Cathay United Bank and Subsidiaries
Consolidated Financial Statements
For The Years Ended
31 December 2017 and 2016
With Independent Auditors' Report

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the "Regulations Governing the Preparation of Financial Reports by Public Banks". If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

Address: No. 7, Songren Road, Taipei, Taiwan, R.O.C.
Telephone: +886-2-8722-6666

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安永聯合會計師事務所

11012 台北市基隆路一段333號9樓
9F, No. 333, Sec. 1, Keelung Road
Taipei City, Taiwan, R.O.C.

Tel: 886 2 2757 8888
Fax: 886 2 2757 6050
www.ey.com/taiwan

Independent Auditors' Report

English Translation of a Report Originally Issued in Chinese

The Board of Directors and Shareholders
Cathay United Bank

Opinion

We have audited the accompanying consolidated balance sheets of Cathay United Bank ("the Bank") and its subsidiaries as of 31 December 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the years ended 31 December 2017 and 2016, and notes to the consolidated financial statements, including the summary of significant accounting policies (together "the consolidated financial statements").

In our opinion, based on our audits, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of 31 December 2017 and 2016, and their consolidated financial performance and cash flows for the years ended 31 December 2017 and 2016 in conformity with the requirements of the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the "Regulations Governing the Preparation of Financial Reports by Securities Firms" and "International Financial Reporting Standards", "International Accounting Standards", "Interpretations developed by the International Financial Reporting Interpretations Committee" as endorsed by Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with the "Rules Governing Auditing and Certification 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 (the "Norm"), and we have fulfilled our other ethical responsibilities in accordance with the Norm. 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 2017 consolidated financial statements. 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.

Independent Auditors' Report (continued)

English Translation of a Report Originally Issued in Chinese

Key Audit Matters (continued)

The Provision of Allowance for Loans

In accordance with IAS 39 "Financial Instruments: Recognition and Measurement" and "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" of the ROC, the Bank and its subsidiaries developed their own systems to perform both individual and collective assessments of impairment loss on loans and receivables. The systems assess the amount of an impairment loss based on parameters from historical experience or future cash flows on a case-by-case basis. The estimates of discount factors, including effective interest rate, incidence of impairment and recoverable rate, and the classification to assess whether there is any objective evidence that loan is impaired, require professional judgment and uses of estimates and assumptions. Therefore, we determined the provision of allowance for loans as a key audit matter.

Our audit procedures include (but not limited to) assessing and testing the effectiveness of internal control relating to calculations of impairment, including the underlying data and systems with respect to impairment calculation. For loan loss provisions calculated on an individual basis, we tested the assumptions which were used to identify and quantify the impairments, including estimates of future cash flows, valuation of guarantee and estimates of recovery on default. For loan loss provisions calculated on a collective basis, we reviewed whether the models of impairment were approved by management and relied on our specialists to verify the effectiveness of those models. We also tested the appropriateness and accuracy of the inputs used in those models, such as recovery rates and historical loss rates. We reviewed whether management of the Bank and its subsidiaries complied with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" of the ROC, including assessing appropriateness of the classification of loans and testing accuracy of impairment calculations.

Please refer to Note 4, 5.(2) and 6.(5) for information about the Bank and its subsidiaries' the provision of allowance for loans.

安永聯合會計師事務所
11012 台北市基隆路一段333號9樓
9F, No. 333, Sec. 1, Keelung Road
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Independent Auditors' Report (continued)

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Key Audit Matters (continued)

Valuation of financial instruments

The Bank and its subsidiaries use internal model valuation for parts of financial instruments' fair value, and the assumptions used in the valuation will impact the fair value of the reported financial instruments. Therefore, we determined the valuation of financial instruments as a key audit matter.

Our audit procedures include (but not limited to) assessing and testing the effectiveness of internal controls related to financial instruments valuation, including how management decides and approves the valuation model and its assumptions, the controls related to the valuation model and change of assumptions, and how management reviews the valuation. We use internal valuation experts on a sampling basis to assist in reviewing the valuation techniques adopted by the Bank and its subsidiaries, understanding and assessing the rationality of key valuation assumptions, performing independent valuation calculation, and determining whether the valuation differences are acceptable.

Please refer to Notes 4, 5.(2) and 12 for information about the Bank and its subsidiaries' financial instruments valuation.

Assessment of goodwill impairment

IAS 36 requires entities to perform an impairment test annually. However the calculation made by management of the Bank and its subsidiaries is complex and involves major subjective judgments and assumptions. Therefore, we determined the assessment of goodwill impairment as a key audit matter.

Independent Auditors' Report (continued)

English Translation of a Report Originally Issued in Chinese

Key Audit Matters (continued)

Assessment of goodwill impairment (continued)

Our audit procedures included but not limited to assessing the rationality of the Bank and its subsidiaries' financial forecasts, and using internal experts to assist in assessing the rationality of the assumptions made by the Bank and its subsidiaries' management.

Please refer to Notes 4, 5.(2) and 6.(12) for information about the Bank and its subsidiaries' goodwill impairment assessment.

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 requirements of the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the "Regulations Governing the Preparation of Financial Reports by Securities Firms" and "International Financial Reporting Standards", "International Accounting Standards", "Interpretations developed by the International Financial Reporting Interpretations Committee" as endorsed by 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 to continue as a going concern of the Bank and its subsidiaries, 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 or supervisors, are responsible for overseeing the financial reporting process of the Bank and its subsidiaries.

Auditor's 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditors' Report (continued)

English Translation of a Report Originally Issued in Chinese

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

1. Identify and assess the risks of material misstatement of the 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 to continue as a going concern of the Bank and its subsidiaries. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's 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 accompanying notes, 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 group audit. We remain solely responsible for our audit opinion.

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Independent Auditors' Report (continued)

English Translation of a Report Originally Issued in Chinese

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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 2017 consolidated financial statements and are therefore the key audit matters. We describe these matters in our auditor's 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.

Others

We have audited and expressed an unqualified opinion on the parent company only financial statements of the Bank as of and for the years ended 31 December 2017 and 2016.

Ernst & Young
Taipei, Taiwan
The Republic of China
15 March 2018

Notice to Readers
The accompanying consolidated financial statements are intended only to present the financial position and results of operations 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.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Subsidiaries

Consolidated balance sheets

31 December 2017 and 31 December 2016

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	2017.12.31	2016.12.31
Cash and cash equivalents	4, 6, 7	$65,958,532	$63,284,400
Due from the Central Bank and call loans to banks	6, 7	125,163,780	71,940,935
Financial assets at fair value through profit or loss	4, 5, 6	311,985,059	199,317,591
Securities purchased under agreements to resell	4, 6	87,483,656	38,139,919
Receivables - net	4, 5, 6, 7	76,980,817	80,268,406
Discounts and loans - net	4, 5, 6, 7	1,434,558,167	1,437,530,908
Available-for-sale financial assets - net	4, 5, 6	148,480,669	156,153,959
Held-to-maturity financial assets - net	4, 5, 6	34,345,085	47,938,864
Investments accounted for using the equity method - net	4, 6	1,744,047	1,708,349
Other financial assets - net	4, 5	1,276	3,373
Investments in debt securities with no active market - net	4, 5, 6	388,287,593	397,475,008
Property and equipment - net	4, 6, 7	24,873,298	24,898,412
Investment properties - net	4, 5, 6	1,547,372	1,554,600
Intangible assets - net	4, 5, 6	7,785,984	7,821,006
Deferred tax assets	4, 5, 6	2,223,266	1,410,010
Other assets - net	4, 6, 7	24,285,305	37,222,811
Total assets		$2,735,703,906	$2,566,668,551

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Subsidiaries

Consolidated balance sheets (continued)

31 December 2017 and 31 December 2016

(Expressed in thousands of New Taiwan Dollars)

Liabilities and equity	Notes	2017.12.31	2016.12.31
Liabilities			
Due to the Central Bank and call loans from banks	6, 7	$90,417,859	$77,493,795
Financial liabilities at fair value through profit or loss	4, 5, 6	87,407,651	88,136,984
Securities sold under agreements to repurchase	4, 6	109,941,425	56,752,751
Payables	6, 7	23,457,177	24,001,845
Current tax liabilities	4, 5	439,896	294,602
Deposits and remittances	6, 7	2,098,367,963	2,032,599,788
Financial debentures payable	4, 6	63,350,000	51,900,000
Other financial liabilities	6	66,057,646	61,566,809
Provisions	4, 5, 6	3,187,664	3,053,964
Deferred tax liabilities	4, 5, 6	1,712,831	1,611,210
Other liabilities	6, 7	9,056,227	9,288,867
Total liabilities		2,553,396,339	2,406,700,615
Equity			
Equity attribute to equity holders of parent			
Capital stock	6		
Common stock		78,604,060	72,099,815
Capital surplus	6	33,610,983	23,969,412
Retained earnings	6		
Legal reserves		45,823,601	40,659,384
Special reserves		1,977,363	1,892,668
Undistributed earnings		19,302,403	17,211,700
Other equity	6	(854,932)	257,800
Subtotal		178,463,478	156,090,779
Non-controlling interests	6	3,844,089	3,877,157
Total equity		182,307,567	159,967,936
Total liabilities and equity		$2,735,703,906	$2,566,668,551

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Subsidiaries

Consolidated statements of comprehensive income

For the years ended 31 December 2017 and 2016

(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	Notes	2017.01.01-2017.12.31	2016.01.01-2016.12.31
Interest income	4, 6, 7	$46,240,981	$40,722,609
Interest expense	6, 7	(16,540,184)	(14,812,568)
Net interest income		29,700,797	25,910,041
Non-interest income			
Net fee income	4, 6, 7	14,862,355	15,744,826
Gains on financial assets and liabilities at fair value through profit or loss	6, 7	6,611,611	3,272,745
Realized gains on available-for-sale financial assets		2,098,316	3,799,624
Realized gains on held-to-maturity financial asset		189,886	54,319
Gains on foreign currency exchange	4	459,492	1,118,602
Losses on impairment of assets	6, 12	(31,318)	(58,161)
Share of profit of associates and joint ventures accounted for using the equity method		114,195	90,573
Net other non-interest income	4, 6	1,216,436	1,221,552
Total net non-interest income		25,520,973	25,244,080
Net operating income		55,221,770	51,154,121
Bad debt expense and losses on guarantees		(3,494,144)	(4,455,361)
Operating expenses			
Employee benefits expenses	4, 5, 6	(13,422,788)	(12,182,153)
Depreciation and amortization expenses	6	(1,256,631)	(1,201,040)
Other general and administrative expenses	4, 6, 7	(14,622,028)	(13,575,549)
Total operating expenses		(29,301,447)	(26,958,742)
Profit before income tax from continuing operations		22,426,179	19,740,018
Income tax expense	4, 6	(2,762,573)	(2,228,758)
Net income		19,663,606	17,511,260
Other comprehensive income			
Not to be reclassified to profit or loss in subsequent periods			
Remeasurements of defined benefit plans	6	(314,377)	(91,626)
Revaluation surplus	6	73,162	-
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	6	(1,579,937)	44,408
Share of other comprehensive income of associates and joint ventures accounted for using the equity method		(739)	61
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods	6	328,080	8,027
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of a foreign operation	6	(1,571,498)	(1,394,461)
Unrealized gains(losses) on available-for-sale financial assets	6	1,473,577	(2,803,195)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	6	29,377	(28,266)
Income tax relating to the components to be reclassified to profit or loss in subsequent periods	6	279,152	471,902
Other comprehensive income, net of tax		(1,283,203)	(3,793,150)
Total comprehensive income		$18,380,403	$13,718,110
Net income attributable to:			
Owners of the parent		$19,302,403	$17,211,700
Non-controlling interests		361,203	299,560
		$19,663,606	$17,511,260
Total comprehensive income attributable to:			
Owners of the parent		$18,189,671	$13,504,825
Non-controlling interests		190,732	213,285
		$18,380,403	$13,718,110
Earnings per share (In dollars)			
Net income from continuing operations	6	$2.53	$2.35

