KGI Bank and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2017 and 2016 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, 2017 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 22, 2018

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, 2017 and 2016, 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, 2017 and 2016, 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, 2017. 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, 2017 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 50% 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, 2017.

Refer to Notes 4, 5 and 43 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, 2017 and 2016 on which we have issued an unmodified opinion thereon.

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, 2017 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2018

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

	2017		2016	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 39)	$ 14,332,827	2	$ 6,844,281	1
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Notes 7 and 40)	33,829,034	6	71,884,564	13
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8, 39 and 40)	54,441,219	9	97,839,572	17
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4 and 9)	18,829,142	3	795,850	-
RECEIVABLES, NET (Notes 4, 10, 39 and 40)	22,432,462	4	28,853,761	5
CURRENT TAX ASSETS (Notes 4 and 37)	16	-	16	-
ASSETS HELD FOR SALE, NET (Notes 4 and 15)	-	-	12,290	-
DISCOUNTS AND LOANS, NET (Notes 4, 11 and 39)	293,656,990	50	252,376,992	44
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 4, 12 and 40)	127,662,495	22	88,722,046	15
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET (Notes 4 and 13)	888,863	-	733,888	-
OTHER FINANCIAL ASSETS, NET (Notes 14 and 40)	7,863,747	1	3,883,814	1
PROPERTY AND EQUIPMENT, NET (Notes 4, 15 and 40)	6,244,550	1	5,937,605	1
INVESTMENT PROPERTY, NET (Notes 4, 16 and 40)	889,989	-	671,022	-
INTANGIBLE ASSETS, NET	372,138	-	256,303	-
DEFERRED TAX ASSETS (Notes 4 and 37)	2,994,808	1	4,477,043	1
OTHER ASSETS, NET (Notes 17, 26, 39 and 40)	5,687,799	1	8,853,552	2
TOTAL	$ 590,126,079	100	$ 572,142,599	100
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from the Central Bank and banks (Notes 18 and 39)	$ 28,330,692	5	$ 30,917,374	5
Financial liabilities at fair value through profit or loss (Notes 4, 8 and 39)	43,284,681	7	39,408,142	7
Notes and bonds issued under repurchase agreements (Notes 4, 8, 12 and 19)	45,444,814	8	62,138,314	11
Payables (Notes 20 and 39)	6,871,991	1	4,189,647	1
Current tax liabilities (Notes 4, 37 and 39)	412,845	-	379,732	-
Deposits and remittances (Notes 21 and 39)	376,623,134	64	343,447,506	60
Bank debentures payable (Note 22)	1,000,000	-	2,684,236	1
Principal received on structured notes	20,147,989	4	21,875,414	4
Commercial paper payable, net (Note 23)	1,224,479	-	2,557,309	-
Other borrowings (Note 24)	2,905,082	1	3,162,103	1
Other financial liabilities	3,162	-	877	-
Provisions (Notes 4, 25 and 26)	230,129	-	236,659	-
Deferred tax liabilities (Notes 4 and 37)	243,838	-	78,585	-
Other liabilities (Note 27)	1,985,821	-	2,146,125	-
Total liabilities	528,708,657	90	513,222,023	90
EQUITY (Notes 4 and 28)				
Equity attributable to owners of parent				
Capital				
Common stock	46,061,623	8	46,061,623	8
Capital surplus				
Additional paid-in capital	7,245,723	1	7,245,710	1
Other capital surplus	4,830	-	3,570	-
Total capital surplus	7,250,553	1	7,249,280	1
Retained earnings				
Legal reserve	3,694,540	1	2,573,818	-
Special reserve	1,323,519	-	409,670	-
Unappropriated earnings	3,148,414	-	3,735,739	1
Total retained earnings	8,166,473	1	6,719,227	1
Other Equity				
Exchange differences on translation of foreign financial statements	(32,228)	-	29,311	-
Unrealized losses on available-for-sale financial assets	(224,671)	-	(1,334,152)	-
Total other equity	(256,899)	-	(1,304,841)	-
Total equity of parent company	61,221,750	10	58,725,289	10
Non-controlling interests	195,672	-	195,287	-
Total equity	61,417,422	10	58,920,576	10
TOTAL	$ 590,126,079	100	$ 572,142,599	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, 2017 AND 2016
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2017		2016		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
INTEREST REVENUES (Notes 4, 29 and 39)	$ 10,510,091	92	$ 9,067,339	84	16
INTEREST EXPENSES (Notes 4, 29 and 39)	(4,124,619)	(36)	(3,304,744)	(31)	25
NET INTEREST	6,385,472	56	5,762,595	53	11
NET REVENUES OTHER THAN INTEREST					
Service fee income, net (Notes 4, 30 and 39)	1,723,736	15	1,506,240	14	14
Gains on financial assets or liabilities measured at fair value through profit or loss, net (Notes 4 and 31)	3,163,361	27	1,726,287	16	83
Realized gains on available-for-sale financial assets, net (Notes 4 and 32)	738,074	6	1,176,388	11	(37)
Foreign exchange gain (loss), net (Note 4)	(846,890)	(7)	355,524	3	(338)
Share of the profit of associates for using equity method (Note 4)	23,598	-	13,554	-	74
Impairment loss recognized on non-financial assets (Note 33)	(11,177)	-	-	-	-
Other non-interest income, net (Notes 15, 34, 39 and 43)	316,863	3	248,535	3	27
Total net revenues other than interest	5,107,565	44	5,026,528	47	2
TOTAL NET REVENUE	11,493,037	100	10,789,123	100	7
ALLOWANCE FOR BAD DEBTS EXPENSE AND GUARANTEE LIABILITY PROVISION (Note 4)	(463,438)	(4)	(258,744)	(2)	79

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KGI BANK AND SUBSIDIARIES

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

	2017		2016		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
OPERATING EXPENSES (Notes 26, 35, 36 and 39)					
Employee benefits expense	$ (3,595,271)	(31)	$ (3,437,649)	(32)	5
Depreciation and amortization expense	(357,699)	(3)	(305,431)	(3)	17
Other general and administrative expenses	(2,019,606)	(18)	(2,031,637)	(19)	(1)
Total operating expenses	(5,972,576)	(52)	(5,774,717)	(54)	3
INCOME BEFORE INCOME TAX	5,057,023	44	4,755,662	44	6
INCOME TAX EXPENSE (Notes 4 and 37)	(1,874,675)	(16)	(927,070)	(9)	102
NET INCOME	3,182,348	28	3,828,592	35	(17)
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	(38,178)	-	(109,967)	(1)	(65)
Share of the other comprehensive income (loss) of associates accounted for using the equity method	(15)	-	33	-	(145)
Income tax related to the items that will not be reclassified subsequently to profit or loss	6,220	-	18,801	-	(67)
Items that will be reclassified subsequently to profit or loss, net of tax					
Exchange differences on translation of foreign financial statements	(19,135)	-	(127,209)	(1)	(85)

(Continued)

KGI BANK AND SUBSIDIARIES

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

	2017		2016		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
Unrealized gains (losses) on available-for-sale financial assets	$ 922,726	8	$ (807,356)	(7)	214
Share of the other comprehensive income of associates accounted for using the equity method	144,351	1	37,568	-	284
Other comprehensive loss, net of tax	1,015,969	9	(988,130)	(9)	203
TOTAL COMPREHENSIVE INCOME, NET OF TAX	$ 4,198,317	37	$ 2,840,462	26	48
NET PROFIT ATTRIBUTABLE TO:					
Shareholders of parent company	$ 3,180,005	28	$ 3,827,023	35	(17)
Non-controlling interests	2,343	-	1,569	-	49
	$ 3,182,348	28	$ 3,828,592	35	(17)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Shareholders of parent company	$ 4,196,356	37	$ 2,840,568	26	48
Non-controlling interests	1,961	-	(106)	-	1,950
	$ 4,198,317	37	$ 2,840,462	26	48
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 38)					
Basic	$ 0.69		$ 0.83		

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, 2017 AND 2016
(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	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2016	$ 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
Appropriation of earnings										
Legal reserve	-	-	1,120,722	-	(1,120,722)	-	-	-	-	-
Special reserve	-	-	-	913,849	(913,849)	-	-	-	-	-
Cash dividends - common stocks	-	-	-	-	(1,701,168)	-	-	(1,701,168)	-	(1,701,168)
Change in equity of associate accounted for using equity method	-	11	-	-	-	-	-	11	-	11
Net income for the year ended December 31, 2017	-	-	-	-	3,180,005	-	-	3,180,005	2,343	3,182,348
Other comprehensive income (loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(31,591)	(61,539)	1,109,481	1,016,351	(382)	1,015,969
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	3,148,414	(61,539)	1,109,481	4,196,356	1,961	4,198,317
Share-based payments	-	1,262	-	-	-	-	-	1,262	-	1,262
Changes in non-controlling interest	-	-	-	-	-	-	-	-	(1,576)	(1,576)
BALANCE AT DECEMBER 31, 2017	$ 46,061,623	$ 7,250,553	$ 3,694,540	$ 1,323,519	$ 3,148,414	$ (32,228)	$ (224,671)	$ 61,221,750	$ 195,672	$ 61,417,422

