$ (20,344,118)
Cash inflow	6,155,681	7,902,248	5,527,944	928,621	174,935	20,689,429
Interest rate derivatives instruments						
Cash outflow	(19,852)	(33,865)	(30,342)	(1,006)	(20,264)	(105,329)
Cash inflow	13,143	33,962	29,726	689	-	77,520
Others						
Cash outflow	(744)	-	-	-	-	(744)
Cash inflow	275	-	-	-	-	275
Cash outflow subtotal	(5,822,267)	(7,962,038)	(5,413,627)	(1,082,794)	(169,465)	(20,450,191)
Cash inflow subtotal	6,169,099	7,936,210	5,557,670	929,310	174,935	20,767,224
Net cash flow	$ 346,832	$ (25,828)	$ 144,043	$ (153,484)	$ 5,470	$ 317,033

(In Thousands of U.S. Dollars)

December 31, 2015	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	$ (7,415,898)	$ (6,183,680)	$ (3,596,863)	$ (1,520,370)	$ (62,396)	$ (18,779,207)
Cash inflow	7,281,650	6,166,764	4,903,978	831,482	72,396	19,256,270
Interest rate derivatives instruments						
Cash outflow	(9,019)	(19,479)	(6,388)	(3,985)	(193,715)	(232,586)
Cash inflow	7,759	17,486	4,269	3,615	-	33,129
Others						
Cash outflow	(460)	-	-	-	-	(460)
Cash inflow	259	-	-	-	-	259
Cash outflow subtotal	(7,425,377)	(6,203,159)	(3,603,251)	(1,524,355)	(256,111)	(19,012,253)
Cash inflow subtotal	7,289,668	6,184,250	4,908,247	835,097	72,396	19,289,658
Net cash flow	$ (135,709)	$ (18,909)	$ 1,304,996	$ (689,258)	$ (183,715)	$ 277,405

5) Maturity analysis of off-balance sheet items

The following table shows the Bank's off-balance sheet items by period from the balance sheet dates to contract maturity dates. Amounts disclosed in the table were based on contractual cash flows; thus, some amounts will not match those in the balance sheets.

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 6,402,878	$ 11,356,859	$ 11,247,994	$ 29,457,826	$ 43,749,877	$ 102,215,434

December 31, 2015	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 3,955,556	$ 7,293,085	$ 8,414,438	$ 29,975,155	$ 46,090,223	$ 95,728,457

6) Maturity analysis of lease commitments

The Bank and subsidiaries' lease commitments included operating leases and finance leases. Operating lease commitments referred to future minimum payments under noncancelable operating leases where the Bank or its subsidiaries are the lessees or lessors. Financial lease commitments referred to future gross payments under financial leases where the Bank or its subsidiaries are the lessees. The maturity analysis of lease commitments was as follows:

December 31, 2016	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Lease agreement				
Financial lease gross income (lessor)	$ 3,268,707	$ 3,156,235	$ -	$ 6,424,942
Financial lease present value income (lessor)	3,076,383	2,970,345	-	6,046,728
Operating lease payment (lessee)	239,465	471,498	-	710,963
Operating lease income (lessor)	16,325	22,947	-	39,272
Present value of financial lease payment (lessee)	869	8	-	877

December 31, 2015	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Lease agreement				
Financial lease gross income (lessor)	$ 3,719,977	$ 3,742,954	$ -	$ 7,462,931
Financial lease present value income (lessor)	3,408,517	3,532,798	-	6,941,315
Operating lease payment (lessee)	250,983	475,217	3,630	729,830
Operating lease income (lessor)	36,748	63,091	-	99,839
Present value of financial lease payment (lessee)	3,916	876	-	4,792

7) Summary of required disclosures under the Regulations Governing the Preparation of Financial Reports by Public Banks:

a) Maturity analysis of assets and liabilities of the Bank (New Taiwan dollars)

(In Thousands of New Taiwan Dollars)

December 31, 2016	0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 149,978,483	$ 187,766,579	$ 273,928,025	$ 188,006,146	$ 58,519,345	$ 96,361,544	$ 954,560,122
Main capital outflow on maturity	138,288,017	186,969,792	335,677,721	259,116,285	111,646,052	132,880,819	1,164,578,686
Gap	11,690,466	796,787	(61,749,696)	(71,110,139)	(53,126,707)	(36,519,275)	(210,018,564)

(In Thousands of New Taiwan Dollars)

December 31, 2015	0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 125,323,653	$ 236,796,241	$ 225,304,405	$ 139,833,808	$ 70,212,758	$ 90,356,431	$ 887,827,296
Main capital outflow on maturity	94,800,542	188,125,816	322,057,926	234,885,133	108,241,802	130,644,304	1,078,755,523
Gap	30,523,111	48,670,425	(96,753,521)	(95,051,325)	(38,029,044)	(40,287,873)	(190,928,227)

b) Maturity analysis of assets and liabilities of the Bank (U.S. dollars)

(In Thousands of U.S. Dollars)