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Subsidiaries

Consolidated statements of changes in equity

For the years ended 31 December 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to owners of the parent													
			Retained earnings			Equity adjustment								
Items	Capital stock	Capital surplus	Legal reserves	Special reserves	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains on available-for-sale financial assets	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation surplus	Others	Total	Non-controlling interests	Total Equity
Balance, 1 January 2016	$69,479,605	$23,969,412	$35,073,510	$1,914,537	$18,606,155	$1,608,041	$3,052,854	$83,463	$(1,002,133)	$223,467	$(1,017)	$153,007,894	$3,760,901	$156,768,795
Appropriation and distribution for 2015														
Legal reserves	-	-	5,585,874	-	(5,585,874)	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(10,421,940)	-	-	-	-	-	-	(10,421,940)	-	(10,421,940)
Stock dividends	2,620,210	-	-	-	(2,620,210)	-	-	-	-	-	-	-	-	-
Reversal of special reserves	-	-	-	(21,869)	21,869	-	-	-	-	-	-	-	-	-
Net income for the year ended 31 December 2016(Note 1)	-	-	-	-	17,211,700	-	-	-	-	-	-	17,211,700	299,560	17,511,260
Other comprehensive income for the year ended 31 December 2016	-	-	-	-	-	(1,083,843)	(2,583,902)	36,859	(77,006)	-	1,017	(3,706,875)	(86,275)	(3,793,150)
Total comprehensive income for the year ended 31 December 2016	-	-	-	-	17,211,700	(1,083,843)	(2,583,902)	36,859	(77,006)	-	1,017	13,504,825	213,285	13,718,110
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(97,029)	(97,029)
Balance, 31 December 2016	$72,099,815	$23,969,412	$40,659,384	$1,892,668	$17,211,700	$524,198	$468,952	$120,322	$(1,079,139)	$223,467	$-	$156,090,779	$3,877,157	$159,967,936
Appropriation and distribution for 2016														
Legal reserves	-	-	5,164,217	-	(5,164,217)	-	-	-	-	-	-	-	-	-
Special reserves	-	-	-	86,060	(86,060)	-	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	-	(10,814,972)	-	-	-	-	-	-	(10,814,972)	-	(10,814,972)
Stock dividends	1,147,816	-	-	-	(1,147,816)	-	-	-	-	-	-	-	-	-
Reversal of special reserves	-	-	-	(1,365)	1,365	-	-	-	-	-	-	-	-	-
Net income for the year ended 31 December 2017(Note 2)	-	-	-	-	19,302,403	-	-	-	-	-	-	19,302,403	361,203	19,663,606
Other comprehensive income for the year ended 31 December 2017	-	-	-	-	-	(1,056,765)	1,437,844	(1,311,348)	(261,672)	79,209	-	(1,112,732)	(170,471)	(1,283,203)
Total comprehensive income for the year ended 31 December 2017	-	-	-	-	19,302,403	(1,056,765)	1,437,844	(1,311,348)	(261,672)	79,209	-	18,189,671	190,732	18,380,403
Issuance of common stock for cash	5,356,429	9,641,571	-	-	-	-	-	-	-	-	-	14,998,000		14,998,000
Changes in non-controlling interests													(223,800)	(223,800)
Balance, 31 December 2017	$78,604,060	$33,610,983	$45,823,601	$1,977,363	$19,302,403	$(532,567)	$1,906,796	$(1,191,026)	$(1,340,811)	$302,676	$-	$178,463,478	$3,844,089	$182,307,567

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

Note 1: Compensation to employee $9,639 thousand had deducted from comprehensive income in 2016.

Note 2: Compensation to directors and supervisors $7,000 thousand and compensation to employee $10,922 thousand had deducted from comprehensive income in 2017.

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Subsidiaries

Consolidated statements of cash flows

For the years ended 31 December 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

Items	2017.01.01-2017.12.31	2016.01.01-2016.12.31
Cash flows from operating activities		
Profit before income tax from continuing operations	$22,426,179	$19,740,018
Adjustment items:		
Income and expense adjustments		
Depreciation expenses	989,617	984,970
Amortization expenses	267,014	216,070
Bad debt expenses	3,494,144	4,455,361
Interest expense	16,540,184	14,812,568
Interest income	(46,240,981)	(40,722,609)
Dividends income	(567,685)	(815,604)
Share of profit of associates and joint ventures accounted for using the equity method	(114,195)	(90,573)
Losses on disposal of property and equipment	28,046	14,123
Losses (Gains) on disposal of investment properties	6,095	(218)
Losses on impairment of financial assets	5,393	-
Losses on impairment of non-financial assets	25,925	58,161
Losses on valuation of investment properties	156,008	72,289
Foreign currency translation adjustment	(116,009)	(91,595)
Change in operating assets and liabilities		
Increase in due from the Central Bank and call loans to banks	(1,745,444)	(2,636,467)
(Increase) decrease in financial assets at fair value through profit or loss	(112,904,997)	55,590,467
Decrease in receivables	4,753,783	957,164
Increase in discounts and loans	(3,106,420)	(313,103,861)
Decrease (increase) in available-for-sale financial assets	8,887,079	(24,991,917)
Decrease in held-to-maturity financial assets	13,213,329	4,563,913
Decrease (increase) in other financial assets	2,097	(2,023)
Decrease in investments in debt securities with no active market	9,187,415	45,289,130
Decrease (increase) in other assets	3,541,508	(1,821,018)
Increase in due to the Central Bank and call loans from banks	14,125,626	36,402,468
Decrease in financial liabilities at fair value through profit or loss	(2,303,513)	(12,216,525)
Increase in securities sold under agreements to repurchase	53,188,674	2,714,874
(Decrease) increase in payables	(1,626,200)	4,248,556
Increase in deposits and remittances	68,671,920	151,751,353
Increase (decrease) in other financial liabilities	4,490,837	(5,660,297)
Decrease in provisions	(180,677)	(236,692)
(Decrease) Increase in other liabilities	(1,145,366)	3,195,054
Cash provided by (used in) operations	53,949,386	(57,322,860)
Interest received	44,306,953	40,425,810
Cash dividends received	567,685	815,604
Interest paid	(15,974,871)	(14,595,263)
Income tax paid	(2,381,390)	(1,886,138)
Net cash provided by (used in) operating activities	80,467,763	(32,562,847)
Cash flows from investing activities		
Disposal of investment under the equity method	46,659	-
Acquisition of property and equipment	(1,398,338)	(1,021,477)
Disposal of property and equipment	372	2,147
Acquisition of intangible assets	(168,502)	(233,870)
Disposal of investment properties	197,325	8,578
Decrease in other assets	9,947,501	7,151,817
Cash dividends received	60,475	77,196
Net cash provided by investing activities	8,685,492	5,984,391
Cash flows from financing activities		
Increase in financial debentures payable	11,450,000	-
Increase in other liabilities	934,650	1,108,978
Distribution of cash dividends	(11,038,772)	(10,518,969)
Issuance of common stock for cash	14,998,000	-
Net cash provided by (used in) financing activities	16,343,878	(9,409,991)
Effects of foreign exchange rate changes	(1,834,908)	(1,321,716)
Net increase (decrease) in cash and cash equivalents	103,662,225	(37,310,163)
Cash and cash equivalents at the beginning of the period	119,948,410	157,258,573
Cash and cash equivalents at the end of the period	$223,610,635	$119,948,410
The components of cash and cash equivalents		
Cash and cash equivalents in consolidated balance sheets	$65,958,532	$63,284,400
Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS 7	70,168,447	18,524,091
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS 7	87,483,656	38,139,919
Cash and cash equivalents at the end of the periods	$223,610,635	$119,948,410

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

1. Business

Cathay United Bank ("the Bank"), originally named United World Chinese Commercial Bank ("UWCCB"), was enfranchised by the government of the Republic of China ("ROC") in January 1975. The Bank started its operations on 20 May 1975 and is engaged in the following operations: (1) all commercial banking operations authorized by the ROC Banking Act ("Banking Act"); (2) international banking business and related operations; (3) trust business; (4) off-shore banking business; and (5) other financial operations related to the promotion of investments by overseas Chinese. The Bank's registered office and the main business location is at No.7, Songren Rd., Xinyi District, Taipei City, Republic of China (R.O.C.).

The Bank's stock was traded on the Taiwan Stock Exchange (the "TWSE") until 18 December 2002. On 18 December 2002, the Bank became a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd. ("Cathay Financial Holdings") through a conversion transaction and delisted from TWSE. Under the Financial Institutions Merger Act, the Bank engaged in a merger with the former Cathay United Bank, a wholly-owned subsidiary of Cathay Financial Holdings. The record date for such merger was 27 October 2003 and UWCCB survived and was renamed Cathay United Bank.

The Bank merged with Lucky Bank on 1 January 2007. The Bank was the surviving entity after this merger and Lucky Bank was the extinguished entity. In addition, the Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation ("CUTIC") on 29 December 2007.

Cathay Financial Holding Co., Ltd. is the Bank's parent company and ultimate parent company.

2. Date and procedures of authorization of financial statements for issue

The consolidated financial statements of the Bank and subsidiaries ("the Group") were authorized for issue in accordance with the Board of Directors' resolution on 15 March 2018.

3. Newly issued or revised standards and interpretations

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments:

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are endorsed by Financial Supervisory Commission ("FSC") and become effective for annual periods beginning on or after 1 January 2017. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

IAS 36 *"Impairment of Assets" (Amendment)*

This amendments relate to the amendment issued in May 2011 and require entities to disclose the recoverable amount of an asset (including goodwill) or a cash-generating unit when an impairment loss has been recognized or reversed during the period. The amendments also require detailed disclosure of how the fair value less costs of disposal has been measured when an impairment loss has been recognized or reversed, including valuation techniques used, level of fair value hierarchy of assets and key assumptions used in measurement. The Group evaluated that the amendment only affected the related disclosure.

(2) Standards or interpretations issued, revised or amended, which are endorsed by FSC, but not yet adopted by the Group as at the end of the reporting period are listed below:

A. IFRS 15 *"Revenue from Contracts with Customers"*

The core principle of the new Standard is for companies to recognize revenue to depict the transfer of promised goods or services to customers in amounts that reflect the consideration to which the Bank expects to be entitled in exchange for those goods or services. An entity recognizes revenue in accordance with that core principle by applying the following steps:

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The new Standard includes a cohesive set of disclosure requirements that would result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The Standard is effective for annual periods beginning on or after 1 January 2018.