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

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 5,057,023	$ 4,755,662
Adjustments for:		
Depreciation expenses	263,025	211,843
Amortization expenses	94,674	93,588
Allowance for bad debts expense and guarantee liability provision	463,438	258,744
Interest expense	4,124,619	3,304,744
Interest income	(10,510,091)	(9,067,339)
Dividend income	(310,724)	(295,668)
Share of profits of associates accounted for using equity method	(23,598)	(13,554)
Impairment loss recognized on non-financial assets	11,177	-
Gain on disposal of collaterals	(128,237)	-
Gain on disposal of assets held of sale	(8,344)	-
Others	4,163	2,355
Changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank and call loans to banks	17,482,176	(16,049,616)
Decrease (increase) in financial assets at fair value through profit or loss	43,398,353	(18,777,174)
Increase in securities purchased under resell agreement	(595,974)	-
Decrease in receivables	6,204,611	12,531,829
Increase in discounts and loans	(41,623,075)	(34,717,956)
Increase in available-for-sale financial assets	(38,017,723)	(34,283,671)
Increase in other financial assets	(3,979,933)	(3,615,110)
Decrease (increase) in other assets	2,549,764	(196,548)
(Decrease) increase in deposits from the Central Bank and banks	(2,586,682)	21,355,899
Increase in financial liabilities at fair value through profit or loss	3,876,539	13,223,487
(Decrease) increase in notes and bonds issued under repurchase agreements	(16,693,500)	1,128,284
Increase (decrease) in payables	1,813,988	(343,443)
Increase (decrease) in deposits and remittances	33,175,628	(10,723,339)
Decrease in other financial liabilities	(1,725,140)	(429,327)
(Decrease) increase in other liabilities	(49,517)	262,503
Cash inflow (outflow) generated from operations	2,266,640	(71,383,807)
Interest received	10,565,697	8,708,287
Dividend received	323,683	314,568
Interest paid	(3,276,844)	(2,972,263)
Income taxes received (paid)	12,017	(168,134)
Net cash flows generated from (used in) operating activities	9,891,193	(65,501,349)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	(507,822)	(255,448)
Proceeds from disposal of property and equipment	17,757	15,843
Disposal of collaterals	174,732	-

(Continued)

KGI BANK AND SUBSIDIARIES

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

	2017	2016
Disposal of assets held for sale	$ 20,634	$ -
Acquisition of intangible assets	(198,898)	(128,024)
Net cash flows used in investing activities	(493,597)	(367,629)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(1,012,564)	(342,911)
(Decrease) increase in commercial paper payable	(1,332,830)	449,527
Issuance of bank debentures payable	1,000,000	-
Repayments in bank debentures payable	(2,750,000)	-
Proceeds from long-term borrowings	755,543	-
Repayments of long-term borrowings	-	(367,195)
Cash dividends paid	(1,701,168)	(1,801,821)
Changes in non-controlling interest	(1,576)	(18,472)
Net cash flows used in financing activities	(5,042,595)	(2,080,872)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(2,491)	(29,791)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,352,510	(67,979,641)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	42,658,453	110,638,094
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 47,010,963	$ 42,658,453

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, 2017 and 2016:

	December 31	
	2017	2016
Cash and cash equivalents in consolidated balance sheets	$ 14,332,827	$ 6,844,281
Due from the Central Bank and call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7	14,444,968	35,018,322
Securities purchased under agreements to resell qualifying as cash and cash equivalents under the definition of IAS 7	18,233,168	795,850
Cash and cash equivalents in consolidated statements of cash flows	$ 47,010,963	$ 42,658,453

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

KGI BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016
(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, 2017, 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 52 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 CDIB Capital Group (formerly China Development Industrial Bank) of (a) the assets and liabilities associated with the commercial banking business of CDIB Capital Group and (b) CDIB Capital Group's holdings of shares in 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 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 22, 2018.

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

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

Except for the following, whenever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Bank and subsidiaries' accounting policies:

1) 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. Please refer to Note 49.

2) Annual Improvements to IFRSs: 2011-2013 Cycle

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.

3) 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 will be enhanced when the above amendments are retrospectively applied in 2017. Please refer to Note 39.

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

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

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

Note 2: The amendment to IFRS 12 is 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) Annual Improvements to IFRSs: 2014-2016 Cycle

The amendment to IFRS 12 clarified that when the Bank'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 Bank and subsidiaries shall apply the aforementioned amendments retrospectively.

2) IFRS 9 "Financial Instruments" and related amendments

<u>Classification, measurement and impairment of financial assets</u>

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.

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

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

b) Debt instruments classified as available-for-sale will be classified as at fair value through other comprehensive income under IFRS 9, because, on initial recognition, contractual cash flows are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets;

c) Debt instruments classified as debt investments with no active market and measured at amortized cost will be classified as measured at amortized cost under IFRS 9 because, on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows.

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 and is not low since initial recognition. However, a loss allowance for full lifetime expected credit losses is required for trade receivables which do not constitute a financing transaction.

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

The anticipated impact on assets, liabilities and equity of retrospective application of the requirements for the classification, measurement and impairment of financial assets under IFRS 9 as of January 1, 2018 is set out below:

	Carrying Amount as of December 31, 2017	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2018
Impact on assets, liabilities and equity			
Financial assets at fair value through profit or loss	$ 54,441,219	$ 4,408,937	$ 58,850,156
Financial assets at fair value through other comprehensive income	-	123,424,228	123,424,228
Receivables, net	22,432,462	(53,074)	22,379,388
Available-for-sale financial assets	127,662,495	(127,662,495)	-
Discounts and loans, net	293,656,990	(4,385)	293,652,605
Investments accounted for using equity method, net	888,863	10,555	899,418
Other financial assets, net	7,863,747	(5,523,388)	2,340,359
Debt investments measured at amortized cost	-	5,521,207	5,521,207
Total effect on assets		$ 121,585	
Provisions	230,129	$ 96,946	327,075
Total effect on liabilities		$ 96,946	
Retained earnings	8,166,473	$ (545,549)	7,620,924
Other Equity	(256,899)	576,302	319,403
Non-controlling interests	195,672	(6,114)	189,558
Total effect on equity		$ 24,639	

3) IFRS 15 “Revenue from Contracts with Customers” and related amendments

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.

Revenue from contracts with customers of the Bank and subsidiaries are both one component in the current recognition principle and after applying IFRS 15, thus the Bank and subsidiaries assesses that assets, liabilities and equities on the December 31, 2017 as well as comprehensive incomes and cash flows for the year ended December 31, 2017 will not be affected by applying IFRS 15.

4) 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.

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

5) 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.

6) 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 will apply prospectively IFRIC 22 on January 1, 2018.

Except for the above impact, as of the date the consolidated financial statements were authorized for issue, the Bank and subsidiaries assesses that the application of other standards and interpretations will have no material impact on the Bank and subsidiaries’ financial position and financial performance.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 16 "Leases"	January 1, 2019 (Note 3)
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 4)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

Note 2: The FSC permits the election for early adoption of the amendments starting from 2018.

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

Note 4: The Bank and subsidiaries shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) Amendments to IFRS 9 "Prepayment Features with Negative Compensation"

IFRS 9 stipulated that if a contractual term of a financial asset permits the issuer (i.e. the debtor) to prepay a debt instrument or permits the holder (i.e. the creditor) to put a debt instrument back to the issuer before maturity and the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable compensation for early termination, the financial asset has contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. The amendments further explained that reasonable compensation may be paid or received by either of the parties, i.e. a party may receive reasonable compensation when it chooses to terminate the contract early.

When the amendments become effective, the Bank and subsidiaries shall apply the amendments retrospectively. However, the Bank and subsidiaries may select to recognize the cumulative effect at the date of initial application of the amendments, or to restate prior periods if, and only if, it is possible without the use of hindsight.

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

The amendments stipulate that, when the Bank and subsidiaries sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate (or a joint venture), 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 (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 (or joint venture), 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 over 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 (or joint venture), i.e. the Bank and subsidiaries' share of the gain or loss is eliminated.

3) 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 leases under IAS 17 to low-value and short-term leases. On the consolidated statements of comprehensive income, the Bank and subsidiaries should present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed by using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities.

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

4) Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"

The amendments clarified that IFRS 9 shall be applied to account for other financial instruments in an associate or joint venture to which the equity method is not applied. These included long-term interests that, in substance, form part of the entity's net investment in an associate or joint venture.

When the amendments become effective, the Bank and subsidiaries shall apply the amendments retrospectively. However, the Bank and subsidiaries may select to recognize the cumulative effect at the date of initial application of the amendments, or to restate prior periods if, and only if, it is possible without the use of hindsight.

5) IFRIC 23 "Uncertainty Over Income Tax Treatments"

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

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

6) Amendments to IAS 19 “Plan Amendment, Curtailment or Settlement”

The amendments stipulate that, if a plan amendment, curtailment or settlement occurs, the current service cost and the net interest for the remainder of the annual reporting period are determined using the actuarial assumptions used for the remeasurement of the net defined benefit liabilities (assets). In addition, the amendments clarify the effect of a plan amendment, curtailment or settlement on the requirements regarding the asset ceiling. The amendment shall be applied prospectively.

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 43 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 (%)	
			December 31, 2017	December 31, 2016
The Bank	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 42.

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.

3) 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.

4) Equity instruments

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

Equity instruments issued by the Bank and subsidiaries are recognized at the proceeds received, net of direct issue costs.

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

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	
	2017	2016
Due from banks	$ 10,532,178	$ 4,339,174
Cash on hand	1,394,261	1,244,322
Cash in banks	597,498	494,670
Checks for clearing	1,686,741	619,580
Excess margin of futures	122,149	146,535
	$ 14,332,827	$ 6,844,281

Reconciliations of cash and cash equivalents between the consolidated statements of cash flows and the consolidated balance sheets as of December 31, 2017 and 2016 are shown in the consolidated statements of cash flows.