December 31, 2016	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 7,791,191	$ 8,779,663	$ 5,933,975	$ 1,350,339	$ 1,585,732	$ 25,440,900
Main capital outflow on maturity	8,209,945	11,019,043	7,209,512	2,031,887	659,533	29,129,920
Gap	(418,754)	(2,239,380)	(1,275,537)	(681,548)	926,199	(3,689,020)

(In Thousands of U.S. Dollars)

December 31, 2015	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 10,051,229	$ 7,117,708	$ 5,277,364	$ 1,372,405	$ 622,496	$ 24,441,202
Main capital outflow on maturity	11,105,526	8,622,456	5,122,254	1,894,680	418,621	27,163,537
Gap	(1,054,297)	(1,504,748)	155,110	(522,275)	203,875	(2,722,335)

d. Market risk

1) Definition and source of market risk

Market risk is defined as an unfavorable change in macroeconomic and financial market variables (such as interest rates, exchange rates, stock prices and commodity prices), which may cause a potential loss on financial assets held for trading.

2) Risk management policies

In order to have a common-language of market risk management, definition, communication and measurement, the Bank has developed “Market Risk Policy” based on Regulations Governing the Capital Adequacy Ratio of Banks (the CAR Regulations) and on market risk calculation tables announced by the FSC, international standards, and CDFH’s market risk management policy framework.

The “Market Risk Policy” is applicable to “Trading Book” positions defined by the Regulations Governing the Capital Adequacy Ratio of the Bank related market risk calculation tables and the Bank’s book management approach to financial instrument handling.

Following the “Market Risk Policy”, the Bank sets up the “Market Risk Management Procedure to Trading Activities” to manage market risk. This procedure includes risk identification and assessment, risk measurement, risk monitoring and response, risk reporting and contingency management processes.

3) Procedures for market risk measuring, monitoring, and reporting

The Bank's market risk limits include position sensitivities, stop-loss limits and value-at-risk (VaR).

Risk factors analyzed through the Bank's risk measurement systems are sufficient to determine all market risks on trading positions shown in the balance sheet, including interest rate risk, foreign exchange risk, equity risk, and commodity risks, as well as volatility risks on option transactions which arise out of the option transactions.

The Bank's market risk reports include profit or loss on trading positions, limit usage, stress testing, and trading portfolio risk assessment, as well as significant exceptions if any.

The risk management department of the Bank independently performs daily market risk limit controls, and makes regularly reports to both the Risk Management Committee and CDFH's Risk Management Committee. Besides, the above reports are quarterly presented to the Board for reference.

4) Mitigation of risks or hedging of market risk

The Bank's market risk positions or hedging positions are marked to market on a daily base through techniques such as model valuation. All market parameters are updated at least daily in accordance with changes in market conditions. Market Risk Limits are regularly reviewed and controlled based on the valuation results.

5) Valuation techniques of market risk

The Bank uses the VaR model and/or stress testing to evaluate the potential and/or extreme risk on trading portfolios. Through variations of the assumptions on market conditions, these techniques are used to assess the market risk of positions held and the maximum expected loss.

VaR is calculated using a one-day time horizon with a 95% confidence level.

(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31, 2016			For the Year Ended December 31, 2015		
	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	$ 33,310	$ 74,214	$ 17,157	$ 47,779	$ 118,218	$ 11,394
Equity risk	5,951	12,389	2,336	15,831	28,568	7,542
Foreign exchange risk	36,105	80,973	6,133	8,539	27,412	1,514

6) Interest rate risk in banking book

The scope of interest rate risk in banking book includes interest rate sensitivity of assets and liabilities, but do not include risk management of trading book. Interest rate risk in banking book measures the adverse effects on net interest income of assets, liabilities and off-balance sheet as a result of adverse fluctuations in interest. Risk assessment not only builds the sensitivity gap between assets and liabilities, but also quantifies through the dimension of retained earnings and economic value perspectives.

7) Interest rate risk management of the banking book

The interest rate risk management strategy involving the Bank's banking book is to minimize the negative impact of changes in interest rates on net interest income and the net economic value of equity. The asset-liability management committee (ALMCO) approves the annual banking book interest rate risk limits and monitors the Bank's interest rate risk exposures every day. The interest rate risk management processes include risk identification, risk measurement, risk control, risk monitoring and others. The unit monitoring the banking book interest rate risks reports interest rate risk exposures regularly to ALMCO, and adjusts the structure of assets and liabilities according to the reports, lowering the amount of exposure. For risk monitoring, the asset and liability management system outputs and analysis reports, which is provided to the interest rate risk execution units and top management. If risk missing or excess of limit occur from monitor, written notices will be passed to the interest rate risk assessment units to adjust and improve the program reported to ALMCO.