B. IFRS 9 *"Financial Instruments"*

The IASB has issued the final version of IFRS 9, which combines classification and measurement, the expected credit loss impairment model and hedge accounting. The standard will replace IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9 Financial Instruments (which include standards issued on classification and measurement of financial assets and liabilities and hedge accounting).

Classification and measurement: Financial assets are measured at amortized cost, fair value through profit or loss, or fair value through other comprehensive income, based on both the entity's business model for managing the financial assets and the financial assets' contractual cash flow characteristics. Financial liabilities are measured at amortized cost or fair value through profit or loss. Furthermore there is requirement that "own credit risk" adjustments are not recognized in profit or loss.

Impairment: Expected credit loss model is used to evaluate impairment. Entities are required to recognize either 12-month or lifetime expected credit losses, depending on whether there has been a significant increase in credit risk since initial recognition.

Hedge accounting: Hedge accounting is more closely aligned with risk management activities and hedge effectiveness is measured based on the hedge ratio.

The new standard is effective for annual periods beginning on or after 1 January 2018. Consequential amendments on the related disclosures also become effective for annual periods beginning on or after 1 January 2018.

C. IFRS 10 *"Consolidated Financial Statements"* and IAS 28*" Investments in Associates and Joint Ventures"* – Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures

The amendments address the inconsistency between the requirements in IFRS 10 *Consolidated Financial Statements and* IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gains or losses resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

IFRS 10 was also amended so that the gains or losses resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

The effective date of the amendments has been postponed indefinitely, but early adoption is allowed.

D. IAS 12 *"Income Taxes" – Recognition of Deferred Tax Assets for Unrealized Losses*

The amendments clarify how to account for deferred tax assets for unrealized losses. The amendments are effective for annual periods beginning on or after 1 January 2017.

E. *Disclosure Initiative* – Amendment to IAS 7 *"Statement of Cash Flows"*

The amendments relate to changes in liabilities arising from financing activities and to require a reconciliation of the carrying amount of liabilities at the beginning and end of the period. The amendments are effective for annual periods beginning on or after 1 January 2017.

F. IFRS 15 *"Revenue from Contracts with Customers"* – Clarifications to IFRS 15

The amendments clarify how to identify a performance obligation in a contract, determine whether an entity is a principal or an agent, and determine whether the revenue from granting a licence should be recognized at a point in time or over time. The amendments are effective for annual periods beginning on or after 1 January 2018.

G. IFRS 2 *"Shared-Based Payment"* – Amendments to IFRS 2

The amendments contain a. clarifying that vesting conditions other than market condition, are not taken into account when estimating the fair value of the cash-setteled share-based payment at the measurement date. Instead, these are taken into account by adjusting the number of awards included in the measurement of the liability arising from the trasaction, b. clarifying if tax laws or regulations oblige the employer to withhold a certain amount for an employee's tax obligation to the tax authority on the employee's behalf in order to meet the employee's tax obligation associated with the share-based payment, such transactions will be classified in their entirety as equity-settled share-based payment transactions if they would have been so classified in the absence of the net share settlement feature, and c. clarifying that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date and is recognized in equity, on the modification date, to the extent to which goods or services have been received. The liability for the cash-settled share-based payment transaction as at the modification date is derecognized on that date. Any difference between the carrying amount of the liability derecognized and the amount recognized in equity on the modification date is recognized immediately in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2018.

H. Applying IFRS 9 *"Financial Instruments"* with IFRS 4 *"Insurance Contracts"* – Amendments to IFRS 4

The amendments help to resolve issues arising from the different effective dates for IFRS 9 "Financial Instruments" (1 January 2018) and the new insurance contracts standard about to be issued by the IASB (not before 1 January 2021). The amendments allow entities issuing insurance contracts within the scope of IFRS 4 to mitigate certain effects of applying IFRS 9 "Financial Instruments" before the IASB's new insurance contracts standard becomes effective. The amendments introduce two approaches: an overlay approach and a temporary exemption. The overlay approach allows an entity applying IFRS 9 to remove from profit or loss the effects of some of the accounting mismatches that may occur from applying IFRS 9 before the new insurance contracts standard is applied. The temporary exemption enables eligible entities to defer the implementation date of IFRS 9 until the effective date of new insurance contracts standard (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

I. *Transfers of Investment Property* – Amendments to IAS 40

The amendments relate to the transfers of investment property. The amendments clarify that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use, the entity should transfer property into and out of investment property accordingly. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments are effective for annual periods beginning on or after 1 January 2018.

J. *Improvements to International Financial Reporting* Standards *(2014–2016 cycle)*

IFRS 1 *"First-time Adoption of International Financial Reporting Standards"*

The amendments revise and amend transition requirements relating to certain standards and delete short-term exemptions under Appendix E for first-time adopter. The amendments are effective for annual periods beginning on or after 1 January 2018.

IFRS 12 *"Disclosure of Interests in Other Entities"*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interests that are classified as held for sale or discontinued operations. The amendments are effective for annual periods beginning on or after 1 January 2017.

IAS 28 *“Investments in Associates and Joint Ventures”*

The amendments clarify that when an investment in an associate or a joint venture is held by, or is held indirectly through, an entity that is a venture capital organisation, or a mutual fund, unit trust and other qualifying entities including investment-linked insurance funds, the entity may elect to measure that investment at fair value through profit or loss in accordance with IFRS 9 “Financial Instruments” on an investment-by-investment basis. Besides, if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries on an investment-by-investment basis. The amendments are effective for annual periods beginning on or after 1 January 2018.

K. IFRIC 22 *“Foreign Currency Transactions and Advance Consideration”*

The interpretation clarifies that when applying paragraphs 21 and 22 of IAS 21 “The Effects of Changes in Foreign Exchange Rates”, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it), the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. The interpretation is effective for annual periods beginning on or after 1 January 2018.

The abovementioned standards and interpretations issued by IASB and endorsed by FSC so that they are applicable for annual periods beginning on or after 1 January 2018. Apart from the potential impact of the standards and interpretations listed under (A) and (B), which is described below, all other standards and interpretations have no material impact on the Group:

A. The explanation related to the application of IFRS 15 Revenue from Contracts with Customers (including Amendments to IFRS 15 Clarifications to IFRS 15 Revenue from Contracts with Customers) is as follows:

In accordance with the requirements of IFRS 15, more extensive disclosure would have to be made.

B. The explanation related to the application of IFRS 9 Financial Instruments is as follows:

The Group elected not to restate prior periods in accordance with the requirements of IFRS 9 at the date of initial application (1 January 2018).

a. Classification and measurement of financial assets

Financial assets measured at fair value through profit or loss

Financial instruments which are classified as held-for-trading derivative instruments in financial assets measured at fair value through profit or loss and mixed instruments designated at fair value through profit or loss in accordance with IAS 39 are classified as financial assets at fair value through profit or loss under IFRS 9.

Available-for sale financial assets

Classified as available-for-sale financial assets according to IAS 39, including beneficiary certificates, stocks and bonds. The related explanation of change in classification is as follows:

(a) Beneficiary certificates

As the cash flow characteristics for beneficiary certificates are not solely payments of principal and interest on the principal amount outstanding, beneficiary certificates are classified as financial assets measured at fair value through profit or loss in accordance with IFRS 9. As at the date of initial application, the Group will reclassify available-for-sale financial assets to financial assets measured at fair value through profit or loss.

(b) Stocks

Upon de-recognition of equity investments currently classified as available-for-sale measured at fair value, the accumulated gains or losses previously recognized in other comprehensive income was recycled to profit or loss from equity. However, under IFRS 9, subsequent fair value changes of the aforementioned equity investments are recognized in other comprehensive income and cannot be recycled to profit or loss. Upon de-recognition, the accumulated amounts in other component of equity is reclassified to retained earnings (reclassification to profit or loss is not allowed).

Based on the facts and circumstances that existed as on 1 January 2018, aside from part of the financial assets which are not held-for-trading investments designated to measure at fair value through other comprehensive income, the others should be reclassified as financial assets measured at fair value through profit or loss. No difference from carrying amount exists when stocks are mearsured at fair value.

(c) Bonds

As the cash flow characteristics for bonds are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as on 1 January 2018, bonds should be reclassified from available-for-sale financial assets to financial assets measured at amortized cost in accordance with IFRS 9 if the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The difference between fair value and amortized cost previously recognized will be adjusted to other equity and the carrying amount of the reclassified financial assets. The financial assets should also be assessed for impairment in accordance with IFRS 9.

Bond investments held within a business model whose objective is to hold financial assets in order to collect contractual cash flows should be classified as financial assets measured at fair value through other comprehensive income under IFRS 9. No difference from carrying amount exists, and the aforementioned assets should be assessed for impairment in accordance with IFRS 9.

Bond investments whose cash flow characteristics for beneficiary certificates are not solely payments of principal and interest on the principal amount outstanding should be classified as financial assets measured at fair value through profit or loss under IFRS 9. The reclassification doesn't result in any difference from carrying amount.

Held-to maturity financial assets and debt instrument investments for which no active market exists

Bond investments classified as held-to-maturity financial assets and loans and receivables (placed in debt instrument investments for which no active market exists) according to IAS 39 and whose cash flow characteristics are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as at the date of initial application, should be reclassified from held-to maturity financial assets and debt instrument investments for which no active market exists to financial assets measured at amortized cost in accordance with IFRS 9 if the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. No difference from carrying amount exists, and the aforementioned assets should be assessed for impairment in accordance with IFRS 9.

Held-to maturity financial assets and debt instrument investments for which no active market exists held within a business model whose objective is to hold financial assets in order to collect contractual cash flows should be reclassified as financial assets measured at fair value through other comprehensive income under IFRS 9. The reclassification of business model will increase other equity and the carrying amount of the reclassified financial assets. The aforementioned assets should also be assessed for impairment in accordance with IFRS 9.

Bond investments classified as loans and receivables (placed in debt instrument investments for which no active market exists) according to IAS 39 and whose cash flow characteristics are solely payments of principal and interest on the principal amount outstanding should be classified as financial assets measured at fair value through profit or loss.

b. Impairment assessment of financial assets

As for financial assets (e.g. on-balance sheet debt instruments and off-balance sheet debt instruments) that are not measured at fair value through profit or loss, the impairment of debt instruments is evaluated by applying expected credit risk model in accordance with IFRS 9. If the credit risk of the financial assets doesn't increase significantly after the initial recognition, the allowance for losses will be measured at 12-month expected credit losses. If the credit risk of the financial assets increases significantly after the initial recognition and is not low credit risk, the allowance for losses will be measured at credit losses during remaining term to maturity. For receivables and contractual assets arose from the transactions in the scope of IFRS 15, credit losses are evaluated by simplified method. The aforementioned rule of impairment assessment is different from incurred losses model applied currently.

c. Effects on the date of initial application

In accordance with classification and measurement of financial assets and impairment assessment in IFRS 9, the Group expects to increase assets by $3,635,423 thousand, increase liabilities by $436,481 thousand, decrease retained earnings by $492,615 thousand and increase other equity by $3,691,557 thousand on the date of initial application (1 January 2018).