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

	December 31	
	2017	2016
Due from the Central Bank	$ 6,520,000	$ 37,130,000
Call loans to banks	13,846,833	13,568,474
Deposit reserve - demand accounts	7,670,687	8,078,055
Deposit reserve - checking accounts	5,053,887	12,358,953
Due from the Central Bank - interbank settlement funds	600,326	600,599
Deposit reserve - foreign currencies	137,301	148,483
	$ 33,829,034	$ 71,884,564

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 by the bank, please refer to Note 40.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2017	2016
Financial assets held for trading		
Derivative instruments		
Interest rate swap contracts	$ 7,965,579	$ 9,633,684
Currency swap contracts	6,409,790	11,634,089
Option contracts	620,875	2,836,207
Others	1,409,158	1,330,628
Non-derivative financial assets		
Bank debentures	3,006,792	20,819,329
Convertible (exchangeable) corporate bonds	1,950,536	3,121,853
Corporate bonds	322,286	1,979,093
Government bonds	-	2,320,164
Commercial papers	8,775,184	2,797,870
Others	330,943	3,849
	30,791,143	56,476,766
Financial assets designated as at FVTPL		
Government bonds	12,808,586	39,174,578
Others	10,841,490	2,188,228
	23,650,076	41,362,806
Financial assets at FVTPL	$ 54,441,219	$ 97,839,572
Financial liabilities held for trading		
Derivative instruments		
Interest rate swap contracts	$ 9,107,790	$ 10,427,499
Currency swap contracts	6,315,597	11,275,914
Option contracts	9,629,101	4,539,652
Others	814,210	1,273,065
	25,866,698	27,516,130
Financial liabilities designated as at FVTPL		
Bank debentures payable	17,417,983	11,892,012
Financial liabilities at FVTPL	$ 43,284,681	$ 39,408,142

As of December 31, 2017 and 2016, bank debentures issued by the Bank and designated as at FVTPL were as follows:

Name	December 31 2017	December 31 2016	Issuance Period	Method of Paying Principal and Interests	Interest Rate
15KGIB 1	$ 3,163,888	$ 3,421,574	2015.03.24-2045.03.24 (Note 1)	Principal due on maturity	0%
P16KGIB 1	3,283,280	3,550,690	2016.05.03-2046.05.03 (Note 2)	Principal due on maturity	0%
P16KGIB 2	3,283,280	3,550,690	2016.05.27-2046.05.27 (Note 2)	Principal due on maturity	0%
P16KGIB 3	2,387,840	2,582,320	2016.11.08-2046.11.08 (Note 1)	Principal due on maturity	0%
P17KGIB1	5,969,600	-	2017.01.23-2047.01.23 (Note 1)	Principal due on maturity	0%
	18,087,888	13,105,274			
Valuation adjustments	(669,905)	(1,213,262)			
	$ 17,417,983	$ 11,892,012			

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, 2017 and 2016 are summarized as follows:

	Contract Amount December 31 2017	Contract Amount December 31 2016
Currency swap contracts	$ 1,420,861,044	$ 1,240,148,072
Interest rate swap contracts	904,748,596	829,752,256
Option contracts	315,452,631	216,325,745
Forward exchange contracts	26,220,926	29,499,827
Cross-currency swap contracts	27,978,819	23,941,077
Asset swap contracts	1,355,180	2,185,975
Non-deliverable forward contracts	2,282,220	852,483
Commodity swap contracts	695,444	104,891
Futures contracts	17,963,103	-

As of December 31, 2017 and 2016, financial assets at fair value through profit or loss with aggregate carrying values of $4,582,517 thousand and $33,509,311 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.

For the information on financial instruments at fair value through profit or loss pledged as collateral for the Bank and subsidiaries, please refer to Note 40.

9. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	December 31	
	2017	2016
Commercial paper	$ 11,184,033	$ 745,844
Bank debentures	893,492	-
Government bonds	50,022	50,006
Negotiable certificates of deposits	6,701,595	-
	$ 18,829,142	$ 795,850
Agreed-upon resell amounts	$ 18,835,223	$ 795,943
Last maturity date	April 2018	January 2017

10. RECEIVABLES, NET

	December 31	
	2017	2016
Accounts receivable - forfaiting	$ 4,400,120	$ 7,912,584
Lease receivables	4,164,820	6,424,942
Credit cards	2,684,731	2,649,551
Interest receivable	1,698,986	1,754,592
Accounts receivables factoring without recourse	8,498,843	9,590,021
Rental deposits	467,748	467,748
PEM receivable	859,377	926,028
Others	1,327,154	1,206,363
	24,101,779	30,931,829
Less: Unrealized interest	(213,786)	(378,214)
Allowance for bad debts	(1,455,531)	(1,699,854)
Net amount	$ 22,432,462	$ 28,853,761

As of December 31, 2017 and 2016, the rental deposits receivable amounting to both $467,748 thousand, and the allowance for bad debts was $409,848 thousand, 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.

On February 14, 2014, the Taiwan District Court had judged that the Bank lost the lawsuit against the third party which claimed that the Bank had fraudulently infringed the rights of the creditors regarding property rights of Dun Nun Building, and the Bank then filed appeal. The court has revoked the original adjudication and rejected the third party appeal on July 26, 2017. Please refer to Note 41 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, 2017, the PEM receivable amounting to $859,377 thousand (US$28,792 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 trust entity, the balance of the PEM receivable and its allowance for bad debts was as follows:

(In Thousands of USD/TWD)

	December 31, 2017	
	USD	**TWD**
Life insurance policies	$ 13,218	$ 394,541
Non-life insurance policies	15,574	464,836
	28,792	859,377
Less: Allowance for bad debts	(16,212)	(483,896)
Net amount	$ 12,580	$ 375,481

	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

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

	For the Years Ended December 31	
	2017	**2016**
Balance, January 1	$ 1,699,854	$ 1,725,839
Provisions	177,879	171,910
Write-offs	(390,315)	(267,887)
Recovery of written-off credits	41,238	105,974
Effect of exchange rate changes	(73,125)	(35,982)
Balance, December 31	$ 1,455,531	$ 1,699,854

For the impairment loss analysis of receivables, please refer to Note 43.

For the receivables pledged as collaterals for subsidiaries' borrowings, please refer to Note 40.

11. DISCOUNTS AND LOANS, NET

	December 31 2017	December 31 2016
Short-term loans	$ 72,264,667	$ 60,824,456
Medium-term loans	171,175,807	152,145,653
Long-term loans	53,761,759	42,061,948
Overdue loans	455,444	708,046
Export negotiations	17,155	139,441
	297,674,832	255,879,544
Less: Allowance for bad debts	(3,924,531)	(3,429,672)
Less: Discounts on loans	(93,311)	(72,880)
Net amount	$ 293,656,990	$ 252,376,992

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

	For the Years Ended December 31 2017	For the Years Ended December 31 2016
Balance, January 1	$ 3,429,672	$ 3,115,696
Provisions	343,077	121,292
Recovery of written-off credits	797,261	802,286
Write-offs	(548,559)	(563,785)
Reduction and exemption	(31,253)	(31,610)
Effects of exchange rate changes	(65,667)	(14,207)
Balance, December 31	$ 3,924,531	$ 3,429,672

For the impairment loss analysis of discounts and loans, please refer to Note 43.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31 2017	December 31 2016
Government bonds	$ 50,899,335	$ 65,719,269
Bank debentures	14,277,692	13,051,597
Corporate bonds	26,320,268	5,149,833
Stocks	5,330,674	4,801,347
Negotiable certificates of deposits	30,834,526	-
	$ 127,662,495	$ 88,722,046

As of December 31, 2017 and 2016, available-for-sale financial assets, with aggregate carrying values of $40,043,756 thousand and $28,629,003 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 40.

13. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET

Immaterial associates:

	December 31			
	2017		2016	
	Carrying Amount	%	Carrying Amount	%
CDIB & Partners Investment Holding Corporation	$ 888,387	4.95	$ 733,152	4.95
Others	476		736	
	$ 888,863		$ 733,888	

Aggregate information of associates that are not individually material.

	For the Years Ended December 31	
	2017	2016
The Bank and subsidiaries' share of:		
Net income	$ 23,598	$ 13,554
Other comprehensive income	144,336	37,601
Total comprehensive income	$ 167,934	$ 51,155

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	
	2017	2016
Financial assets measured at cost, net	$ 255,659	$ 255,659
Due from banks (original maturities over three months)	2,083,400	3,045,833
Debt instruments with no active market	5,523,388	581,022
Overdue receivables	12,697	14,726
Pledged time deposits	1,300	1,300
	7,876,444	3,898,540
Less: Allowance for bad debts - overdue receivables	(12,697)	(14,726)
Net amount	$ 7,863,747	$ 3,883,814

For the other financial assets pledged as collaterals by the Bank and subsidiaries, please refer to Note 40.

15. PROPERTY AND EQUIPMENT, NET

	December 31	
	2017	2016
Land	$ 3,465,361	$ 3,673,053
Buildings and facilities	1,683,562	1,718,854
Machinery and computer equipment	194,542	121,605
Leased assets	571,396	240,303
Leasehold improvement	248,429	153,079
Transportation equipment	316	521
Miscellaneous equipment	41,940	26,910
Prepayments for acquisition of properties	39,004	3,280
	$ 6,244,550	$ 5,937,605

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, 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
Cost									
Balance at January 1, 2017	$ 3,677,310	$ 2,558,491	$ 194,409	$ 323,075	$ 225,033	$ 6,947	$ 40,782	$ 3,280	$ 7,029,327
Additions	-	43,677	86,623	139,696	129,593	-	21,695	86,538	507,822
Deduction	-	(1,490)	(21,742)	(38,847)	(6,731)	(52)	(4,438)	(2,207)	(75,507)
Reclassification	(207,692)	(37,843)	41,137	291,547	14,732	-	3,304	(48,551)	56,634
Effect of exchange rate changes	-	-	(106)	-	(144)	-	(27)	(56)	(333)
Balance at December 31, 2017	3,469,618	2,562,835	300,321	715,471	362,483	6,895	61,316	39,004	7,517,943
Accumulated depreciation and impairment									
Balance at January 1, 2017	(4,257)	(839,637)	(72,804)	(82,772)	(71,954)	(6,426)	(13,872)	-	(1,091,722)
Depreciation	-	(62,479)	(46,550)	(90,736)	(47,840)	(205)	(9,962)	-	(257,772)
Deduction	-	1,429	21,626	21,337	5,650	52	4,438	-	54,532
Reclassification	-	21,414	(8,096)	8,096	-	-	-	-	21,414
Effect of exchange rate changes	-	-	45	-	90	-	20	-	155
Balance at December 31, 2017	(4,257)	(879,273)	(105,779)	(144,075)	(114,054)	(6,579)	(19,376)	-	(1,273,393)
Balance at December 31, 2017, net	$ 3,465,361	$ 1,683,562	$ 194,542	$ 571,396	$ 248,429	$ 316	$ 41,940	$ 39,004	$ 6,244,550

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. The building was sold in August 2017, and the gain on disposal of assets held for sale was 8,344 thousand, which recognizes as net revenues other non-interest income.