8) Foreign currency risk information

The financial assets and liabilities denominated in foreign currency and with material influence on the Bank and subsidiaries were as follows:

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	December 31, 2016		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 5,345,458	32.28	$ 172,546,025
RMB	1,934,700	4.62	8,941,990
HKD	604,307	4.16	2,515,248
EUR	61,196	33.92	2,075,584
GBP	45,031	39.61	1,783,666
JPY	3,860,310	0.28	1,064,287
AUD	11,789	23.30	274,698
ZAR	85,730	2.37	203,017
THB	169,664	0.90	152,884
CAD	6,237	23.93	149,229
Nonmonetary items			
HKD	521,348	4.16	2,169,956
Financial liabilities			
Monetary items			
USD	5,475,408	32.28	176,740,694
RMB	1,955,014	4.62	9,035,879
ZAR	1,454,274	2.37	3,443,867
AUD	65,000	23.30	1,514,621
EUR	36,380	33.92	1,233,894
HKD	293,670	4.16	1,222,312
JPY	2,345,749	0.28	646,723
NZD	15,481	22.42	347,017
GBP	3,801	39.61	150,540

	December 31, 2015		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 7,048,458	33.07	$ 233,064,309
EUR	107,545	36.14	3,886,770
RMB	589,247	5.03	2,965,446
JPY	6,099,692	0.27	1,675,585
HKD	287,940	4.27	1,228,467
GBP	4,641	49.04	227,599
AUD	7,311	24.16	176,650
Nonmonetary items			
HKD	377,926	4.27	1,612,385
Financial liabilities			
Monetary items			
USD	7,400,004	33.07	244,688,523
EUR	73,888	36.14	2,670,401
JPY	9,047,194	0.27	2,485,264
AUD	53,950	24.16	1,303,487
GBP	16,720	49.04	819,945
HKD	152,150	4.27	649,133
NZD	20,986	22.69	476,137
RMB	72,551	5.03	365,121

9) Disclosures required by the Regulations Governing the Preparation of Financial Reports by Public Banks

a) Analysis of interest rate-sensitive assets and liabilities (New Taiwan dollars)

December 31, 2016

(In Thousands of New Taiwan Dollars)

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 212,961,639	$ 14,406,478	$ 4,879,123	$ 108,803,232	$ 341,050,472
Interest rate-sensitive liabilities	151,925,098	94,329,388	36,692,575	4,274,816	287,221,877
Interest rate sensitivity gap	61,036,541	(79,922,910)	(31,813,452)	104,528,416	53,828,595
Net worth					57,022,065
Ratio of interest rate-sensitive assets to liabilities (%)					118.74
Ratio of interest rate-sensitive gap to net worth (%)					94.40

December 31, 2015

(In Thousands of New Taiwan Dollars)

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 250,256,425	$ 9,228,268	$ 3,692,381	$ 50,790,267	$ 313,967,341
Interest rate-sensitive liabilities	114,720,285	80,048,442	40,511,307	7,387,827	242,667,861
Interest rate sensitivity gap	135,536,140	(70,820,174)	(36,818,926)	43,402,440	71,299,480
Net worth					56,366,901
Ratio of interest rate-sensitive assets to liabilities (%)					129.38
Ratio of interest rate-sensitive gap to net worth (%)					126.49

Note 1: The above amounts included only New Taiwan dollar amounts held by the Bank (excluded contingent assets and contingent liabilities).

Note 2: Interest rate-sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities with revenues or costs affected by interest rate changes.

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 (interest rate-sensitive assets and interest rate-sensitive liabilities in New Taiwan dollars).

b) Analysis of interest rate-sensitive assets and liabilities (U.S. dollars)

December 31, 2016

(In Thousands of U.S. Dollars)

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 2,375,210	$ 225,241	$ 449,089	$ 1,219,782	$ 4,269,322
Interest rate-sensitive liabilities	2,988,749	440,418	737,981	394,903	4,562,051
Interest rate sensitivity gap	(613,539)	(215,177)	(288,892)	824,879	(292,729)
Net worth					52,465
Ratio of interest rate-sensitive assets to liabilities (%)					93.58
Ratio of interest rate-sensitive gap to net worth (%)					(557.95)

December 31, 2015

(In Thousands of U.S. Dollars)

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 2,312,571	$ 233,877	$ 333,663	$ 1,936,818	$ 4,816,929
Interest rate-sensitive liabilities	4,292,300	488,931	221,621	113,833	5,116,685
Interest rate sensitivity gap	(1,979,729)	(255,054)	112,042	1,822,985	(299,756)
Net worth					38,963
Ratio of interest rate-sensitive assets to liabilities (%)					94.14
Ratio of interest rate-sensitive gap to net worth (%)					(769.34)

Note 1: The above amounts included only U.S. dollar amounts held by the Bank (excluded contingent assets and contingent liabilities).

Note 2: Interest rate-sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities with revenues or costs affected by interest rate changes.

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 (Interest rate-sensitive assets and liabilities in U.S. dollars).

e. Transfers of financial assets

Transferred financial assets not qualifying for full derecognition

Among daily operations of the Bank, most of the transactions of transferred financial assets not qualifying for full derecognition are debt securities under repurchase agreements. As the Bank's right to receive cash flows of the financial assets transferred to the counterparties, and reflecting the obligation to repurchase the transferred financial assets for a fixed price at a future date, the transferred financial assets cannot be used, sold or pledged in the duration of the transaction. The Bank does not derecognize it entirely because the Bank remains exposed to interest rate risk and credit risk on these pledged instruments.