(a) Classification and measurement of financial assets

Parts of held-to-maturity financial assets and Investments in debt securities with no active market are reclassified to financial assets measured at fair value through other comprehensive income and parts of available-for-sale financial assets are reclassified to financial assets measured at fair value through other comprehensive income, thus reflect the impact from adjustments of unrealized gains. The assets increased by $3,496,801 thousand, the liabilities increased by $314,205 thousand, retained earnings decreased by $484,779 thousand and other equity increased by $3,667,375 thousand.

(b) Impairment assessment of financial assets

The Group recognized adjustments of expected credit losses of on-balance sheet and off-balance sheet debt instruments, which increased assets by $138,622 thousand, increased liabilities by $122,276 thousand, decreased retained earnings by $7,836 thousand and increased other equity by $24,182 thousand.

d. Others

Consequential amendments on the related disclosures in IFRS 7 were also made as a result of the application of IFRS 9, which include the disclosure requirements related to the initial application of IFRS 9. Therefore more extensive disclosure would have to be made.

(3) Standards or interpretations issued, revised or amended, by IASB but not yet endorsed by FSC at the date of issuance of the Group's financial statements are listed below:

A. IFRS 16 *"Leases"*

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease. The Standard is effective for annual periods beginning on or after 1 January 2019.

B. IFRIC 23 *"Uncertainty Over Income Tax Treatments"*

The Interpretation clarifies application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments. The Interpretation is effective for annual periods beginning on or after 1 January 2019.

C. IFRS 17 *"Insurance Contracts"*

On initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

a. estimates of future cash flows
b. discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows
c. a risk adjustment for non-financial risk

In addition to general model, the Standard required investment contracts with discretionary participation features to apply variable fee approach (VFA), a modification of general model. If certain criteria are met, an entity may apply the premium allocation approach (PAA), a simplified measurement approach, to measure the carrying amount of the liability for remaining coverage.

IFRS 17 is effective for annual periods beginning on or after 1 January 2021.

D. IAS 28 "*Investment in Associates and Joint Ventures"* – Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

E. *Prepayment Features with Negative Compensation (Amendments to IFRS 9)*

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment is effective for annual reporting periods beginning on or after 1 January 2019.

F. *Improvements to International Financial Reporting Standards (2015-2017 cycle)*

IFRS 3 "Business Combinations"

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business. The amendments are effective for annual periods beginning on or after 1 January 2019.

IFRS 11 "Joint Arrangements"

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business. The amendments are effective for annual periods beginning on or after 1 January 2019.

IAS 12 "Income Taxes"

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events. The amendments are effective for annual periods beginning on or after 1 January 2019.

IAS 23 "Borrowing Costs"

The amendments clarify that an entity should treats as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale. The amendments are effective for annual periods beginning on or after 1 January 2019.

G. *Plan Amendment, Curtailment or Settlement – Amendments to IAS 19*

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset. The amendments are effective for annual periods beginning on or after 1 January 2019.

The abovementioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Bank's financial statements were authorized for issue, the local effective dates are to be determined by FSC. The Group is currently determining the potential impact of the standards and interpretations.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the years ended 31 December 2017 and 2016 have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks", the "Regulations Governing the Preparation of Financial Reports by Securities Issuers", the "Regulations Governing the Preparation of Financial Reports by Securities Firms" and "International Financial Reporting Standards", "International Accounting Standards", "Interpretations developed by the International Financial Reporting Interpretations Committee or the former Standing Interpretations Committee" as endorsed by Financial Supervisory Commission of the Republic of China.

(2) Basis of preparation

The consolidated financial reports comprise the consolidated balance sheet, consolidated statements of comprehensive income, the consolidated statements of change in equity, the consolidated statements of cash flows and related notes.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and investment property that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars unless otherwise stated.

The Group classifies their economic activities as operating, investing and financing activities in accordance with management's judgment. The consolidated statements of cash flows presented the changes in cash and cash equivalents during the reporting period from operating, investing and financing activities. The components of cash and cash equivalents are disclosed in Note 6.(1).

(3) Basis of consolidation

Preparation principle of consolidated financial statement

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

A. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
B. exposure, or rights, to variable returns from its involvement with the investee, and
C. the ability to use its power over the investee to affect its returns

When the Bank has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

A. the contractual arrangement with the other vote holders of the investee
B. rights arising from other contractual arrangements
C. the Group's voting rights and potential voting rights

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Bank obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Bank loses control of a subsidiary, it:

A. Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
B. Derecognizes the carrying amount of any non-controlling interest;
C. Recognizes the fair value of the consideration received;
D. Recognizes the fair value of any investment retained;
E. Recognizes any surplus or deficit in profit or loss; and
F. Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

The consolidated entities are listed as follows:

		Business	Ownership (%)	
Investor	Subsidiary	nature	2017.12.31	2016.12.31
The Bank	Indovina Bank Limited ("Indovina Bank") Indovina Bank was incorporated in Vietnam on 21 November 1990.	Wholesale banking	50%	50%
The Bank	Cathay United Bank (Cambodia) Corporation Limited ("CUBC Bank") SBC Bank was incorporated in Cambodia on 5 July 1993, and renamed as CUBC as of 14 January 2014.	Wholesale banking	100%	100%

For the years ended 31 December 2017 and 2016, respectively, the consolidated financial statements excluded the following subsidiaries because their total assets and operating revenues had immaterial impact to the Subsidiary.

		Business	Ownership (%)	
Investor	Subsidiary	nature	2017.12.31	2016.12.31
The Bank	Seaward Card Co., Ltd. ("Seaward Card") Seaward Card was incorporated on 9 April 1999.	Dispatch work	0%	100%

Subsidiaries that are not included in consolidated financial statements are recognized as investments accounted for using equity method according to the accounting treatment of subsidiaries above.

The Bank sold the Seaward Card Co., Ltd. to related party, Symphox Infoemation Co., Ltd, on 21 July 2017. Please refer to Note 6.(8) for details on disposal.

(4) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Bank's net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

(5) Investments accounted for using the equity method

The Bank's investment in its associate is accounted for using the equity method. An associate is an entity over which the Bank has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

When an associate or joint venture issues new stock, and the Bank's interest in the associate or joint venture is reduced or increased as the Bank fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in additional paid-in capital and investments accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income is reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Bank disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Bank. Where necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

In accordance with IAS 39 "*Financial Instruments: Recognition and Measurement*", the Bank determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the "share of profit or loss of an associate or joint venture" in the statement of comprehensive income as required by IAS 36 Impairment of Assets. If using the investment's value in use as the recoverable amount, the Bank determines the value in use based on the following estimates:

A. Future cash flows the Bank expects to derive from the investment in the associate or joint venture, including cash flows from the operation of the associate and from the ultimate disposal of such investment, or

B. Present value of the future cash flows from dividends expected to be received from the associate and from the disposal of the investment.

Because goodwill included as part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for testing goodwill impairment in IAS 36 *Impairment of Assets.*

Upon loss of significant influence over the associate or joint venture, the Bank measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Bank continues to apply the equity method and does not re-measure the retained interest.

(6) Foreign currency transactions

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

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.

B. Foreign currency items within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are accounted for based on the accounting policy for financial instruments.

C. Exchange differences arising on a monetary item that forms part of a reporting entity's net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

(7) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. When the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, and the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(8) Cash and cash equivalents

Cash and cash equivalents in consolidated balance sheet comprise cash on hand, demand deposits and short-term, highly liquid time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group classifies time deposits that are readily convertible to known amounts of cash within twelve months and which are subject to an insignificant risk of changes in value as cash equivalents. The consolidated statements of cash flows consist of cash and cash equivalents in consolidated balance sheet, due from the Central Bank and call loans to the banks and securities purchased under agreements to resell that conformed to the definition of cash and cash equivalents in IAS 7.

(9) Bills and bonds under repurchase or resell agreements

Bills and bonds under repurchase or resell agreements are accounted for under the financing method. Bills and bonds sold under repurchase agreements are presented as “Securities sold under agreements to repurchase” at the sale date. Bills and bonds invested under resell agreements are presented as “Securities purchased under agreements to resell” at the purchase date. The difference between the purchase or the selling price and the contracted resell or repurchase price is recorded as interest income or interest expense, respectively.

(10) Financial assets and financial liabilities

The Group classifies its financial assets as either financial assets at fair value through profit or loss, held-to-maturity financial assets, investment in debt securities with no active market, financial assets carried at cost, available-for-sale financial assets, derivative financial assets for hedging and loans and receivables where appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit or loss and financial liabilities carried at amortized cost. When financial assets or liabilities are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group accounts for regular way purchase or sales of financial assets on the trade date (i.e. the date that the Group commits to purchase or sell the asset).

A. Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities include held for trading and designated by the Group at fair value through profit or loss are classified as financial assets or liabilities at fair value through profit or loss. A financial asset is classified as held for trading if:

(A) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
(B) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
(C) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

(A) It eliminates or significantly reduces a measurement or recognition inconsistency; or
(B) A group of financial assets, financial liabilities or both is managed and its performanceis evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value. When it changes in fair value it recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

For financial liabilities designated as at fair value through profit and loss, the recognition of the full amount of change in the fair value in profit or loss only if the presentation of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

If financial assets do not have quoted prices in an active market and their fair value cannot be measured reliably, they are classified as financial assets measured at cost on balance sheet as at the reporting date.

B. Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable collections and fixed maturity which management has the intent and ability to hold to maturity are classified as held-to-maturity financial assets and reported at amortized cost. Such gains and losses are recognized when the investments are derecognized or impaired, as well as through amortized.

C. Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity except for impairment loss and foreign currency exchange related gains or losses, until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is transferred to income statement. However, any difference between the initial amount and the maturity amount of available-for-sale financial assets shall be amortized by effective interest method as interest income or expense over the relevant periods.

D. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other then:

(A) Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading;
(B) Those that the entity upon initial recognition designates as at fair value through profit or loss;
(C) Those that the entity upon initial recognition designates as available-for-sale; or
(D) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Gains and losses are recognized when the investments are derecognized, impaired and as well as through the amortization process.

E. Other financial assets

(A) Investments in debt securities with no active market

Investment in debt securities with no active market are non-derivative financial assets with fixed or determinable collections that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized when these investments are derecognized, impaired and as well as through the amortization process.

(B) Financial assets carried at cost

Investment in equity instruments without quoted market price and derivative instruments linked to or settled by delivery of such unquoted equity investments shall be measured at cost.

F. Financial liabilities

After initial recognition, all financial liabilities are measured at amortized cost, except for financial liabilities at fair value through profit or loss and derivative financial liabilities for hedging purpose. Such liabilities are measured at fair value.

The fair value of investments is determined by reference to the closing price at the balance sheet date for listed shares and derivatives, the net asset value for open-ended funds, and the closing or quoted price at the balance sheet date for bond and valuation techniques for debt securities with no active market, hybrid instruments and derivative instruments.

This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less impairment and unreceivable amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts.

(11) Derivative financial instruments

The Group entered into various derivative contracts, including forward currency contracts, cross-currency swaps, options, futures and interest rate swaps. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. Derivative financial instruments are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Any gains or losses arising from changes in fair value on derivatives are taken directly to income if a derivative instrument in a fair value hedge is terminated or the hedge designation is removed for the period.