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	1-20 years

For the property and equipment pledged as collaterals by the Bank and subsidiaries, please refer to Note 40.

16. INVESTMENT PROPERTY, NET

	December 31	
	2017	2016
Land	$ 751,262	$ 543,570
Buildings and facilities	138,727	127,452
	$ 889,989	$ 671,022

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

	For the Years Ended December 31	
	2017	2016
Cost		
Beginning balance	$ 902,137	$ 773,349
Reclassification	245,634	128,788
Ending balance	1,147,771	902,137
Accumulated depreciation		
Beginning balance	(80,199)	(61,962)
Depreciation	(5,253)	(3,703)
Reclassification	(21,414)	(14,534)
Ending balance	(106,866)	(80,199)
Accumulated impairment		
Beginning balance	(150,916)	(150,916)
Impairment	-	-
Ending balance	(150,916)	(150,916)
Carrying amount, net	$ 889,989	$ 671,022

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 2017 and 2016 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, 2017 and 2016 were $1,016,815 thousand and $886,233 thousand, respectively.

For the investment properties pledged as collaterals by the Bank and subsidiaries, please refer to Note 40.

17. OTHER ASSETS, NET

	December 31	
	2017	2016
Guarantee deposits paid	$ 4,799,616	$ 7,854,982
Prepaid expenses	622,469	627,305
Operation guarantee deposits	57,100	57,100
Prepaid pension costs	100,330	126,223
Others	108,284	187,942
	$ 5,687,799	$ 8,853,552

For the other assets pledged as collaterals by the Bank and subsidiaries, please refer to Note 40.

18. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	December 31	
	2017	2016
Call loans from banks	$ 27,438,170	$ 29,702,027
Deposits from Chunghwa Post Co., Ltd.	892,522	1,215,347
	$ 28,330,692	$ 30,917,374

19. NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS

	December 31	
	2017	2016
Bank debentures	$ 15,795,365	$ 24,880,975
Corporate bonds	24,317,973	5,747,596
Government bonds	5,331,476	31,509,743
	$ 45,444,814	$ 62,138,314
Repurchase amounts	$ 45,611,130	$ 62,218,952
Last maturity date	April 2018	March 2017

20. PAYABLES

	December 31	
	2017	2016
Accounts payable factoring	$ 1,318,315	$ 832,360
Accrued interest	1,843,465	966,137
Accrued expenses	964,461	881,548
Funds for clearing	277,038	245,276
Checks for clearing	1,686,741	619,580
Others	781,971	644,746
	$ 6,871,991	$ 4,189,647

21. DEPOSITS AND REMITTANCES

	December 31 2017	December 31 2016
Time deposits	$ 207,904,432	$ 205,674,615
Savings deposits	99,318,877	98,220,082
Demand deposits	43,149,581	33,124,542
Checking deposits	3,600,607	4,307,826
Negotiable certificates of deposits	22,502,900	1,896,300
Remittances	146,737	224,141
	$ 376,623,134	$ 343,447,506

22. BANK DEBENTURES PAYABLE

Name	December 31 2017	December 31 2016	Issuance Period	Method of Paying Principle and Interests	Interest Rate
P06 KGIB 1	$ 1,000,000	$ -	2017.05.19-2020.05.19	Interest payable annually, principal due on maturity	0.9%
04 KGIB 2	-	2,750,000	2008.01.09-2017.12.13	Principal due on maturity	0.0%
	1,000,000	2,750,000			
Unamortized discount	-	(65,764)			
Net amount	$ 1,000,000	$ 2,684,236			

23. COMMERCIAL PAPER PAYABLE, NET

	December 31 2017	December 31 2016
Commercial paper payable	$ 1,225,000	$ 2,558,000
Less: Unamortized discount	(521)	(691)
	$ 1,224,479	$ 2,557,309
Interest rate	1.09%-1.57%	1.03%-1.87%
Last maturity date	January 2019	October 2017

24. OTHER BORROWINGS

	December 31 2017	December 31 2016
Short-term credit borrowings	$ 747,986	$ 1,680,550
Note issuance facility	1,599,564	799,676
Short-term secured borrowings	135,000	215,000
Long-term credit borrowings	422,532	466,877
	$ 2,905,082	$ 3,162,103

(Continued)

	December 31	
	2017	2016
Interest rate	1.10%-4.75%	1.05%-4.75%
Last maturity date	October 2020	December 2019

(Concluded)

25. PROVISIONS

	December 31	
	2017	2016
Provision for guarantee liabilities	$ 96,271	$ 97,555
Provision for employee benefits	15,933	23,559
Others	117,925	115,545
	$ 230,129	$ 236,659

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 $123,817 thousand and $117,327 thousand for the years ended December 31, 2017 and 2016, respectively.

The Bank’s foreign subsidiaries recognized their contributions as pension expenses in accordance with their local laws and regulations amounting to $3,237 thousand and $7,140 thousand for the years ended December 31, 2017 and 2016, 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 2017	December 31 2016
Present value of defined benefit obligation	$ 983,038	$ 971,968
Fair value of plan assets	(1,067,435)	(1,082,632)
Net defined benefit asset	$ (84,397)	$ (110,664)

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

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2016	$ 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)
Service cost			
Current service cost	7,241	-	7,241
Net interest expense (income)	13,357	(15,006)	(1,649)
Recognized in profit or loss	20,598	(15,006)	5,592
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	8,074	8,074
Actuarial (gain) loss - changes in demographic assumptions	42,502	-	42,502
Actuarial (gain) loss - changes in financial assumptions	1,232	-	1,232
Actuarial (gain) loss - experience adjustments	(13,630)	-	(13,630)
Recognized in other comprehensive income	30,104	8,074	38,178
Contributions from the employer	-	(17,503)	(17,503)
Benefits paid	(39,632)	39,632	-
Balance at December 31, 2017	$ 983,038	$ (1,067,435)	$ (84,397)

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	
	2017	**2016**
Discount rates	1.375%	1.375%
Expected rates of salary increase	3.000%	3.000%

CDIB Management Consulting Corporation and subsidiaries

	December 31	
	2017	**2016**
Discount rates	0.950%	1.350%
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	
	2017	**2016**
Discount rate		
0.25% increase	$ (32,196)	$ (31,640)
0.25% decrease	$ 33,687	$ 33,097
Expected rate of salary increase		
0.25% increase	$ 32,591	$ 31,978
0.25% decrease	$ (31,324)	$ (30,742)

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	
	2017	2016
The expected contributions to the plan for the next year	$ 16,216	$ 16,639
The average duration of the defined benefit obligation	13.4 years	13.2 years

CDIB Management Consulting Corporation and subsidiaries

	December 31	
	2017	2016
The expected contributions to the plan for the next year	$ 1,619	$ 1,311
The average duration of the defined benefit obligation	11.36 years	11.96 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, 2017 and 2016, provisions for preferential early retirement plans were $0 thousand and $8,000 thousand, respectively.

27. OTHER LIABILITIES

	December 31	
	2017	2016
Temporary receipts and suspense accounts	$ 260,092	$ 641,752
Guarantee deposits received	1,613,427	1,295,801
Advance receipts	41,630	129,686
Others	70,672	78,886
	$ 1,985,821	$ 2,146,125

28. EQUITY

a. Capital

Common stock

	December 31	
	2017	2016
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.

b. Capital surplus

	December 31	
	2017	2016
Additional paid-in capital	$ 7,245,723	$ 7,245,710
Issuance of employee share options	4,612	3,363
Change in capital surplus from investments in associates accounted for by using equity method	218	207
	$ 7,250,553	$ 7,249,280

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.

After applying IFRSs, the Bank and subsidiaries recognizes and reverses special reserve according to FSC Order No. 1010012865 and the rule of "Questions and Answers on Special Reserves Appropriated Following the Adoption of IFRSs".

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 2016 and 2015 earnings for approved by board of directors which entitled to execute shareholders' meeting function on May 18, 2017 and May 10, 2016, respectively were as follows:

	2016	2015
Legal reserve	$ 1,120,722	$ 947,782
Special reserve	913,849	409,670
Cash dividends	1,701,168	1,801,821

The earnings appropriation of 2017 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	
	2017	2016
Interest revenues		
Discounts and loans	$ 7,545,895	$ 6,703,391
Securities	1,773,212	923,038
Due from and call loans to banks	376,040	566,056
Accounts receivable - forfaiting	127,471	275,956
Credit card	155,051	163,518
Others	532,422	435,380
	10,510,091	9,067,339
Interest expenses		
Deposits	2,934,932	2,475,341
Notes and bonds issued under repurchase agreements	608,216	421,382
Structured notes	128,381	130,518
Due to/borrowings from the other banks	269,703	95,138
Others	183,387	182,365
	4,124,619	3,304,744
	$ 6,385,472	$ 5,762,595

30. SERVICE FEE INCOME, NET

	For the Years Ended December 31	
	2017	2016
Service fee revenues		
Insurance commission	$ 695,198	$ 758,947
Trust	468,877	284,264
Loans	309,662	239,752
Credit card	169,737	151,921
Cash card	122,559	120,627
Others	225,402	198,711
	1,991,435	1,754,222
Service fee expenses		
Agency	90,752	98,347
Interbank	51,897	44,794
Custodian	8,124	4,756
Others	116,926	100,085
	267,699	247,982
	$ 1,723,736	$ 1,506,240

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

	For the Years Ended December 31	
	2017	2016
Realized gain (loss)		
Bonds	$ (353,776)	$ 1,044,714
Stocks	3,601	(40,751)
Derivative instruments	2,124,699	58,879
Others	21,610	4,379
	1,796,134	1,067,221
Revaluation gain (loss)		
Bonds	205,986	113,200
Derivative instruments	3,537,067	726,102
Stocks	5,040	25,883
Others	(2,380,866)	(206,119)
	1,367,227	659,066
	$ 3,163,361	$ 1,726,287

For the years ended December 31, 2017 and 2016, the realized gain or loss on the Bank and subsidiaries financial assets or liabilities at FVTPL included (a) disposal gain of $1,742,313 thousand and loss of $56,622 thousand, respectively, (b) interest revenues of $814,585 thousand and $1,492,785 thousand, respectively, (c) dividend incomes of $7,477 thousand and $2,128 thousand, respectively, and (d) interest expenses of $768,241 thousand and $371,070 thousand, respectively.