Related information of financial assets and liabilities not qualifying for full derecognition are listed below:

December 31, 2016					
Category	**Transferred Financial Assets - Book value**	**Related Financial Liabilities - Book value**	**Transferred Financial Assets - Fair value**	**Related Financial Liabilities - Fair value**	**Net Position - Fair value**
Notes and bonds issued under repurchase agreements					
Financial assets at fair value through profit or loss	$ 35,227,572	$ 33,509,311	$ 35,227,572	$ 33,509,311	$ 1,718,261
Available-for-sale financial assets	30,023,890	28,629,003	30,023,890	28,629,003	1,394,887

December 31, 2015					
Category	**Transferred Financial Assets - Book value**	**Related Financial Liabilities - Book value**	**Transferred Financial Assets - Fair value**	**Related Financial Liabilities - Fair value**	**Net Position - Fair value**
Notes and bonds issued under repurchase agreements					
Financial assets at fair value through profit or loss	$ 37,960,373	$ 35,862,865	$ 37,960,373	$ 35,862,865	$ 2,097,508
Available-for-sale financial assets	26,418,401	25,014,339	26,418,401	25,014,339	1,404,062

f. Offsetting financial assets and financial liabilities

The Bank has no transactions of financial instruments that correspond to the provisions of IAS 32-42, but there are enforceable master netting arrangements or similar agreements signed with counterparty, and the financial assets and financial liabilities can be offset when both sides of the transaction have decided to, but gross settlements if not. One can choose net settlement if the other side of the transaction is in the breach of contract.

Related information of offsetting of financial assets and financial liabilities are as follows:

December 31, 2016						
Financial Assets Under Offsetting, Net Settlement Contracts or Similar Agreements						
Financial Assets	**Recognized Financial Assets - Gross Amount (a)**	**Netted Financial Liabilities Recognized on the Balance Sheet - Gross Amount (b)**	**Recognized Financial Assets - Net Amount (c)=(a)-(b)**	**Related Amount Not Netted on the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Received**	
Securities purchased under resell agreements	$ 795,850	$ -	$ 795,850	$ 795,850	$ -	$ -
Derivative financial instruments	25,434,608	-	25,434,608	7,171,127	1,018,564	17,244,917
Total	$ 26,230,458	$ -	$ 26,230,458	$ 7,966,977	$ 1,018,564	$ 17,244,917

December 31, 2016						
Financial Liabilities Under Offsetting, Net Settlement Contracts or Similar Agreements						
Financial Liabilities	**Recognized Financial Liabilities - Gross Amount (a)**	**Netted Financial Assets Recognized on the Balance Sheet - Gross Amount (b)**	**Recognized Financial Liabilities - Net Amount (c)=(a)-(b)**	**Related Amount Not Netted on the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Pledged**	
Notes and bonds issued under repurchase agreements	$ 62,138,314	$ -	$ 62,138,314	$ 61,725,136	$ 413,178	$ -
Derivative financial instruments	27,516,130	-	27,516,130	7,171,127	6,655,765	13,689,238
Total	$ 89,654,444	$ -	$ 89,654,444	$ 68,896,263	$ 7,068,943	$ 13,689,238

December 31, 2015						
Financial Assets Under Offsetting, Net Settlement Contracts or Similar Agreements						
Financial Assets	**Recognized Financial Assets - Gross Amount (a)**	**Netted Financial Liabilities Recognized on the Balance Sheet - Gross Amount (b)**	**Recognized Financial Assets - Net Amount (c)=(a)-(b)**	**Related Amount Not Netted on the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Received**	
Securities purchased under resell agreements	$ 36,176,824	$ -	$ 36,176,824	$ 36,176,824	$ -	$ -
Derivative financial instruments	19,974,577	-	19,974,577	7,673,054	510,105	11,791,418
Total	$ 56,151,401	$ -	$ 56,151,401	$ 43,849,878	$ 510,105	$ 11,791,418

December 31, 2015						
Financial Liabilities Under Offsetting, Net Settlement Contracts or Similar Agreements						
Financial Liabilities	**Recognized Financial Liabilities - Gross Amount (a)**	**Netted Financial Assets Recognized on the Balance Sheet - Gross Amount (b)**	**Recognized Financial Liabilities - Net Amount (c)=(a)-(b)**	**Related Amount Not Netted on the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Pledged**	
Notes and bonds issued under repurchase agreements	$ 61,010,030	$ -	$ 61,010,030	$ 60,540,403	$ 469,627	$ -
Derivative financial instruments	21,832,157	-	21,832,157	7,673,054	7,390,082	6,769,021
Total	$ 82,842,187	$ -	$ 82,842,187	$ 68,213,457	$ 7,859,709	$ 6,769,021

Note: Financial instruments include master netting arrangements and non-cash collateral.