(12) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

A. In the principal market for the asset or liability, or
B. In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured by using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(13) Derecognition of financial assets and liabilities

A. Financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial asset) is derecognized when:

(A) The rights to receive cash flows from the asset have expired.
(B) The Group has transferred their rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement; and either (a) the Bank has transferred substantially all the risks and rewards of the asset, or (b) the Bank has neither transferred nor retained substantially all the risks and rewards of the asset, but the Bank has transferred control of the asset.

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

B. Financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

(14) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(15) Impairment of financial assets

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired when, and only when, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the asset. The carrying amount of the financial asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Objective evidence may include:

A. Significant financial difficulty of the issuer or obligor; or
B. A breach of contract, such as a default or delinquency in interest or principal payments; or
C. It becomes probable that the borrower will enter bankruptcy or other financial reorganization; or
D. The disappearance of an active market for that financial asset because of financial difficulties.

The Group applies the following methods to determine the amount of any impairment loss:

A. Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

In the case of equity investments classified as available-for-sale, impairment losses are not reversed through profit or loss; increases in its fair value after impairment are recognized directly in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment losses was recognized in profit or loss, the impairment losses are reversed through, with the amount of the reversal recognized in profit or loss.

B. Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on a financial asset carried at amortized cost has been incurred, the amount of the loss is measured by the difference between the asset’s carrying amount and the present value of estimated future cash flows discounted at the asset’s original effective interest rate. The carrying amount of the financial asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognized in profit or loss.

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 either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

C. Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. If there is objective evidence that an impairment loss on individual loans and receivables has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan and receivable that is not individually significant has been incurred, the Bank shall include those assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the carrying amount of loans and receivables and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows on loans and receivables is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the loan and receivable that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

In addition, in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", the Bank shall allocate sufficient loan loss provision and reserves against liability on guarantees. Classification system classifies normal credit assets under the first category, with poorer credit assets assessed based on the securities and the length of time overdue, respectively classified as second category special mention, third category expectation of recovery, fourth category difficulty of recovery, and fifth category no hope of recovery.

The minimum loan loss provision and guarantee reserve shall be the sum of 1% of the outstanding balance of Category One credit asset's claim (excluding assets that represent claims against an ROC government agency), 2% of the balance of Category Two credit assets, 10% of the balance of Category Three credit assets, 50% of the balance of Category Four credit assets, and the full balance of Category Five credit assets.

(16) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 "*Impairment of Assets*" may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(17) Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

(18) Foreclosed properties

Foreclosed properties of the Group represent assets acquired by repossession of collateral for realization and are stated at the lower of cost or net realizable value on the balance sheet date. If there is an objective evidence of impairment, the impairment loss shall be recognized.

(19) Lease

All the leasing contracts of the Group follow the regulations of IAS17 and SIC4 and are categorized as operating lease. If the Group is the lessor, the asset in the operating lease is categorized under "Investment properties" account. If the Group is the lessee, the asset then is recorded as leased asset in the balance sheet. The rent payable and receivable of operating lease are recorded by its rental duration using straight-line method. They are recorded as "Other general and administrative expenses" and "Other net non-interest income".

(20) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. When significant parts of property and equipment are required to be replaced in intervals, the Bank recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line method over the following estimated useful lives:

Building	5 - 60	years
Machinery and equipment	3 - 8	years
Transportation equipment	3 - 7	years
Miscellaneous equipment	3 - 15	years

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefit is expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

(21) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the fair value model in accordance with the requirements of IAS 40 "*Investment property*" for that model. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of comprehensive income in the period in which they arise, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*".

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

The fair value of investment properties is measured on the character, location and condition of specific property.

(22) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

The category of intangible assets of the Group and the amortization method over the estimated useful lives are as follows:

Category	Useful lives	Amortization method
Computer software	3 - 8 years	Straight-line method
Other intangible assets	4 years	Straight-line method

(23) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The 10% income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the board of directors.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on undistributed retained earnings since 2002 under the integrated income tax system. Such effects on current tax and deferred tax are accounted for as receivable or payables.

Effective from 1 January, 2006, the Company has considered the impact of the “Alternative Minimum Tax Act” to estimate their income tax liabilities.

(24) Employee benefits

Defined contribution plans

The Bank has a pension plan covering all full-time employees (the defined benefit plan). Under the plan, pension benefit payments for each employee are based on the employee’s years of service and final average compensation. The Bank has established two employee retirement fund committees to supervise the employees’ retirement fund based on the regulations of the employee retirement plan. Contribution to the pension fund is made to the separate accounts of the above two committees monthly. The Bank makes contributions to the pension plan, which is administered and operated by an independent employee retirement fund committee. The pension plan is not reflected in the consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

The Labor Pension Act of the ROC (the “Act”), which adopts a defined contribution pension plan, is effective on 1 July 2005. In accordance with the Act, employees of the Bank may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Act. For employees subject to the Act, the Bank shall make monthly contributions to the employees’ individual pension accounts on a basis 6% of the employees’ monthly wages. Monthly contributions are recognized as pension costs.

Defined benefit plans

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions.
Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest are recognized as other comprehensive income with a corresponding debit or credit to other equity in the period in which they occur.

Past service costs are recognized in profit or loss on the earlier of:

A. The date of the plan amendment or curtailment, and
B. The date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

Employee preferential interest rate deposits

The Bank offers its employees with preferential deposit, including providing finite amount preferential interest rate deposits to current employees and providing the preferential interest rate deposits to current employees and retired employees after their retirement. The difference between the interest rate of preferential deposits and the market rate is recognized as employee benefits.

The finite amount preferential deposits that the Bank paid to its current employees are calculated monthly on accrual basis. The difference between the interest rate of preferential deposit and the market rate is recorded as “Employee benefits expenses”. In accordance with the article 30 of the “Regulations Governing the Preparation of Financial Reports by Public Banks”, when the interest incurred from preferential interest rate deposits exceed the interest generated from market rate, it should be considered the actuarial amount according to defined benefit plan regulated on IAS 19 “Employee Benefits” since the employee’s retirement date.

(25) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

(26) Interest income

Interest income is recognized over the period by applying the interest rate method and measured except for delinquent accounts and troubled accounts whose interest is recognized when received.

(27) Service fee

The Group earns service fee from a diverse range of service it provide to its customers. Fee income can be divided into the following two categories:

A. Fee income on transactions conducted or from services provided over a period of time.
B. Fee income from providing transaction services.

The fair value of the award credits granted to the bank card holders is deferred and recognized as fee income when the award credits are redeemed or expire.

(28) Operating segment information

An operating segment is a component of an entity that has the follow characteristics:

A. Engaging in business activities from which it may earn revenues and incur expenses;
B. Whose operating results are regularly reviewed by the entity’s chief operating decision marker to make decisions about resource to be allocated to the segment and assess its performance, and
C. For which discrete financial information is available.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgment

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

A. Investment properties

Certain properties of the Bank comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. The property is classified as investment property in its entirety only if the portion that is owner-occupied is under 5% of the total property.

B. Operating lease commitment－the Group as the lessor

The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

A. Impairment losses on loans and receivables

The Group review their loans and receivables to assess whether an impairment loss should be recorded in profit or loss on a monthly basis. When the Group determines whether to recognize impairment losses, they mainly decide if there is any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable changes in debtor payment status, or sovereign or the local economic situation related to debt payment. While analysing expected cash flow, the estimates by the management are based on past losses experience on the assets of similar credit risk characteristics. The Group periodically reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

B. Fair value of financial instruments

Where the fair value of financial instruments cannot be derived from an active market or a quoted price, it is determined using a valuation technique. Observable market data for similar financial instruments is utilized as inputs to measure fair value. If observable inputs are not available, prudent assumptions are used for estimating fair value. In applying valuation techniques, the Group adopts pricing models in accordance with its procedure for valuation. All models are adjusted to ensure that their results reflect actual data and market prices.

C. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The Bank determines whether goodwill is impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the CGU or groups of CGUs to which goodwill is allocated. Estimating the recoverable amount requires the Bank to make an estimate of the expected future cash flows from the CGU or groups of CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

D. Award credits and deferred income

The Bank recognizes the fair value of all considerations received or receivable as revenue at the time of sale, and estimates the cost and related liabilities resulting from the awards given. The consideration allocated to the award credits should be deferred and only recognized as revenue when award credits are redeemed and the Bank fulfils its obligations to supply awards. As points issued under the program do not expire, such estimates are subject to significant uncertainty.

E. Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective counties in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group entity's domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

F. Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases.

According to internal regulation of the Bank or hiring agreement, IAS 19 "*Employee Benefit*" applies to the excess interest of retiring employee preferential interest rate deposits once the employee is retired.

G. Fair value of investment property

The fair value of investment property is derived from valuation techniques, including income approach (such as discounted cash flow model and direct capitalization approach), comparison approach, and cost approach, while the assumptions used in applying valuation techniques will have impacts on the fair value of investment property. Please refer Note 6.(11) for more details.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

6. Breakdown of Significant Accounts

(1) Cash and cash equivalents

	2017.12.31	2016.12.31
Cash on hand	$18,106,605	$19,950,689
Checks for clearance	7,025,587	7,390,035
Due from commercial banks	40,826,340	35,943,676
Total	$65,958,532	$63,284,400

The components of cash and cash equivalents in statement of cash flows are listed below.

	2017.12.31	2016.12.31
Cash and cash equivalents in consolidated balance sheets	$65,958,532	$63,284,400
Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS7	70,168,447	18,524,091
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS7	87,483,656	38,139,919
Cash and cash equivalents at end of the periods in statements of cash flows	$223,610,635	$119,948,410

(2) Due from the Central Bank and call loans to banks

	2017.12.31	2016.12.31
Call loans to banks	$30,687,790	$10,653,748
Due from the Central Bank - Statutory reserve on deposits	54,995,333	53,416,844
Due from the Central Bank - General deposits	39,480,657	7,870,343
Total	$125,163,780	$71,940,935

A. The Bank

Statuary reserve on deposits and general deposits consists mainly of New Taiwan dollars and foreign currency deposit reserves.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

As provided by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included $51,180,284 thousand and $48,836,800 thousand as of 31 December 2017 and 31 December 2016, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These non-interest bearing reserves may be withdrawn momentarily. As of 31 December 2017 and 31 December 2016, the balances of foreign-currency deposit reserves were $1,531,299 thousand and $2,336,047 thousand, respectively.

B. Indovina Bank

In accordance with the relevant local laws and regulations governing credit institutions, the amounts of compulsory reserves for the State Bank of Vietnam were $1,112,223 thousand and $1,118,112 thousand as of 31 December 2017 and 31 December 2016, respectively.

C. CUBC Bank

In accordance with the relevant local laws and regulations governing credit institutions, the amounts of compulsory reserves for the National Bank of Cambodia were $1,171,527 thousand and $1,125,885 thousand as of 31 December 2017 and 31 December 2016, respectively.