32. REALIZED GAINS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS

	For the Years Ended December 31	
	2017	2016
Gain on bond disposal	$ 283,029	$ 607,504
Gain on stock disposal	178,955	305,367
Dividend income	276,090	263,517
	$ 738,074	$ 1,176,388

33. IMPAIRMENT LOSS RECOGNIZED ON NON-FINANCIAL ASSETS

	For the Years Ended December 31	
	2017	2016
Gain on reversal of collaterals impairment loss	$ (46,135)	$ -
Other assets of impairment loss	57,312	-
	$ 11,177	$ -

Impairment loss was reversed resulted from the fair value rise of the collaterals.

34. OTHER NON-INTEREST INCOME

	For the Years Ended December 31	
	2017	2016
Net gains on financial assets measured at cost	$ 27,157	$ 30,023
Rental income	141,502	85,797
Gain on disposal of collaterals	128,237	-
Others	19,967	132,715
	$ 316,863	$ 248,535

35. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Years Ended December 31	
	2017	2016
Employee benefit expense		
Salaries and wages	$ 3,035,335	$ 2,888,558
Employee insurance	226,514	210,796
Pension	132,646	132,276
Others	200,776	206,019
	$ 3,595,271	$ 3,437,649
Depreciation and amortization expenses	$ 357,699	$ 305,431

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 2017 and 2016 approved by the board of directors respectively on March 22, 2018 and March 23, 2017 were $4,997 thousand and $4,703 thousand.

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, 2017 and 2016.

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.

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

36. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the Years Ended December 31	
	2017	**2016**
Taxation	$ 422,473	$ 470,115
Rental	356,514	325,413
Professional services	275,010	284,869
Marketing	160,998	161,604
Computer information	184,197	175,499
Others	620,414	614,137
	$ 2,019,606	$ 2,031,637

37. INCOME TAX

a. Income tax expense

	For the Years Ended December 31	
	2017	**2016**
Current income tax		
Current year	$ 252,746	$ 278,048
Prior year's adjustments	(29,908)	(9,704)
	222,838	268,344
Deferred income tax	1,651,837	658,726
Income tax expenses	$ 1,874,675	$ 927,070

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

	For the Years Ended December 31	
	2017	2016
Income tax expenses calculated at the statutory rate	$ 838,146	$ 821,329
Nondeductible expenses in determine taxable income	(374,409)	(331,613)
Unrecognized temporary differences	(44,660)	(168,785)
Prior year's adjustments	(22,819)	(9,704)
Additional income tax under the Alternative Minimum Tax Act	252,746	314,294
Loss carryforwards	1,225,671	300,000
Others	-	1,549
Income tax expenses recognized in profit or loss	$ 1,874,675	$ 927,070

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.

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

As the status of 2018 appropriations of earnings is uncertain, the potential income tax consequences of 10% of 2017 unappropriated earnings are not reliably determinable.

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

	For the Years Ended December 31	
	2017	2016
Remeasurement of defined benefit plans	$ 6,220	$ 18,801

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	
	2017	2016
Tax paid to the parent company	$ 412,845	$ 379,060

d. Deferred tax assets and liabilities

	December 31	
	2017	**2016**
Deferred tax assets		
Loss carryforwards	$ 2,408,171	$ 3,897,631
Allowance for bad debts	544,601	546,191
Others	42,036	33,221
	$ 2,994,808	$ 4,477,043
Deferred tax liabilities		
Financial instruments valuation	$ 206,906	$ 38,280
Land value increment tax	19,876	19,877
Defined benefit plans	17,056	20,428
	$ 243,838	$ 78,585

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

	December 31	
	2017	**2016**
Loss carryforwards		
Expire in 2017	$ 4,156,938	$ 2,186,453
Expire in 2018	9,738,114	7,424,143
Expire in 2019	3,910,829	1,136,463
	$ 17,805,881	$ 10,747,059

f. Information about unused loss carry-forward

Loss carryforward as of December 31, 2017 comprised of:

Unused Amount	**Expiry Year**
$ 4,156,938	2017
13,762,127	2018
10,187,530	2019
2,624,589	2020
1,240,412	2021
$ 31,971,596	

g. Integrated income tax

	December 31	
	2017	**2016**
Imputation credits accounts - the Bank	Note	$ 23,787

	For the Years Ended December 31	
	2017	2016
Tax creditable ratio for distribution of earnings	Note	0.64%

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

Under the Income Tax Law, for distribution of earnings generated from 1998 to 2016, 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 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 CDIB Management Consulting Corporation and CDC Finance & Leasing Corporation through 2015 had been examined by the tax authorities.

The income tax returns of the Bank, formerly Cosmos Insurance Brokers Co., Ltd. through 2014 had been examined by the tax authorities.

38. EARNINGS PER SHARE

	For the Years Ended December 31	
	2017	2016
Earnings used in the computation of the EPS	$ 3,180,005	$ 3,827,023
Weighted average outstanding common shares (shares in thousands)	4,606,162	4,606,162
Basic EPS (in dollars)	$0.69	$0.83

39. 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
CDIB Capital Group	Subsidiary of the parent company
KGI Securities Co., Ltd.	Subsidiary of the parent company
China Life Insurance Co., Ltd.	Subsidiary of the parent company (Note)
Others	Other related parties

Note: It has become a related-party after the parent company acquired shares through public tender offer.

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

	Amount	%
December 31, 2017	$ 262,228	2
December 31, 2016	234,544	3

For the years ended December 31, 2017 and 2016, the interest revenue from due from banks were $0 thousand.

b. Future contracts (recognized as cash and cash equivalents and financial assets at fair value through profit or loss)

	Amount	%
December 31, 2017	$ 391,201	1
December 31, 2016	18,005	-

c. Service fee revenue receivable (recognized as receivable, net)

	Amount	%
December 31, 2017	$ 9,895	-

d. Credit card (recognized as receivable, net)

	Amount	%
December 31, 2017	$ 16,772	-
December 31, 2016	16,619	-

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

	Amount	%
December 31, 2017	$ 157,021	1
December 31, 2016	18,039	-

f. Discounts and loans, net

	Amount	%	Interest Rate (%)
December 31, 2017	$ 962,341	-	1.54-15.00
December 31, 2016	912,472	-	1.54-15.00

For the years ended December 31, 2017 and 2016, the interest revenues from discounts and loans were $15,117 thousand and $15,293 thousand, respectively.

Balance as of December 31, 2017

(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	44	$ 36,768	$ 19,006	$ 19,006	$ -	None	Yes
Residential mortgage loans	78	1,183,655	933,659	933,659	-	Real estate	Yes
Others	16	30,209	9,676	9,676	-	Deposit/real estate	Yes

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

g. Purchase and sale of bonds

	Purchase of Bonds	Sale of Bonds
For the year ended December 31, 2017		
Subsidiary of the parent company	$ 2,847,280	$ 6,632,791
For the year ended December 31, 2016		
Subsidiary of the parent company	6,817,930	1,523,921

h. Guarantee deposits paid (recognized as other assets, net)

	Amount	%
December 31, 2017	$ 23,099	-
December 31, 2016	20,186	-

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

	December 31			
	2017		2016	
	Amount	%	Amount	%
Other related parties	$ 4,096,960	14	$ 4,322,790	14

For the years ended December 31, 2017 and 2016, the interest expense for call loans from banks were $22,345 thousand and $5,891 thousand, respectively.

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

	December 31			
	2017		2016	
	Amount	%	Amount	%
Parent company	$ 412,845	100	$ 379,060	99

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

k. Accrued interest (recognized as payable)

	Amount	%
December 31, 2017	$ 5,865	-
December 31, 2016	14,443	-

l. Deposits

	Amount	%	Interest Rate (%)
December 31, 2017	$ 15,343,386	4	0-5.58
December 31, 2016	29,060,162	8	0-5.80

For the years ended December 31, 2017 and 2016, the interest expenses for deposits were $129,874 thousand and $129,622 thousand, respectively.

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

	Amount	%
2017	$ 38,973	2
2016	9,626	1

Service fee revenue was comprised of sale of insurance, fund, and trust related business and other agency business.

n. Rental income

	Amount	%
2017	$ 3,206	2
2016	3,329	4

The rent was based on market prices and receivable monthly.