43. CAPITAL MANAGEMENT

a. Objects of capital management

The calculation methods of self-owned capital should be conducted according to the regulations of authorities. The basic management objective includes sufficient capital to meet the requirements of the regulation and achieve the minimum capital adequacy ratio so as to control all risks within the risk appetite.

In order to undertake all kinds of risk, the Bank conducts risk management based on the risk portfolio and the assessment of risk characteristics to design the best capital allocation.

b. Capital management procedures

The Bank had met the authorities' minimum requirements for capital adequacy ratio and reported to the authority quarterly. Eligible capital is calculated according with the "Regulations Governing the Capital Adequacy and Capital Category of Banks"

c. Capital adequacy ratio

(In Thousands of New Taiwan Dollars, %)

Items		Year	December 31, 2016	December 31, 2015
Eligible capital	Common equity Tier 1 capital		$ 53,944,546	$ 53,124,545
	Additional Tier 1 capital		-	-
	Tier 2 capital		41,708	179,269
	Eligible capital		53,986,254	53,303,814
Risk-weighted assets	Credit risk	Standardized approach	335,603,806	296,938,821
		Internal rating-based approach	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach	17,971,561	18,407,174
		Standardized approach/ alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	54,614,500	40,872,275
		Internal model approach	-	-
	Total risk-weighted assets		408,189,867	356,218,270
Capital adequacy ratio			13.23%	14.96%
Ratio of common equity to risk-weighted assets			13.22%	14.91%
Ratio of Tier 1 capital to risk-weighted assets			13.22%	14.91%
Leverage ratio			8.85%	9.28%

Note 1: The table was prepared in accordance with the “Regulations Governing the Capital Adequacy and Capital Category of Banks” and the “Methods for Calculating Banks’ Regulatory Capital and Risk-Weighted Assets”.

Note 2: The Bank should disclose the capital adequacy ratios of the current and previous periods in annual financial reports. For semiannual financial reports, the Bank should disclose the capital adequacy ratios of the current and previous periods, and of the previous year-end.

Note 3: The formulas used in calculating the above table entries were as follows:

1) Eligible capital = Common equity capital+ Additional Tier 1 capital + Tier 2 capital.

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

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

4) Ratio of common equity capital to risk-weighted assets = Common equity/Total risk-weighted assets.

5) Ratio of Tier 1 capital to risk-weighted assets = (Common equity capital + Additional Tier 1 capital)/Total risk-weighted assets.

6) Leverage ratio = Tier 1 capital/Exposure measurement.

44. TRUST BUSINESS OPERATIONS UNDER THE TRUST ENTERPRISES ACT

The balance sheets and income statements of the trust accounts and trust property accounts were as follows:

Balance Sheets of Trust Accounts

(In Thousands of New Taiwan Dollars)

Trust Assets	December 31 2016	December 31 2015	Trust Liabilities and Equity	December 31 2016	December 31 2015
Bank deposits	$ 310,897	$ 654,161	Payables	$ 153,951	$ 154,615
Short-term investment	30,860,207	31,338,483	Account payable on securities under custody	1,909,451	-
Financial assets at FVTPL	2,660,355	3,697,006	Other liabilities	30,906	1,336,311
Receivables	26,191	51,927	Trust capital	34,693,769	37,805,193
Payments for others	-	1,166,813	Accumulated earnings	1,067,910	795,758
Financial assets measured at cost	687,150	1,401,010			
Real estate, net	417,202	797,943			
Intangible assets - surface rights	984,534	984,534			
Securities under custody	1,909,451	-			
Total	$ 37,855,987	$ 40,091,877	Total	$ 37,855,987	$ 40,091,877

Income Statements of Trust Accounts

(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31 2016	For the Years Ended December 31 2015
Trust income and gains		
Operating income	$ 86,041	$ 157,838
Interest income	1,385,573	1,640,239
Rental income	30,624	31,947
Gain on financial assets at FVTPL, net	480,409	415,920
Others income	23,470	915
Total trust income and gains	2,006,117	2,246,859
Property transaction losses	(1,461,127)	(1,576,080)
Trust expenses		
Administrative expenses	24,329	36,800
Interest expenses	39,754	65,285
Service fee	712	94
Other expenses	29,591	12,385
Total trust expenses	94,386	114,564
Net income	$ 450,604	$ 556,215

The above income from trust operations were excluded from the Banks’ income.

Trust Property Accounts

(In Thousands of New Taiwan Dollars)

Investment Portfolio	December 31 2016	December 31 2015
Bank deposits	$ $310,897	$ 654,161
Short-term investments		
Funds	29,104,043	29,808,756
Bonds	1,468,806	1,113,036
Common shares	78,300	81,400
Structured notes	93,766	215,507
ETF	115,292	119,784
Financial assets at FVTPL	2,660,355	3,697,006
Payment for others	-	1,166,813
Financial assets measured at cost	687,150	1,401,010
Real estate, net	417,202	797,943
Intangible assets - surface rights	984,534	984,534
Securities under custody	1,909,451	-
Other assets	26,191	51,927
Total	$ 37,855,987	$ 40,091,877

45. ALLOCATION OF REVENUE, COST AND EXPENSE RESULTING FROM INTERCOMPANY COOPERATION AND RESOURCE SHARING

For the cooperation and resource sharing between CDFH, the Bank's parent, and CDFH's subsidiaries, please refer to Note 38 to the consolidated financial statements.