(3) Financial assets at fair value through profit or loss

	2017.12.31	2016.12.31
Financial assets for trading:		
Stocks	$4,779,697	$-
Short-term bills	170,563,632	93,126,341
Mutual funds and beneficiary securities	49,939	-
Bonds	103,419,235	53,544,936
Derivative financial instruments	33,172,556	52,646,314
Total	$311,985,059	$199,317,591

A. As of 31 December 2017 and 31 December 2016, the amount (the range of fair value for derivative contracts between initial recognition and subsequent measurement) for derivative financial instruments (include hedging) are disclosed as following: (Unit: thousands of US dollars):

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

	2017.12.31	2016.12.31
Currency forward contracts	$76,351,206	$49,094,551
Interest rate swap	51,136,885	33,116,665
Cross currency swap	3,657,069	9,733,905
Options	3,206,295	6,213,816
Futures	1,970,671	15,688

B. The Bank was authorized to issue subordinated financial debentures amounting to US$990 million in September 2014, which issued a subordinated financial debentures amounting to US$660 million (perpetual) and US$330 million (fifteen-year) with a fixed interest rate in 8 October 2014, respectively, and the Bank was authorized by the authorities to redeem the US$660 million bonds at its fair value after 12 years by fulfilling the said conditions.

The Bank was authorized to issue unsubordinated financial debentures amounting to US$180 million (thirty-year) in 30 March 2015, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.20%.

The Bank was authorized to issue unsubordinated financial debentures amounting to US$195 million (thirty-year) in 11 April 2017, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.30%.

The Bank was authorized to issue unsubordinated financial debentures amounting to US$300 million (thirty-year) in 24 November 2015, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.10%.

The Bank converted fixed interest rate into floating interest rate with interest rate swap contract to hedge the fair value risk resulting from interest rate. The interest rate swap valuations for the years ended 31 December 2017 and 2016 was net valuation losses $93,496 thousand and $537,022 thousand respectively.

C. As of 31 December 2017, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of $46,143,100 thousand. Such repurchase agreements amounting to $43,634,657 thousand, which was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreement entered prior to 31 December 2017 were settled at $43,732,175 prior to 28 February 2018.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(4) Receivables - net

	2017.12.31	2016.12.31
Accounts receivable	$65,308,138	$66,289,179
Interest receivable	7,630,282	5,721,478
Acceptances	785,112	1,045,109
Factoring receivable	2,248,622	4,073,377
Others	3,450,428	6,990,017
Total	79,422,582	84,119,160
Adjustment for discounts and premiums	(10,301)	(14,395)
Less: allowance for doubtful accounts	(2,431,464)	(3,836,359)
Net balance	$76,980,817	$80,268,406

A. Information on bad and doubtful accounts is as follows:

	2017		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$208,096	$3,628,263	$3,836,359
(Reversal) Provision of doubtful accounts	(55,907)	86	(55,821)
Write-offs	(1,652,374)	-	(1,652,374)
Debt negotiation recoveries	110,658	-	110,658
Recoveries	459,832	-	459,832
Reclassification	1,080,553	(1,333,904)	(253,351)
Effects of exchange rates changes	(1,697)	(12,142)	(13,839)
Balance, end of the period	$149,161	$2,282,303	$2,431,464

	2016		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$650,596	$2,129,092	$2,779,688
Provision of doubtful accounts	1,757,743	136	1,757,879
Write-offs	(1,134,651)	-	(1,134,651)
Debt negotiation recoveries	119,404	-	119,404
Recoveries	455,543	-	455,543
Reclassification	(1,640,441)	1,524,814	(115,627)
Effects of exchange rates changes	(98)	(25,779)	(25,877)
Balance, end of the period	$208,096	$3,628,263	$3,836,359

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

B. Impairment assessment of receivables – the Group

Item		Receivables	
		2017.12.31	2016.12.31
With objective evidence of impairment	Individual assessment	$34,688	$49,319
	Collective assessment	191,529	232,745
Without objective evidence of impairment	Collective assessment	79,196,365	83,837,096

Item		Allowance for doubtful accounts	
		2017.12.31	2016.12.31
With objective evidence of impairment	Individual assessment	$11,165	$31,141
	Collective assessment	137,996	176,955
Without objective evidence of impairment	Collective assessment	2,282,303	3,628,263

Notes: receivables shall refer to amounts originated excluded allowance for doubtful accounts and discount or premium.

(5) Discounts and loans - net

	2017.12.31	2016.12.31
Outward documentary bills	$1,339,549	$2,303,674
Overdrafts	2,191,344	3,239,367
Short-term loans	384,290,373	500,890,187
Medium-term loans	342,713,958	301,913,586
Long-term loans	724,090,995	646,340,706
Delinquent accounts	2,782,300	2,133,624
Total	1,457,408,519	1,456,821,144
Adjustment for discounts and premium	389,580	575,212
Less: allowance for doubtful accounts	(23,239,932)	(19,865,448)
Net balance	$1,434,558,167	$1,437,530,908

A. Please refer to Note 12.(7) for details on loans by industries and geographic regions.

B. Information on bad and doubtful accounts is as follows:

	2017		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$3,192,994	$16,672,454	$19,865,448
Provision of doubtful accounts	3,395,509	154,761	3,550,270
Write-offs	(1,553,877)	-	(1,553,877)
Debt negotiation recoveries	102,707	-	102,707
Recoveries	1,333,840	-	1,333,840
Reclassification	(1,758,523)	2,011,874	253,351
Effects of changes in exchange rates	(8,679)	(303,128)	(311,807)
Balance, end of the period	$4,703,971	$18,535,961	$23,239,932

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

	2016		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$3,440,902	$14,315,090	$17,755,992
(Reversal)Provision of doubtful accounts	2,755,855	(26,679)	2,729,176
Write-offs	(1,594,216)	-	(1,594,216)
Debt negotiation recoveries	108,587	-	108,587
Recoveries	830,800	-	830,800
Reclassification	(2,349,381)	2,465,008	115,627
Effects of changes in exchange rates	447	(80,965)	(80,518)
Balance, end of the period	$3,192,994	$16,672,454	$19,865,448

C. Impairment assessment of discounts and loans － the Group

Item		Discounts and loans	
		2017.12.31	2016.12.31
With objective evidence of impairment	Individual assessment	$11,086,752	$9,189,480
	Collective assessment	7,948,737	7,405,577
Without objective evidence of impairment	Collective assessment	1,438,373,030	1,440,226,087

Item		Allowance for doubtful account	
		2017.12.31	2016.12.31
With objective evidence of impairment	Individual assessment	$3,155,218	$1,690,166
	Collective assessment	1,548,753	1,502,828
Without objective evidence of impairment	Collective assessment	18,535,961	16,672,454

Note: Discounts and loans shall refer to amounts originated excluding allowance for doubtful accounts and discount or premium.

D. Information on provision for (reverse of) bad debt expenses and losses on guarantees are as follows:

	2017	2016
Provision for (reverse of) allowance for doubtful accounts – receivables	$(55,821)	$1,757,879
Provision for allowance for doubtful accounts – discounts and loans	3,550,270	2,729,176
Provision for (reverse of) allowance for doubtful accounts – bills purchased	(21)	20
Reverse of reserve for losses on guarantees	(284)	(31,714)
Total	$3,494,144	$4,455,361

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(6) Available-for-sale financial assets - net

	2017.12.31	2016.12.31
Stocks	$15,833,022	$11,734,360
Short-term bills	-	917,355
Mutual funds and beneficiary securities	541,355	3,586,499
Bonds	132,106,292	139,915,745
Net balance	$148,480,669	$156,153,959

A. Impairment assessment of available-for-sale financial assets above, please refer to Note 12.(7).

B. As of 31 December 2017, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of $29,926,975 thousand. Such repurchase agreements amounting to $29,338,529 thousand were posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheet. Repurchase agreements entered prior to 31 December 2017 were settled at $29,404,419 thousand prior to 30 June 2018.

As of 31 December 2016, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of $23,612,678 thousand. Such repurchase agreements amounting to $22,468,724 thousand were posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2016 were settled at $22,472,812 thousand prior to 30 June 2017.

C. Available-for-sale financial assets of $57,613 thousand and $79,962 thousand as of 31 December 2017 and 31 December 2016, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(7) Held-to-maturity financial assets - net

	2017.12.31	2016.12.31
Short-term bills	$5,221,668	$5,422,099
Bonds	29,123,417	42,516,765
Net balance	$34,345,085	$47,938,864

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

A. As of 31 December 2017, certain held-to-maturity financial assets were sold under repurchase agreements with notional amounts of $32,683,560 thousand. Such repurchase agreements amounting to $23,242,069 thousand were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheet. Repurchase agreements entered prior to 31 December 2017 were settled at $23,319,479 thousand prior to 31 March 2018.

As of 31 December 2016, certain held-to-maturity financial assets were sold under repurchase agreements with notional amounts of $40,499,233 thousand. Such repurchase agreements amounting to $31,066,277 thousand were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2016 were settled at $31,129,794 thousand prior to 31 March 2017.

B. Held-to-maturity financial assets of $595,043 thousand and $2,361,157 thousand as of 31 December 2017 and 31 December 2016, respectively, were pledged to other parties as collateral of business reserves and guarantees.

(8) Investments accounted for using the equity method – net

	2017.12.31		2016.12.31	
	Carrying value	% of ownership	Carrying value	% of ownership
Investment in subsidiaries				
Seaward Card Co., Ltd.	$-	-	$39,793	100.00
Investment in associates				
Taiwan Real-estate Management Corp.	101,936	30.15	98,066	30.15
Taiwan Finance Corp.	1,642,111	24.57	1,570,490	24.57
Subtotal	1,744,047		1,668,556	
Total	$1,744,047		$1,708,349	

A. The shares of the subsidiaries and associates that the Bank invested in are not publicly traded. The subsidiaries and associates are not significantly restricted in term of ability to transfer funds to the investors in the form of cash dividends, repayment of loans or advances.

B. Investment in the associates.

The Bank’s investment in the associates are not significant. The carrying amount of investments in associates accounted for using the equity method amounted to $1,744,047 thousand and $1,668,556 thousand, as of 31 December 2017 and 31 December 2016, respectively. The aggregate financial information of the Bank’s investment in the associates is as follows:

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

	2017	2016
Profit from continuing operations	$105,821	$88,944
Other comprehensive income (loss) (post-tax)	28,638	(28,251)
Total comprehensive income	134,459	60,693

No investment in the associates had contingent liabilities or capital commitments and were pledged as of 31 December 2017 and 31 December 2016.

C. Selling all shares of the Seaward Card CO., Ltd. to the Symphox Information Co., Ltd. was resolved by the Bank's board of directors on 29 June 2017. The Bank's board of directors authorized the Chairman to handle the follow-up matters.

The Bank received $46,800 thousand by selling the share of the Seaward Card Co., Ltd. at price $15.6 per share on 21 July 2017. The amount of the gains on disposal was $7,755 thousand.

(9) Investments in debt securities with no active market – net

	2017.12.31	2016.12.31
Short-term bills	$318,625,000	$316,050,000
Bonds	69,662,593	81,425,008
Total	$388,287,593	$397,475,008

A. Impairment assessment of investments in debt securities with no active market assets above, please refer to Note 12. (7).

B. As of 31 December 2017, certain investments in debt securities with no active market assets were sold under repurchase agreement with notional amounts of $22,555,953 thousand. Such repurchase agreements amounting to $13,726,170 thousand was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2017 were settled at $13,763,664 thousand prior to 31 January 2018.

As of 31 December 2016, certain investments in debt securities with no active market assets were sold under repurchase agreement with notional amounts of $5,543,771 thousand. Such repurchase agreements amounting to $3,217,750 thousand was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2016 were settled at $3,222,577 thousand prior to 31 January 2017.