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

	Amount	%
2017	$ 16,156	1
2016	2,920	-

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

	Amount	%
2017	$ 96,581	5
2016	77,656	4

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

q. Insurance expenses (recognized as employee benefits expense)

	Amount	%
2017	$ 4,825	-

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

	Amount	%
2016	$ 20,000	1

s. Other general and administrative expenses (Note)

	Amount	%
2017	$ 80,351	4
2016	61,850	3

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, 2017

(In Thousands of New Taiwan Dollars)

Related Party	Contract Type	Contract Period	Contract Amount	Valuation Gain (Loss)	Balance Sheet Account	Balance Sheet Balance
Other related parties	Interest rate swap contracts	March 17, 2017 - April 7, 2047	$ 11,431,784	$ (493,670)	Financial liabilities at FVTPL	$ 493,670
Subsidiaries of the parent company	Asset swap-interest rate swap contracts	March 23, 2016 - March 1, 2020	508,220	6,070	Financial assets at FVTPL	10,412
	Asset swap-option contracts	March 23, 2016 - February 13, 2020	508,220	(72,664)	Financial liabilities at FVTPL	77,745
	Interest rate swap contracts	November 4, 2016 - January 24, 2020	955,136	(763)	Financial liabilities at FVTPL	4,883
	Currency swap contracts	February 15, 2017 - September 21, 2018	7,014,280	11,733	Financial liabilities at FVTPL	60,367

December 31, 2016

(In Thousands of New Taiwan Dollars)

Related Party	Contract Type	Contract Period	Contract Amount	Valuation Gain (Loss)	Balance Sheet Account	Balance Sheet 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

u. Compensation of key management personnel

	For the Years Ended December 31 2017	2016
Salary and short-term employee benefits	$ 157,904	$ 157,236
Post-employment benefits	2,228	2,415
Share-based payment	876	1,096
	$ 161,008	$ 160,747

In addition to the above, the Bank also paid housing rental, car rental and drivers' salaries, $6,687 thousand and $7,263 thousand for the years ended December 31, 2017 and 2016, 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.

40. PLEDGED ASSETS

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

Assets	Object	Purpose	December 31 2017	December 31 2016
Due from the Central Bank and call loans to banks	Certificates of deposit issued by the Central Bank	As collaterals for day-term overdraft and U.S. dollar liquidation and other transactions of guarantee	$ 6,520,000	$ 21,230,000
Financial assets at fair value through profit or loss	Government bonds	Guarantees for provisional seizure	5,171	-
Lease receivables	Notes receivable	Commercial paper payable and short-term borrowing	2,541,307	2,983,362
Available-for-sale financial assets	Government bonds	Guarantees for provisional seizure	23,340	23,389
Available-for-sale financial assets	Government bonds	Guarantees and provisions	157,256	155,249
Available-for-sale financial assets	Negotiable certificates of deposits	As collaterals for day-term overdraft and U.S. dollar liquidation and other transactions of guarantee	10,804,495	-
Property and equipment, net	Property	Commercial paper payable and short-term borrowing	12,931	13,244
Investment property, net	Investment property	Commercial paper payable and short-term borrowing	41,546	42,901
Other financial assets, net	Time deposits	Short-term borrowing	1,300	1,300
Other assets, net	Cash in banks - impound account	Commercial paper payable and short-term borrowing	62,258	48,012

41. 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, 2017, 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 $721,778 thousand for the remaining years.

b. In December 2012, a third party filed a lawsuit claiming that the Bank fraudulently infringed upon the property rights of creditors (credit litigation amounted to $481,157 thousand) on Dun Nan building. On February 14, 2014, the Taipei District Court adjudicated that the Bank has to return the amount of $1,786,318 thousand for re-allocation. The Bank has appealed against this sentence on March 10, 2014. The original adjudication in favor of the third party was revoked by the court. The third party filed an appeal but the court rejected the third party's appeal on July 26, 2017. The third party filed a new appeal in the appeal period. The supreme court is hearing this case on third trial now.

42. 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, 2017

(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	$ 5,279,614	$ -	$ -	$ 5,279,614
Commercial paper payable	-	8,775,184	-	8,775,184
Others	330,903	40	-	330,943
Financial assets designated as at FVTPL	-	23,650,076	-	23,650,076
Available-for-sale financial assets				
Stock investments	5,330,674	-	-	5,330,674
Bond investments	46,170,117	45,327,178	-	91,497,295
Negotiable certificate of deposits	-	30,834,526	-	30,834,526
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	-	17,417,983	-	17,417,983
Derivative financial instruments				
Assets				
Financial assets at FVTPL	305,466	15,956,740	143,196	16,405,402
Liabilities				
Financial liabilities at FVTPL	-	25,726,204	140,494	25,866,698

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

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, 2017		**For the Year Ended December 31, 2016**	
	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	$ -
Available-for-sale financial assets	-	-	5,366,996	300,968

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, 2017

(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	
Financial assets at FVTPL	$ 177,705	$ (34,509)	$ -	$ -	$ -	$ -	$ 143,196

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 (Note)	
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	-	-

Note: 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, 2017

(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	
Financial liabilities at FVTPL	$ 234,417	$ (93,923)	$ -	$ -	$ -	$ -	$ 140,494

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 (Note)	
Financial liabilities at FVTPL	$ 3,043,322	$ (894,907)	$ -	$ -	$ 66,393	$ 1,847,605	$ 234,417

Note: 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 gains and losses were gain of $165,669 thousand and loss of $42,475 thousand on the assets and liabilities held for the years ended December 31, 2017 and 2016, 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, 2017	Valuation Technique(s)	Significant Unobservable Inputs	Interval	The Relationship Between Inputs and Fair Value
Measured on a recurring basis					
Derivative financial instruments					
Financial assets at FVTPL	$ 143,196	HullWhite, Libor market model, discounted cash flow	Quality/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.
Financial liabilities at FVTPL	140,494	HullWhite, Libor market model, discounted cash flow	Quality/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, 2016	Valuation Technique(s)	Significant Unobservable Inputs	Interval	The Relationship Between Inputs and Fair Value
Measured on a recurring basis					
Derivative financial instruments					
Financial assets at FVTPL	$ 177,705	HullWhite, Libor market model, discounted cash flow	Quality/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.
Financial liabilities at FVTPL	234,417	HullWhite, Libor market model, discounted cash flow	Quality/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, 2017

(In Thousands of New Taiwan Dollars)

	Level I	Level II	Level III	Total
Financial assets				
Debt instruments with no active market	$ -	$ 5,523,388	$ -	$ 5,523,388
Non-financial assets				
Investment properties	-	-	1,016,815	1,016,815
Financial liabilities				
Bank debentures payable	-	1,002,863	-	1,002,863

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

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 Taipei Exchange international bond statistics reports.

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.

43. 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	
	2017	**2016**
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 93,355,823	$ 102,215,434

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, 2017		**December 31, 2016**	
	Amount	**%**	**Amount**	**%**
Public and private enterprises	$ 197,705,315	66.42	$ 173,659,505	67.87
Natural persons	99,643,651	33.47	81,877,228	32.00
Non-profit organizations	325,866	0.11	342,811	0.13
Total	$ 297,674,832	100.00	$ 255,879,544	100.00

b) By region

	December 31, 2017		**December 31, 2016**	
	Amount	**%**	**Amount**	**%**
Domestic	$ 225,941,825	75.90	$ 199,963,503	78.15
Overseas	71,733,007	24.10	55,916,041	21.85
Total	$ 297,674,832	100.00	$ 255,879,544	100.00

c) By collateral

	December 31, 2017		**December 31, 2016**	
	Amount	**%**	**Amount**	**%**
Credit	$ 178,769,206	60.06	$ 159,432,165	62.31
Secured				
Financial collaterals	6,857,650	2.30	5,533,267	2.16
Real estate	89,144,353	29.95	69,541,082	27.18
Guarantees	16,997,483	5.71	15,837,714	6.19
Other	5,906,140	1.98	5,535,316	2.16
Total	$ 297,674,832	100.00	$ 255,879,544	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, 2017	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	$ 15,698,179	$ 43,486	$ 64,953	$ 15,806,618	$ 37,122	$ 194,872	$ 15,574,624
Other	5,978,176	23,637	1,726,487	7,728,300	1,187,957	48,277	6,492,066
Discounts and loans	295,523,731	1,215,585	935,516	297,674,832	486,258	3,438,273	293,750,301

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

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, 2017	Neither Overdue Nor Impaired Amount				
	Excellent	Good	Normal	No Ratings	Total (A)
Consumer banking					
Mortgage loans	$ 27,762,808	$ 12,031,615	$ 158,841	$ -	$ 39,953,264
Cash card	8,177,519	2,800,191	571,461	2,313,105	13,862,276
Micro credit loans	18,203,312	2,402,956	131,530	87,718	20,825,516
Other - secured	18,557,903	1,612,323	75,362	77,038	20,322,626
Other - unsecured	36,502	-	-	-	36,502
Corporate banking					
Secured	13,679,272	19,220,389	23,656,679	2,300,147	58,856,487
Unsecured	34,207,906	67,845,728	33,107,571	6,505,855	141,667,060
Total	$ 120,625,222	$ 105,913,202	$ 57,701,444	$ 11,283,863	$ 295,523,731

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, 2017	Neither Overdue Nor Impaired Amount				
	Excellent	Good	Normal	No Ratings	Total (A)
Credit card and credit business					
Credit card	$ 747,269	$ 530,405	$ 623,286	$ 643,356	$ 2,544,316
Accounts receivable - forfaiting	803,084	1,399,341	-	2,197,695	4,400,120
Accounts receivable - factoring without recourse	5,220,381	2,545,856	414,862	313,992	8,495,091
Acceptances	-	233,900	24,752	-	258,652
Total	$ 6,770,734	$ 4,709,502	$ 1,062,900	$ 3,155,043	$ 15,698,179

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

c) Credit analysis of marketable securities

December 31, 2017	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	$ 91,497,295	$ -	$ -	$ 91,497,295	$ -	$ -	$ 91,497,295	$ -	$ 91,497,295
Negotiable certificates of deposits	30,834,526	-	-	30,834,526	-	-	30,834,526	-	30,834,526
Debt instruments with no active market	5,523,388	-	-	5,523,388	-	-	5,523,388	-	5,523,388

Note 1: Available-for-sale financial assets other than the above investment in bonds have an initial cost of $5,865,555 thousand, loss on valuation of $534,881 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, 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.