46. PROFITABILITY

(%)

Items		December 31, 2016	December 31, 2015 (Note 6)
Return on total assets	Before income tax	0.85	1.05
	After income tax	0.68	0.94
Return on net worth	Before income tax	8.14	10.29
	After income tax	6.55	9.20
Profit margin		35.49	47.47

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

Note 2: Return on net worth = Income before (after) income tax/Average net worth.

Note 3: Profit margin = Income after income tax/Total net revenues.

Note 4: Income before (after) income tax means income accumulated from January of the current period to the current period.

Note 5: The above profitability ratios are expressed annually.

Note 6: Equity and profit or loss to former owner of business combination were included.

47. ADDITIONAL DISCLOSURES

a. Information about significant transactions:

1) Financing provided: The Bank: Not applicable. For subsidiaries' information: None.

2) Collaterals/guarantees provided: The Bank: Not applicable. For subsidiaries' information: Table 1 (attached).

3) Marketable securities held: The Bank: Not applicable. For subsidiaries' information: Table 2 (attached).

4) Acquired and disposed of, at cost or price of at least NT$300 million or 10% of the issued capital (For subsidiaries acquiring and disposing of marketable securities, at cost or price of at least NT$300 million or 10% of the issued capital): None.

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

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

7) Discount on service fees received from related parties amounting to NT$5 million: None.

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

9) Sold nonperforming loans: None.

10) Financial asset securitization: None.

11) Other significant transactions which may affect the decisions of the consolidated financial statements users: None.

12) Derivative transactions: Please refer to Notes 8, 41 and 42 to the consolidated financial statements.

b. Related information and proportionate share in investees: Table 3 (attached).

c. Information on investments in Mainland China: Table 4 (attached).

d. Business relationships and significant transactions among the Bank and subsidiaries. Table 5 (attached).

48. SEGMENT INFORMATION

Segment information of organization and performance departments had adjustments due to business transfer from the CDIB stated in the Note 1. The reportable segments of the Bank and subsidiaries were as follows:

1. Retail banking segment: The segment mainly provides cash cards, credit cards, personal loans, mortgages, emerging corporate, deposits, remittances, wealth management, etc.

2. Corporate banking segment: The segment mainly provides services such as processing deposits and loans of large-scale enterprises and small and medium enterprises.

3. Global markets segment: The segment's services include the distribution of funds, issuance of bank debentures, handling money market and bond market transactions, foreign exchange handling, and dealing with other financial market-related products (such as derivative instruments) and transactions.

4. Others: Mainly include the administration segment of head office and summarized of other non-independent segments.

The accounting policies of the operating segments are the same as the accounting policies described in Note 4. The Bank and subsidiaries use income before income tax as the measurement for segment profit and the basis of performance assessment. The net revenue, income before income tax, assets and liabilities are composed of revenues and expenses directly attributable to an operating segment.

a. Segment revenues and results

The following is an analysis of the Bank and subsidiaries' revenue and results of operations by reportable segment:

	Retail Banking Segment	Corporate Banking Segment	Global Markets Segment	Others	Total
For the year ended December 31, 2016					
Interest revenue, net	$ 2,319,800	$ 2,465,505	$ 765,646	$ 211,644	$ 5,762,595
Net revenue (loss) - intersegment	1,272,706	(64,298)	(1,066,173)	(142,235)	-
Noninterest profits and gains, net	1,242,890	258,140	3,235,410	290,088	5,026,528
Net revenue	4,835,396	2,659,347	2,934,883	359,497	10,789,123
Reversal of allowance (allowance) for bad debts expense and guarantee liability provision, net	140,508	(97,352)	(66,510)	(235,390)	(258,744)
Operating expenses	(2,984,083)	(626,474)	(398,239)	(1,765,921)	(5,774,717)
Income (loss) before income tax	1,991,821	1,935,521	2,470,134	(1,641,814)	4,755,662
Income tax expense	-	-	-	(927,070)	(927,070)
Net income (loss)	$ 1,991,821	$ 1,935,521	$ 2,470,134	$ (2,568,884)	$ 3,828,592
For the year ended December 31, 2015					
Interest revenue, net	$ 2,556,392	$ 3,045,428	$ 1,423,803	$ 301,717	$ 7,327,340
Net revenue (loss) - intersegment	1,518,416	(651,542)	(1,279,468)	412,594	-
Noninterest profits and gains (losses), net	1,259,061	193,530	2,261,994	(84,003)	3,630,582
Net revenue	5,333,869	2,587,416	2,406,329	630,308	10,957,922
Reversal of allowance (allowance) for bad debts expense and guarantee liability provision, net	93,084	548,301	(63,925)	(160,695)	416,765
Operating expenses	(2,714,952)	(573,961)	(386,153)	(1,880,932)	(5,555,998)
Income (loss) before income tax	2,712,001	2,561,756	1,956,251	(1,411,319)	5,818,689
Income tax expense	-	-	-	(617,272)	(617,272)
Net income (loss)	$ 2,712,001	$ 2,561,756	$ 1,956,251	$ (2,028,591)	$ 5,201,417