C. $63,800,000 of certificates of deposit as of 31 December 2017 and 31 December 2016, were pledged to other parties as collateral for business reserves and guarantees.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(10) Property and equipment - net

	Land	Buildings	Office equipment	Transportation equipment	Leasehold improvements	Other equipment	Construction in progress and prepayment for equipment	Total
Cost:								
2016.01.01	$15,585,503	$10,586,827	$4,805,453	$121,179	$28,582	$7,187,169	$631,611	$38,946,324
Additions	-	-	275,851	3,090	36,339	208,201	497,996	1,021,477
Transfers	-	(24,837)	27,290	1,909	62,720	184,703	(565,320)	(313,535)
Disposals	-	-	(1,034,180)	(7,528)	(6,559)	(133,143)	-	(1,181,410)
Exchange differences	(3,412)	(7,792)	(62,585)	(2,564)	(2,574)	22,652	(6,160)	(62,435)
2016.12.31	$15,582,091	$10,554,198	$4,011,829	$116,086	$118,508	$7,469,582	$558,127	$38,410,421
2017.01.01	$15,582,091	$10,554,198	$4,011,829	$116,086	$118,508	$7,469,582	$558,127	$38,410,421
Additions	-	545	687,665	2,177	9,442	204,651	494,571	1,399,051
Transfers	(245,639)	(218,904)	19,610	4,104	(62,914)	511,675	(514,562)	(506,630)
Disposals	-	(163)	(447,351)	(5,539)	(981)	(461,996)	-	(916,030)
Revaluation increments	55,981	17,181	-	-	-	-	-	73,162
Impairment loss of assets(Note1)	(3,241)	(22,684)	-	-	-	-	-	(25,925)
Others(Note 2)	(713)	-	-	-	-	-	-	(713)
Exchange differences	(10,540)	(26,956)	(37,699)	(8,447)	(4,293)	(16,474)	(5,684)	(110,093)
2017.12.31	$15,377,939	$10,303,217	$4,234,054	$108,381	$59,762	$7,707,438	$532,452	$38,323,243
Depreciations and impairments:								
2016.01.01	$-	$3,849,887	$4,026,752	$82,711	$16,750	$5,748,721	$-	$13,724,821
Depreciation	-	220,383	326,222	9,851	10,644	417,870	-	984,970
Transfers	-	(31,606)	(7,382)	(6,434)	37,021	-	-	(8,401)
Disposals	-	-	(1,033,865)	(6,989)	(5,418)	(118,868)	-	(1,165,140)
Exchange differences	-	(1,840)	(39,837)	(1,541)	(1,414)	20,391	-	(24,241)
2016.12.31	$-	$4,036,824	$3,271,890	$77,598	$57,583	$6,068,114	$-	$13,512,009
2017.01.01	$-	$4,036,824	$3,271,890	$77,598	$57,583	$6,068,114	$-	$13,512,009
Depreciation	-	220,117	319,413	8,848	7,790	433,449	-	989,617
Transfers	-	(112,697)	-	-	(42,972)	42,972	-	(112,697)
Disposals	-	(163)	(443,460)	(5,539)	(980)	(437,470)	-	(887,612)
Exchange differences	-	(6,751)	(29,692)	(5,664)	(1,241)	(8,024)	-	(51,372)
2017.12.31	-	$4,137,330	$3,118,151	$75,243	$20,180	$6,099,041	$-	$13,449,945
Net carrying amount:								
2017.12.31	$15,377,939	$6,165,887	$1,115,903	$33,138	$39,582	$1,608,397	$532,452	$24,873,298
2016.12.31	$15,582,091	$6,517,374	$739,939	$38,488	$60,925	$1,401,468	$558,127	$24,898,412

Note1: The group property and equipment reclassify to impairment loss of assets.
Note2: Urban renewal resettlement and relocation compensation.

Components of building that have different useful lives are main building structure, air conditioning units and elevators, which are depreciated over five years to sixty years.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(11) Investment properties - net

	Land	Buildings	Total
Carrrying Value :			
2016.01.01	$1,535,360	$99,889	$1,635,249
Losses arising from changes in the fair value	(61,691)	(10,598)	(72,289)
Disposals	(7,260)	(1,100)	(8,360)
2016.12.31	$1,466,409	$88,191	$1,554,600
2017.01.01	$1,466,409	$88,191	$1,554,600
Transfers	302,241	49,959	352,200
Losses arising from changes in the fair value	(157,780)	1,772	(156,008)
Disposals	(196,394)	(7,026)	(203,420)
2017.12.31	$1,414,476	$132,896	$1,547,372

	2017	2016
Rental income from investment property	$-	$-
Less: Direct operating expenses from investment property not generating rental income	(3,777)	(3,822)
Total	$(3,777)	$(3,822)

A. As of 31 December 2017 and 31 December 2016, no investment property was pledged.

B. The Bank appointed appraisers from REPro Valuation and Professional Services (Fu-Xue Shi, Zhi-Hao Wu, Hong-Xu Wu) to evaluate the fair value of investment property on 2017.The Bank appointed appraisers from CCIS Valuation and Professional Services (Ching-Sheng Huang) to evaluate the fair value of investment property based on the "Regulations on Real Estate Appraisal" on 31 December 2017 and 31 December 2016.

Fair value has been supported by observable evidences in the market. The appraisal approaches used are mainly the income approach (such as discounted cash flow model and direct capitalization approach), sales comparison approach and cost approach, etc.

a. Office building has market liquidity and their rent levels are more comparable with similar items from the same neighborhood. The fair value has been determined by comparison approach and income approach.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Net rental income is based on the current market practices, assuming an annual rent increase of between 0% to 1.5% to extrapolate the total income of the underlying property, excluding losses as a result of idle and other reasons and related operation costs.

According to the ROC Real Estate Appraisers Association Gazette No.5, the house tax has been determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates provided by the House Tax Act and the actual payment date.

Land value tax is based on the changes in the announced land values of the underlying property in the past few years and the actual payment data, to further extrapolate the announced land value in the future.

The replacement allowance is calculated renovation cost base on 15% construction cost, presume the useful life of 20 years, according to the ROC Real Estate Appraisers Association Gazette No.5, the replacement allowance is based on 0.5% to 1.5% of construction or building cost.

The main parameters are as follows:

	2017.12.31	2016.12.31
Direct capitalization rate	2.03%-5.83%	1.60%-2.75%
Overall capital interest rate	0.76%-2.89%	0.84%-2.23%

b. The fair value has been determined by the method of land development analysis and comparison. Reserved area in hillside land, Scenic land site, areas for agriculture, animal husbandry and forestry had fewer market transactions as their uses are restricted by law, and will not have significant changes in the market in the near year.

	2017.12.31	2016.12.31
Rate of return	15%-20%	25%-30%
Overall capital interest rate	1.63%-2.11%	4.99%-16.98%

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(12) Intangible assets - net

	Goodwill	Computer software	Others	Total
Cost:				
2016.01.01	$7,022,604	$1,815,330	$1,384	$8,839,318
Additions-acquired separately	-	226,957	6,913	233,870
Disposals	-	(428,422)	-	(428,422)
Transfers	-	233,362	-	233,362
Exchange differences	(8,319)	(3,598)	(40)	(11,957)
2016.12.31	$7,014,285	$1,843,629	$8,257	$8,866,171
2017.01.01	$7,014,285	$1,843,629	$8,257	$8,866,171
Additions-acquired separately	-	152,212	16,290	168,502
Disposals	-	(85,458)	-	(85,458)
Transfers	-	97,763	(3,886)	93,877
Exchange differences	(25,696)	(11,346)	(618)	(37,660)
2017.12.31	$6,988,589	$1,996,800	$20,043	$9,005,432
Amortization and impairment:				
2016.01.01	$-	$1,259,680	$-	$1,259,680
Amortization	-	216,070	-	216,070
Disposals	-	(428,422)	-	(428,422)
Exchange differences	-	(2,163)	-	(2,163)
2016.12.31	$-	$1,045,165	$-	$1,045,165
2017.01.01	$-	$1,045,165	$-	$1,045,165
Amortization	-	267,014	-	267,014
Disposals	-	(85,458)	-	(85,458)
Exchange differences	-	(7,273)	-	(7,273)
2017.12.31	$-	$1,219,448	$-	$1,219,448
Net carrying amount:				
2017.12.31	$6,988,589	$777,352	$20,043	$7,785,984
2016.12.31	$7,014,285	$798,464	$8,257	$7,821,006

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Impairment testing of goodwill:

A. Key assumptions used in value in use calculations:

The recoverable amount of the unit has been determined based on a value in use calculation, using cash flow projections based on financial budgets approved by the management of the Bank covering a five-year period.

B. The calculation of value in use for the unit is most sensitive to the following assumptions:

a. Discount rates

Discount rates reflect the current market assessment of the risks specific to the unit. Discount rates are calculated by the Capital Assets Pricing Model (CAPM).

b. Projected growth rates, used to extrapolate cash flows beyond the budget period:

Assumptions are based on published industry research.

C. Sensitivity to changes in assumptions:

The Bank believes that reasonable possible changes in key assumptions used to determine the recoverable amount segments will not result in an impairment of goodwill.

(13) Other assets - net

	2017.12.31	2016.12.31
Prepayment	$1,323,144	$1,165,913
Temporary payments	228,550	2,362,178
Interbank settlement fund	4,285,737	5,300,005
Refundable deposits, net	17,633,953	27,604,939
Operating deposits, net	720,648	687,805
Others	93,273	101,971
Total	$24,285,305	$37,222,811

As of 31 December 2017 and 31 December 2016, the amounts of land use rights of $448,910 thousand and $485,627 thousand were recognized under prepayment, respectively.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(14) Due to the Central Bank and call loans from banks

	2017.12.31	2016.12.31
Due to commercial banks	$14,296,722	$12,491,685
Due to Post Co., Ltd.	18,719,644	18,889,713
Overdrafts from banks	591,665	1,407,329
Call loans from banks	56,809,828	44,705,068
Total	$90,417,859	$77,493,795

(15) Financial liabilities at fair value through profit or loss

	2017.12.31	2016.12.31
Financial liabilities designated at fair value through profit or loss:		
Bonds	$53,639,010	$39,491,908
Financial liabilities held for trading:		
Bonds	49,945	-
Derivative financial instruments	33,718,696	48,645,076
Total	$87,407,651	$88,136,984

The Bank was authorized to issue subordinated financial debentures amounting to USD$990 million in September 2014, which issued a subordinated financial debentures amounting to US$660 million (perpetual) and US$330 million (fifteen-year) with a fixed interest rate of 5.10% and 4.00% in 8 October 2014, respectively, and the interest is payable annually. The Bank was authorized by the authorities to redeem the US$660 million bonds at its book value after 12 year by fulfilling the said conditions.

The Bank was authorized to issue unsubordinated financial debentures amounting to US$180 million (thirty-year) in 30 March 2015, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.20%.

The Bank was authorized to issue unsubordinated financial debentures amounting to US$195 million (thirty-year) in 11 April 2017, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.30%.