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, 2017		
	1 Month	Over 1 Month - 3 Months	Total
Credit card	$ 22,548	$ 20,938	$ 43,486
Discount and loans			
Consumer banking			
Mortgage loans	224,158	41,454	265,612
Cash card	264,761	58,552	323,313
Micro credit loans	303,909	92,686	396,595
Other - secured	116,562	41,731	158,293
Other - unsecured	654	-	654
Corporate banking			
Secured	46,112	625	46,737
Unsecured	24,172	209	24,381

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

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, 2017	December 31, 2016	December 31, 2017	December 31, 2016
With objective evidence of impairment	Assessment of individual impairment	$ 184,525	$ 376,736	$ 42,374	$ 72,202
	Assessment of collective impairment	750,991	766,935	443,884	451,508
With no objective evidence of impairment	Assessment of collective impairment	296,739,316	254,735,873	3,438,273	2,905,962
Total		297,674,832	255,879,544	3,924,531	3,429,672

Items		Receivables		Allowance for Bad Debts	
		December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
With objective evidence of impairment	Assessment of individual impairment	$ 1,707,936	$ 1,900,712	$ 1,173,526	$ 1,315,493
	Assessment of collective impairment	83,504	76,569	51,553	49,452
With no objective evidence of impairment	Assessment of collective impairment	21,743,478	28,242,686	243,149	349,635
Total		23,534,918	30,219,967	1,468,228	1,714,580

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, 2017 and 2016, the carrying amounts of the collaterals were $0 thousand. Foreclosed collaterals assumed are classified as other assets in the balance sheets.

The Bank had gained on disposal of collaterals with amounts of $128,237 thousand and $0 thousand during 2017 and 2016, respectively, and recognized as other non-interest net income.

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, 2017				
			Nonperforming Loan (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Loan Loss Reserves (LLR)	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 118,803	$ 59,013,613	0.20%	$ 706,728	594.87%
	Unsecured		133,484	141,820,168	0.09%	1,691,518	1,267.20%
Consumer banking	Mortgage (Note 4)		40,044	40,290,946	0.10%	544,139	1,358.85%
	Cash card		159,427	14,516,318	1.10%	387,169	242.85%
	Micro credit (Note 5)		151,855	21,492,486	0.71%	317,929	209.36%
	Other (Note 6)	Secured	21,368	20,503,800	0.10%	276,542	1,294.20%
		Unsecured	345	37,501	0.92%	506	146.88%
Total			625,326	297,674,832	0.21%	3,924,531	627.60%
			Overdue Receivable	Account Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio
Credit card			$ 20,390	$ 2,648,363	0.77%	$ 48,842	239.54%
Account receivable - factoring without recourse (Note 7)			3,732	8,498,884	0.04%	116,949	3,134.11%

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%

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, 2017		December 31, 2016	
	Excluded NPL	**Excluded Overdue Receivables**	**Excluded NPL**	**Excluded Overdue Receivables**
Amounts of executed contracts on negotiated debts not reported (Note 1)	$ 12,862	$ 137	$ 36,467	$ 182
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	46,561	4,276	29,330	3,928
Total	$ 59,423	$ 4,413	$ 65,797	$ 4,110

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, 2017

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth (%)
1	A Group - 011850 manufacture of man-made fibers	$ 5,899,179	9.64
2	B Group - 012711 manufacture of computers	4,340,394	7.09
3	C Group - 012711 manufacture of computers	4,199,518	6.86
4	D Group - 012641 manufacture of liquid crystal panel and components	4,035,229	6.59
5	E Group - 016700 real estate development activities	3,825,000	6.25
6	F Group - 012411 smelting and refining of Iron and steel	3,625,759	5.92
7	G Group - 016700 real estate development activities	3,468,927	5.67
8	H Group - 012740 manufacture of magnetic and optical media	3,200,000	5.23
9	I Group - 011512 manufacture of paper	3,019,197	4.93
10	J Group - 014510 wholesale on a fee or contract basis	2,984,800	4.88

December 31, 2016

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth (%)
1	A Group - 016102 wireless telecommunication activities	$ 6,208,240	10.57
2	B Group - 012711 manufacture of computers	4,165,657	7.09
3	K Group - 015100 air transport	4,025,770	6.86
4	J Group - 014510 wholesale on a fee or contract basis	3,227,900	5.50
5	D Group - 012641 manufacture of liquid crystal panel and components	3,064,630	5.22
6	I Group - 011599 manufacture of other paper products not elsewhere classified	3,055,979	5.20
7	H Group - 012740 manufacture of magnetic and optical media	2,950,000	5.02
8	G Group - 016700 real estate development activities	2,779,993	4.73
9	L Group - 012611 manufacture of integrated circuits	2,628,808	4.48
10	M Group - 016811 real estate activities for sale and rental with own or leased property	2,628,185	4.48

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, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 13,674,126	$ 228,883	$ 247,104	$ 332,409	$ -	$ 14,482,522
Notes and bonds issued under repurchase agreements	3,860,000	1,471,476	-	-	-	5,331,476
Deposits and remittances	48,460,575	81,507,923	44,251,682	52,244,104	22,537,387	249,001,671
Bank debentures payable	-	-	-	-	1,000,000	1,000,000
Other capital outflow on maturity	2,441,434	719,738	412,288	440,011	544,546	4,558,017
Total	$ 68,436,135	$ 83,928,020	$ 44,911,074	$ 53,016,524	$ 24,081,933	$ 274,373,686

(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 U.S. Dollars)

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 270,000	$ 140,000	$ 45,000	$ -	$ -	$ 455,000
Notes and bonds issued under repurchase agreements	242,013	978,842	67,705	-	-	1,288,560
Deposits and remittances	1,543,470	696,629	458,433	998,432	89	3,697,053
Bank debentures payable	-	-	-	-	583,556	583,556
Other capital outflow on maturity	33,284	18,330	6,844	1,961	84,454	144,873
Total	$ 2,088,767	$ 1,833,801	$ 577,982	$ 1,000,393	$ 668,099	$ 6,169,042

(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

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, 2017	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	$ (199,409,025)	$ (277,117,930)	$ (135,180,509)	$ (91,264,010)	$ (4,671,300)	$ (707,642,774)
Cash inflow	189,405,927	255,970,080	133,687,744	88,661,268	4,671,300	672,396,319
Interest rate derivatives instruments						
Cash outflow	(192,636)	(414,702)	(318,008)	(2,424)	(14,701,217)	(15,628,987)
Cash inflow	176,526	430,372	14,089	-	-	620,987
Cash outflow subtotal	(199,601,661)	(277,532,632)	(135,498,517)	(91,266,434)	(19,372,517)	(723,271,761)
Cash inflow subtotal	189,582,453	256,400,452	133,701,833	88,661,268	4,671,300	673,017,306
Net cash flow	$ (10,019,208)	$ (21,132,180)	$ (1,796,684)	$ (2,605,166)	$ (14,701,217)	$ (50,254,455)

(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 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 U.S. Dollars)

December 31, 2017	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	$ (7,089,091)	$ (9,185,379)	$ (4,702,153)	$ (3,255,039)	$ (174,400)	$ (24,406,062)
Cash inflow	7,808,458	9,763,212	4,716,875	3,294,657	174,400	25,757,602
Interest rate derivatives instruments						
Cash outflow	(27,159)	(61,388)	(54,912)	(6,757)	(22,015)	(172,231)
Cash inflow	28,842	61,674	35,369	550	-	126,435
Others						
Cash outflow	(2)	-	-	-	-	(2)
Cash inflow	15	-	-	-	-	15
Cash outflow subtotal	(7,116,252)	(9,246,767)	(4,757,065)	(3,261,796)	(196,415)	(24,578,295)
Cash inflow subtotal	7,837,315	9,824,886	4,752,244	3,295,207	174,400	25,884,052
Net cash flow	$ 721,063	$ 578,119	$ (4,821)	$ 33,411	$ (22,015)	$ 1,305,757

(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

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, 2017	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	$ 5,439,604	$ 7,515,960	$ 7,969,697	$ 28,447,836	$ 43,982,726	$ 93,355,823

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

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, 2017	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Lease agreement				
Financial lease gross income (lessor)	$ 2,111,269	$ 2,053,551	$ -	$ 4,164,820
Financial lease present value income (lessor)	1,994,828	1,956,206	-	3,951,034
Operating lease payment (lessee)	324,587	577,781	73,273	975,641
Operating lease income (lessor)	11,481	11,466	-	22,947
Present value of financial lease payment (lessee)	8	3,154	-	3,162

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

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, 2017	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	$ 127,058,823	$ 219,715,996	$ 295,579,614	$ 163,632,779	$ 128,864,381	$ 117,527,786	$ 1,052,379,379
Main capital outflow on maturity	95,731,910	183,638,358	383,761,033	208,991,914	213,997,515	205,014,186	1,291,134,916
Gap	31,326,913	36,077,638	(88,181,419)	(45,359,135)	(85,133,134)	(87,486,400)	(238,755,537)

(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)

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

(In Thousands of U.S. Dollars)

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 9,056,306	$ 10,980,822	$ 5,171,771	$ 3,691,720	$ 2,485,901	$ 31,386,520
Main capital outflow on maturity	9,399,859	11,470,249	5,792,896	5,043,384	2,215,725	33,922,113
Gap	(343,553)	(489,427)	(621,125)	(1,351,664)	270,176	(2,535,593)

(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)

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, 2017			For the Year Ended December 31, 2016		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	$ 98,810	$ 187,181	$ 29,201	$ 33,310	$ 74,214	$ 17,157
Equity risk	8,254	13,354	4,918	5,951	12,389	2,336
Foreign exchange risk	10,860	44,645	2,060	36,105	80,973	6,133