b. Segment assets and liabilities

	Retail Banking Segment	Corporate Banking Segment	Global Markets Segment	Others	Total
December 31, 2016					
Assets	$ 90,782,011	$ 190,749,078	$ 276,229,094	$ 14,382,416	$ 572,142,599
Liabilities	$ 138,193,885	$ 208,264,070	$ 157,370,678	$ 9,393,390	$ 513,222,023
December 31, 2015					
Assets	$ 82,730,947	$ 169,912,309	$ 272,797,628	$ 20,744,212	$ 546,185,096
Liabilities	$ 139,216,101	$ 219,442,850	$ 121,903,092	$ 7,724,648	$ 488,286,691

c. Geographical information

The revenue of the Bank and subsidiaries from external customers by location of operations are detailed below.

	For the Years Ended December 31	
	2016	2015
Taiwan	$ 10,737,430	$ 10,859,888
Other	51,693	98,034
	$ 10,789,123	$ 10,957,922

d. Information about major customers

No single customer contributed 10% or more revenue to the Bank and subsidiaries

TABLE 1

KGI BANK AND SUBSIDIARIES

COLLATERALS/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

No.	Collaterals/Guarantee Provider	Counter-party		Limits on Each Counter-party's Collateral/ Guarantee Amounts	Maximum Balance for the Period	Ending Balance	Actual Amount Drawn Down	Carrying Value (as of Balance Sheet Date) of Properties Guaranteed by Collateral	Ratio of Accumulated Amount of Collateral to Net Worth Shown in the Provider's Latest Financial Statements	Maximum Collateral/ Guarantee Amounts Allowable	Provision of Endorsements by Parent Company to Subsidiary	Provision of Endorsements by Subsidiary to Parent Company	Provision of Endorsements to the Company in Mainland China
		Name	Nature of Relationship										
1	CDIB Management Consulting Corporation	CDIB International Leasing Corporation	Note 1	$ 6,015,245	$ 3,643,871	$ 1,642,573	$ 1,226,602	$ -	136.53%	$ 6,015,245 (Note 2)	No	No	Yes

Note 1: The Bank and subsidiary own directly over 50% ownership of the investee company.

Note 2: The total amount of guarantee provided should not exceed 5 times of the net asset value shown in the latest financial report of CDIB Management Consulting Corporation.

KGI BANK AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Holding Company	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares/Face Value/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 2)	
CDIB Management Consulting Corporation	Stock							
	CDC Finance & Leasing Corporation	Subsidiary	Investments accounted for using the equity method	58,328,460	$ 619,862	76.04	$ 619,862	
	CDIB International Leasing Corporation	Subsidiary	Investments accounted for using the equity method	-	426,521	100.00	426,521	
CDC Finance & Leasing Corporation	Stock							
	Hwahong Corporation	Associate	Investments accounted for using the equity method	23,750	736	19.00	736	

Note 1: The Bank and subsidiaries recognized the related income or loss of investees as required by regulations. For decline in value that was other than temporary, investment loss was recognized.

Note 2: The net asset value of unlisted stocks, on which the Bank recognized its investment incomes in the current year, were calculated on the basis of the investees' audited financial statements for the same reporting period as that of the holding company, or on the basis of the net asset values of the investees, market values of emerging stocks, or the cost of acquiring an investee's newly issued shares or book value of the investees. However, the net asset values of investees do not represent the value of unlisted stocks on the balance sheet date.

Note 3: No securities were treated as collaterals or warrants.

Note 4: The above companies which are the subsidiaries of the Bank were eliminated from the consolidated financial statements.

TABLE 3

KGI BANK AND SUBSIDIARIES

INFORMATION ON INVESTED ENTERPRISES
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business	Balance as of December 31, 2016			Consolidated Investment (Note 1)				Note
			Percentage of Ownership	Carrying Value	Investment Gain (Loss)	Present Shares	Virtual Shares (Note 2)	Shares	Percentage of Ownership	
Financial industry-related										
Taipei Foreign Exchange Inc.	Taiwan	Foreign exchange trading, financial derivatives trading	0.40	$ 800	$ 320	80,000	-	80,000	0.40	
Taiwan Futures Exchange	Taiwan	Futures exchange and settlement	0.51	10,250	3,350	18,734,929	-	18,734,929	6.12	
Financial Information Service Co., Ltd.	Taiwan	Telecommunication service; information system service	1.23	49,120	17,948	6,410,160	-	6,410,160	1.23	
Taiwan Asset Management Co., Ltd.	Taiwan	Evaluating, auctioning and managing financial institutions' loans	0.57	75,000	5,966	7,500,000	-	7,500,000	0.57	
Reliance Securities Investment Trust Co., Ltd.	Taiwan	Issue beneficiary certificates; raise investment funds	12.31	46,752	-	3,840,175	-	3,840,175	12.31	
Sunlight Asset Management Co., Ltd.	Taiwan	Purchasing for financial institutions' loans	5.74	3,445	411	344,476	-	344,476	5.74	
Taiwan Financial Asset Service Company	Taiwan	Other activities auxiliary to financial service activities	2.94	50,000	-	5,000,000	-	5,000,000	2.94	
Taiwan Mobile Payment	Taiwan	Communication and IT service	1.00	6,000	-	600,000	-	600,000	1.00	
CDIB Management Consulting Corporation	Taiwan	Management consultancy activities	100.00	1,090,309	(243,850)	153,171,873	-	153,171,873	100.00	
Nonfinancial industry-related										
Euroc II Venture Capital Corp.	Taiwan	Venture capital corporation	7.50	8,759	1,003	2,244,000	-	2,244,000	7.50	
Cosmos Construction Management Corporation	Taiwan	Valuation on real estate, contract evaluation	9.39	-	-	6,991,000	-	6,991,000	9.39	
Lieu-An Service Co.	Taiwan	ATM cash cartridge replacement and service provision	5.00	1,250	125	125,000	-	125,000	5.00	
Euroc III Venture Capital Corp.	Taiwan	Venture capital corporation	5.00	4,283	900	990,000	-	990,000	5.00	
CDIB & Partners Investment Holding Corp.	Taiwan	General investment corporation	4.95	733,152	13,813	367,200,000	-	367,200,000	33.66	

Note 1: All present shares or virtual shares of the Bank, directors, supervisors, the Bank's managers, and affiliates should be included.

Note 2: (1) Virtual shares refer to equity-type securities and derivative financial instrument contracts that are transferred to common shares. Based on the transaction terms or the holding purposes of the Bank, the two types of instruments are linked to the equity of investees and are recognized as investments accounted for using the equity method, available-for-sale financial assets and financial assets measured at cost, in accordance with Article 74 of the Securities and Exchange Act. (2) Equity-type securities, such as convertible bonds and warrants, are regulated by Article 11 Paragraph 1 of the Securities and Exchange Act Enforcement Rules. (3) Financial instrument contracts are those defined under International Accounting Standard 39 "Accounting for Financial Instruments", such as stock options.

Note 3: The above companies which are the subsidiaries of the Bank were eliminated from the consolidated financial statements.

TABLE 4

KGI BANK AND SUBSIDIARIES

INFORMATION ON INVESTMENT IN MAINLAND CHINA
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2016	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2016	Net Loss of the investee	% Ownership of Direct or Indirect Investment	Investment Loss (Note 2)	Carrying Value as of December 31, 2016	Accumulated Inward Remittance of Earnings as of December 31, 2016
					Outflow	Inflow						
CDIB International Leasing Corporation	Financial leasing and management business consulting	RMB 187,750 thousand	Note 1 (a)	US$ 30,000 thousand	$ -	$ -	US$ 30,000 thousand	$ (233,948)	100.00	$ (233,948)	$ 426,521	$ -

Accumulated Investment in Mainland China as of December 31, 2016	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investment
$968,370 (US$30,000 thousand)	US$30,000 thousand	$654,186

Note 1: The investment types are as follows:

a. Direct investments.

b. Reinvested through an investee company at a third place.

c. Other.

Note 2: Financial statements audited by an international CPA firm having a cooperative relation with CPA firms in the Republic of China.

Note 3: Exchange rate as of reporting date of the financial statement was used in translating foreign currency.

KGI BANK AND SUBSIDIARIES

BUSINESS RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Trader Company	Related Party	Flow of Transactions (Note 2)	Content of Transaction (Note 5)			
				Financial Statement Accounts	Amounts	Trading Terms	Transaction Amount/Total Consolidated Revenue or Total Consolidated Assets (Note 3)
0	KGI Bank	CDC Finance & Leasing Corporation	1	Deposit and remittances	$ 41,580	Note 4	0.01%
1	CDC Finance & Leasing Corporation	KGI Bank	2	Cash and cash equivalents	41,580	Note 4	0.01%

Note 1: The consolidated entities are identified in the No. column as follows: Parent company - “0”; subsidiaries - numbered from 1 by company.

Note 2: Transaction flows are as follows: (1) from parent to subsidiary; (2) from subsidiary to parent; and (3) between subsidiaries.

Note 3: The ratio is calculated as follows: For asset and liability accounts - Transaction amount in the ending period/Total consolidated assets; for income and expense accounts - Transaction amount in the annual/Total consolidated net profit.

Note 4: The transaction criteria for related parties are similar to those for third parties.

Note 5: Transactions each amounted to at least NT$10 million.

Note 6: The above transactions and balances were not included in the consolidated financial statements.