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, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 5,914,373	29.85	$ 176,532,206
RMB	2,382,398	4.58	10,908,763
EUR	191,275	35.67	6,822,783
HKD	1,338,076	3.82	5,110,111
JPY	6,663,892	0.26	1,765,265
GBP	41,090	40.21	1,652,217
SGD	20,243	22.32	451,818
ZAR	180,741	2.42	437,031
Nonmonetary items			
HKD	568,390	3.82	2,170,682
Financial liabilities			
Monetary items			
USD	7,027,583	29.85	209,759,297
RMB	3,032,704	4.58	13,886,450
ZAR	1,594,860	2.42	3,856,371
EUR	88,468	35.67	3,155,661
AUD	63,370	23.26	1,473,986
JPY	4,329,719	0.26	1,146,943
HKD	178,360	3.82	681,156
NZD	16,677	21.20	353,544
GBP	2,665	40.21	107,141

	December 31, 2016		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
<u>Financial assets</u>			
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
<u>Financial liabilities</u>			
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

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, 2017

(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	$ 259,156,710	$ 15,038,530	$ 4,733,678	$ 74,345,633	$ 353,274,551
Interest rate-sensitive liabilities	143,550,855	96,800,437	22,051,229	3,812,474	266,214,995
Interest rate sensitivity gap	115,605,855	(81,761,907)	(17,317,551)	70,533,159	87,059,556
Net worth					59,218,356
Ratio of interest rate-sensitive assets to liabilities (%)					132.70
Ratio of interest rate-sensitive gap to net worth (%)					147.01

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

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, 2017

(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	$ 3,113,094	$ 155,835	$ 42,177	$ 1,554,905	$ 4,866,011
Interest rate-sensitive liabilities	4,276,669	469,709	694,146	583,645	6,024,169
Interest rate sensitivity gap	(1,163,575)	(313,874)	(651,969)	971,260	(1,158,158)
Net worth					66,874
Ratio of interest rate-sensitive assets to liabilities (%)					80.77
Ratio of interest rate-sensitive gap to net worth (%)					(1,731.85)

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)

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, 2017					
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	$ 4,824,192	$ 4,582,517	$ 4,824,192	$ 4,582,517	$ 241,675
Available-for-sale financial assets	43,558,559	40,043,756	43,558,559	40,043,756	3,514,803

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

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, 2017						
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	$ 18,829,142	$ -	$ 18,829,142	$ 18,829,142	$ -	$ -
Derivative financial instruments	16,405,402	-	16,405,402	5,634,398	1,327,598	9,443,406
Total	$ 35,234,544	$ -	$ 35,234,544	$ 24,463,540	$ 1,327,598	$ 9,443,406

December 31, 2017						
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	$ 45,444,814	$ -	$ 45,444,814	$ 45,251,592	$ 193,222	$ -
Derivative financial instruments	25,866,698	-	25,866,698	5,634,398	3,709,337	16,522,963
Total	$ 71,311,512	$ -	$ 71,311,512	$ 50,885,990	$ 3,902,559	$ 16,522,963

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

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

44. 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, 2017	December 31, 2016
Eligible capital	Common equity Tier 1 capital		$ 56,977,566	$ 53,944,546
	Additional Tier 1 capital		-	-
	Tier 2 capital		742,210	41,708
	Eligible capital		57,719,776	53,986,254
Risk-weighted assets	Credit risk	Standardized approach	343,689,959	335,603,806
		Internal rating-based approach	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach	18,011,674	17,971,561
		Standardized approach/ alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	45,449,650	54,614,500
		Internal model approach	-	-
	Total risk-weighted assets		407,151,283	408,189,867
Capital adequacy ratio			14.18%	13.23%
Ratio of common equity to risk-weighted assets			13.99%	13.22%
Ratio of Tier 1 capital to risk-weighted assets			13.99%	13.22%
Leverage ratio			8.94%	8.85%

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.

45. 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 2017	December 31 2016	Trust Liabilities and Equity	December 31 2017	December 31 2016
Bank deposits	$ 371,243	$ 310,897	Payables	$ 152,685	$ 153,951
Short-term investment	29,283,250	30,860,207	Account payable on securities under custody	2,571,397	1,909,451
Financial assets at FVTPL	241,655	2,660,355	Other liabilities	5,730	30,906
Receivables	193	26,191	Donations	1,811	-
Financial assets measured at cost	7,650	687,150	Trust capital	30,555,629	34,693,769
Real estate, net	534,259	417,202	Accumulated earnings	707,034	1,067,910
Intangible assets - surface rights	984,534	984,534			
Securities under custody	2,571,397	1,909,451			
Other assets	105	-			
Total	$ 33,994,286	$ 37,855,987	Total	$ 33,994,286	$ 37,855,987

Income Statements of Trust Accounts

(In Thousands of New Taiwan Dollars)

	For the Years Ended December 31 2017	For the Years Ended December 31 2016
Trust income and gains		
Dividend income	$ 96,752	$ 86,041
Interest income	1,347,506	1,385,573
Rental income	29,583	30,624
Gain on financial assets at FVTPL, net	30,536	480,409
Others income	9,653	23,470
Total trust income and gains	1,514,030	2,006,117
Trust expenses		
Property transaction losses	(717,270)	(1,461,127)
Administrative expenses	(40,561)	(24,329)
Interest expenses	-	(39,754)
Service fee	(79)	(712)
Other expenses	(11,854)	(29,591)
Total trust expenses	(769,764)	(1,555,513)
Net income	$ 744,266	$ 450,604

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 2017	December 31 2016
Bank deposits	$ 371,243	$ 310,897
Short-term investments		
Funds	27,956,024	29,104,043
Bonds	1,013,666	1,468,806
Common shares	75,900	78,300
Structured notes	93,766	93,766
ETF	143,894	115,292
Financial assets at FVTPL	241,655	2,660,355
Financial assets measured at cost	7,650	687,150
Real estate, net	534,259	417,202
Intangible assets - surface rights	984,534	984,534
Securities under custody	2,571,397	1,909,451
Other assets	298	26,191
Total	$ 33,994,286	$ 37,855,987

46. 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 39 to the consolidated financial statements.

47. PROFITABILITY

(%)

Items		December 31, 2017	December 31, 2016
Return on total assets	Before income tax	0.87	0.85
	After income tax	0.55	0.68
Return on net worth	Before income tax	8.40	8.14
	After income tax	5.29	6.55
Profit margin		27.69	35.49

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.

48. 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, 42 and 43 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).

49. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of goods or services delivered or provided. The reportable segments of the Bank and subsidiaries were as follows:

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

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

c. 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.

d. 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, 2017					
Interest revenue, net	$ 3,119,482	$ 2,018,878	$ 1,067,316	$ 179,796	$ 6,385,472
Net revenue (loss) - intersegment	430,187	564,924	(905,587)	(89,524)	-
Noninterest profits and gains, net	1,442,169	348,116	2,925,642	391,638	5,107,565
Net revenue	4,991,838	2,931,918	3,087,371	481,910	11,493,037
Reversal of allowance (allowance) for bad debts expense and guarantee liability provision, net	44,644	(201,537)	(56,089)	(250,456)	(463,438)
Operating expenses	(3,009,399)	(668,423)	(333,237)	(1,961,517)	(5,972,576)
Income (loss) before income tax	2,027,083	2,061,958	2,698,045	(1,730,063)	5,057,023
Income tax expense	-	-	-	(1,874,675)	(1,874,675)
Net income (loss)	$ 2,027,083	$ 2,061,958	$ 2,698,045	$ (3,604,738)	$ 3,182,348
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

b. 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	
	2017	**2016**
Taiwan	$ 11,462,487	$ 10,737,430
Other	30,550	51,693
	$ 11,493,037	$ 10,789,123

c. Information about major customers

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

KGI BANK AND SUBSIDIARIES

COLLATERALS/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2017
(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	$ 4,621,075	$ 2,591,005	$ 1,480,527	$ 477,568	$ -	160.19%	$ 4,621,075 (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, 2017
(In Thousands of New Taiwan Dollars)

Holding Company	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2017				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	$ 621,085	76.04	$ 621,085	
	CDIB International Leasing Corporation	Subsidiary	Investments accounted for using the equity method	-	189,033	100.00	189,033	
CDC Finance & Leasing Corporation	Stock							
	Hwahong Corporation	Associate	Investments accounted for using the equity method	23,750	476	19.00	476	

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.

KGI BANK AND SUBSIDIARIES

INFORMATION ON INVESTED ENTERPRISES
DECEMBER 31, 2017
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business	Balance as of December 31, 2017			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	3,450	19,296,975	-	19,296,975	6.12	
Financial Information Service Co., Ltd.	Taiwan	Telecommunication service; information system service	1.23	49,120	16,667	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	6,020	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	401	344,476	-	344,476	5.74	
Taiwan Financial Asset Service Company	Taiwan	Other activities auxiliary to financial service activities	2.94	50,000	100	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	850,226	(231,321)	153,171,873	-	153,171,873	100.00	
Euroc II Venture Capital Corp.	Taiwan	Venture capital corporation	7.50	8,759	-	2,244,000	-	2,244,000	7.50	
Euroc III Venture Capital Corp.	Taiwan	Venture capital corporation	5.00	4,283	-	990,000	-	990,000	5.00	
Nonfinancial industry-related										
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	
CDIB & Partners Investment Holding Corp.	Taiwan	General investment corporation	4.95	888,387	23,859	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.

KGI BANK AND SUBSIDIARIES

INFORMATION ON INVESTMENT IN MAINLAND CHINA
DECEMBER 31, 2017
(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, 2017	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2017	Net Loss of the investee	% Ownership of Direct or Indirect Investment	Investment Loss (Note 2)	Carrying Value as of December 31, 2017	Accumulated Inward Remittance of Earnings as of December 31, 2017
					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	$ (229,924)	100	$ (229,924)	$ 189,033	$ -

Accumulated Investment in Mainland China as of December 31, 2017	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investment
$895,440 (US$30,000 thousand)	US$30,000 thousand	$510,136

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, 2017
(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	$ 21,061	Note 4	-
1	CDC Finance & Leasing Corporation	KGI Bank	2	Cash and cash equivalents	21,061	Note 4	-

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.