The Bank was authorized to issue unsubordinated financial debentures amounting to US$300 million (thirty-year) in 24 November 2017, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.10%.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(16) Payables

	2017.12.31	2016.12.31
Accounts payable	$7,374,046	$7,770,115
Interest payable	3,665,969	3,102,831
Accrued expenses	7,556,732	6,301,996
Acceptance	796,185	1,048,958
Tax payable	370,384	326,827
Receipts under custody	506,995	450,511
Others	3,186,866	5,000,607
Total	$23,457,177	$24,001,845

(17) Deposits and remittances

	2017.12.31	2016.12.31
Check deposits	$15,337,920	$15,485,908
Demand deposits	483,481,732	446,127,135
Demand savings deposits	805,442,387	765,842,523
Time deposits	420,512,537	422,483,187
Negotiable certificates of deposit	3,310,000	3,554,400
Time savings deposits	368,394,533	377,702,458
Outward remittances	890,569	554,713
Remittances payable	998,285	849,464
Total	$2,098,367,963	$2,032,599,788

(18) Financial debentures payable

	2017.12.31	2016.12.31
Subordinated financial debentures	$63,350,000	$51,900,000

The Bank issued an eight-year subordinated financial debentures totaling $3,650,000 thousand with a stated interest rate of 2.42% in June 2009, and the interest is payable quarterly. The Bank had redeemed all these debentures in June 2017.

The Bank issued a ten-year subordinated financial debentures totaling $1,500,000 thousand with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling $3,850,000 thousand with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly.

The Bank issued a ten-year subordinated financial debentures totaling $1,500,000 thousand with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

The Bank issued a seven-year subordinated financial debentures totaling $3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly.

The Bank issued a ten-year subordinated financial debentures totaling $2,500,000 thousand with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling $200,000 thousand with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling $4,200,000 thousand with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling $5,600,000 thousand with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.

The Bank issued a seven-year subordinated financial debentures totaling $100,000 thousand with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling $9,900,000 thousand with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.

The Bank issued a seven-year subordinated financial debentures totaling $3,000,000 thousand with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling $12,000,000 thousand with a stated interest rate of 1.85% in May 2014, and the interest is payable annually.

The Bank issued a seven-year subordinated financial debentures totaling $2,400,000 thousand with a stated interest rate of 1.50% in April 2015, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling $12,700,000 thousand with a stated interest rate of 1.85% in April 2015, and the interest is payable annually.

Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

(19) Other financial liabilities

	2017.12.31	2016.12.31
Principal received from the sale of structured products	$66,057,646	$61,566,809

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(20) Provisions

	2017.12.31	2016.12.31
Reserve for employee benefits — Defined benefits plan	$2,507,030	$2,377,078
Reserve for employee benefits — Preferential interest rate deposits	579,063	576,083
Reserve for losses on guarantees	72,897	73,181
Other operating reserve	28,674	27,622
Total	$3,187,664	$3,053,964

	2017.01.01	Addition (Reversal)	2017.12.31
Reserve for employee benefits — Defined benefits plan	$2,377,078	$129,952	$2,507,030
Reserve for employee benefits — Preferential interest rate deposits	576,083	2,980	579,063
Reserve for losses on guarantees	73,181	(284)	72,897
Other operating reserve	27,622	1,052	28,674
Total	$3,053,964	$133,700	$3,187,664

	2016.01.01	Addition (Reversal)	2016.12.31
Reserve for employee benefits — Defined benefits plan	$2,462,781	$(85,703)	$2,377,078
Reserve for employee benefits — Preferential interest rate deposits	605,038	(28,955)	576,083
Reserve for losses on guarantees	104,895	(31,714)	73,181
Other operating reserve	26,316	1,306	27,622
Total	$3,199,030	$(145,066)	$3,053,964

(21) Post-employment benefits

Defined contribution plan

The Bank adopts a defined contribution plan in accordance with the Labor Pension Act of the R.O.C. Under the Labor Pension Act, the Bank will make monthly contributions of no less than 6% of the employees’ monthly wages to the employees’ individual pension accounts. The Bank has made monthly contributions of 6% of each individual employee’s salaries or wages to employees’ pension accounts.

Expenses under the defined contribution plan for the years ended 31 December 2017 and 2016 were $331,604 thousand and $304,365 thousand, respectively, and recorded as “Employee benefits expenses”.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Defined benefit plan

The Bank adopts a defined benefit plan in accordance with the Labor Standards Act of the R.O.C. The pension benefits are disbursed based on the units of service years and the average salaries in the last month of the service year. Two units per year are awarded for the first 15 years of services while one unit per year is awarded after the completion of the 15th year. The total units shall not exceed 45 units. Under the Labor Standards Act, the Bank contributes an amount equivalent to 2% of the employees' total salaries and wages on a monthly basis to the pension fund deposited at the Bank of Taiwan in the name of the administered pension fund committee. Before the end of each year, the Bank assesses the balance in the designated labor pension fund. Based on Article 56 of Labor Standards Act of the R.O.C., if the amount is inadequate to pay pensions calculated for workers retiring in the same year, the Bank will make up the difference in one appropriation before the end of March the following year.

The Ministry of Labor is in charge of establishing and implementing the fund utilization plan in accordance with the Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund. The pension fund is invested in-house or under mandation, based on a passive-aggressive investment strategy for long-term profitability. The Ministry of Labor establishes checks and risk management mechanism based on the assessment of risk factors including market risk, credit risk and liquidity risk, in order to maintain adequate manager flexibility to achieve targeted return without over-exposure of risk. With regard to utilization of the pension fund, the minimum earnings in the annual distributions on the final financial statement shall not be less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. Treasury Funds can be used to cover the deficits after the approval of the competent authority. The Bank expects to contribute $196,926 thousand to its defined benefit plan during the 12 months beginning after 31 December 2017.

As of 31 December 2017 and 2016, the Bank expects its defined benefits plan obligation to become due in 2028.

Pension costs recognized in profit or loss for the years ended 31 December 2017 and 2016:

	2017	2016
Current period service costs	$146,608	$146,910
Interest expense from net defined benefit liability	32,374	30,679
Total	$178,982	$177,589

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2017.12.31	2016.12.31
Defined benefit obligation	$5,234,640	$4,940,717
Plan assets at fair value	(2,727,610)	(2,563,639)
Other non-current liabilities — Accrued pension liabilities recognized on the consolidated balance sheets	$2,507,030	$2,377,078

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation	Fair value of plan assets	Benefit liability (asset)
2016.1.1	$4,856,742	$(2,393,961)	$2,462,781
Defined benefit cost recognized in profit or loss			
Current period service costs	146,910	-	146,910
Net interest expense (income)	62,292	(31,613)	30,679
Subtotal	209,202	(31,613)	177,589
Defined benefit cost－recognized in other comprehensive income			
Actuarial gains and losses arising from changes in financial assumptions	(70,603)	-	(70,603)
Experience adjustments	100,609	-	100,609
Return on plan assets	-	13,110	13,110
Subtotal	30,006	13,110	43,116
Payments from the plan	(155,233)	155,233	-
Contributions by employer	-	(306,408)	(306,408)
2016.12.31	4,940,717	(2,563,639)	2,377,078
Defined benefit cost recognized in profit or loss			
Current period service costs	146,608	-	146,608
Net interest expense (income)	69,116	(36,742)	32,374
Subtotal	215,724	(36,742)	178,982
Defined benefit cost－recognized in other comprehensive income			
Actuarial gains and losses arising from changes in financial assumptions	192,660	-	192,660
Experience adjustments	43,082	-	43,082
Return on plan assets	-	11,266	11,266
Subtotal	235,742	11,266	247,008
Payments from the plan	(157,518)	157,518	-
Contributions by employer	-	(296,013)	(296,013)
Cumulative translation effect	(25)	-	(25)
2017.12.31	$5,234,640	$(2,727,610)	$2,507,030

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

The major categories of plan assets as a percentage of the fair value of total plan assets are as follows:

	Pension plan (%) as at	
	2017.12.31	2016.12.31
Cash	35.00%	32.30%
Equity instruments	41.00%	41.80%
Debt instruments	9.10%	12.80%
Others	14.90%	13.10%

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2017.12.31	2016.12.31
Discount rate	1.10%	1.42%
Expected rate of salary increases	2.00%	2.00%

A sensitivity analysis for significant assumption as at 31 December 2017 and 2016 is, as shown below:

	Effect on the defined benefit obligation			
	2017		2016	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$287,877	$-	$281,604
Discount rate decrease by 0.5%	314,047	-	306,306	-
Future salary increase by 0.5%	303,579	-	301,365	-
Future salary decrease by 0.5%	-	282,643	-	281,604

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or future salary), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

Employee preferential interest rate deposits plan

The Bank has the obligation to pay the preferential interest deposits for current employees and retired employees as according to the ”Regulation for Employee Preferential Interest Rate Deposits of Cathay United Bank”.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Expenses under preferential interest rate deposits plan amounted to $271,804 thousand and $252,512 thousand were recognized for the years ended 31 December 2017 and 2016, respectively, and recorded as "Employee benefits expenses".

Pension costs recognized in profit or loss for the years ended 31 December 2017 and 2016:

	2017	2016
Current period service costs	$-	$-
Interest expense from net defined benefit liability	21,363	22,452
Total	$21,363	$22,452

Changes in the defined benefit obligation and fair value of plan assets are as follows:

	2017.12.31	2016.12.31
Defined benefit obligation	$(579,063)	$(576,083)
Plan assets at fair value	-	-
Other non-current liabilities － Accrued pension liabilities recognized on the consolidated balance sheets	$(579,063)	$(576,083)

Reconciliation of liability (asset) of the defined benefit plan is as follows:

	Defined benefit obligation
2016.1.1	$605,038
Defined benefit cost recognized in profit or loss	
Net interest expense	22,452
Subtotal	22,452
Defined benefit cost－recognized in other comprehensive income	
Experience adjustments	48,510
Subtotal	48,510
Payments from the plan	(99,917)
2016.12.31	576,083
Defined benefit cost recognized in profit or loss	
Net interest expense	21,363
Subtotal	21,363
Defined benefit cost－recognized in other comprehensive income	
Experience adjustments	67,369
Subtotal	67,369
Payments from the plan	(85,752)
2017.12.31	$579,063

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

The following significant actuarial assumptions are used to determine the present value of the defined benefit obligation:

	2017.12.31	2016.12.31
Discount rate	4.00%	4.00%
Expected rate of return on deposited fund	2.00%	2.00%
Withdrawal rate of preferential interest rate deposits	1.00%	1.00%

A sensitivity analysis for significant assumption as at 31 December 2017 and 2016 is, as shown below:

	Effect on the defined benefit obligation			
	2017		2016	
	Increase defined benefit obligation	Decrease defined benefit obligation	Increase defined benefit obligation	Decrease defined benefit obligation
Discount rate increase by 0.5%	$-	$28,374	$-	$28,804
Discount rate decrease by 0.5%	31,269	-	31,685	-
Death rate adjusted to 105%	-	5,791	-	5,185
Death rate adjusted to 95%	5,791	-	5,761	-
Interest rate of premium deposit increase by 0.5%	135,501	-	134,803	-
Interest rate of premium deposit decease by 0.5%	-	135,501	-	134,803

The sensitivity analyses above are based on a change in a significant assumption (for example: change in discount rate or death rate), keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation of one another.

There was no change in the methods and assumptions used in preparing the sensitivity analyses compared to the previous period.

(22) Other liabilities

	2017.12.31	2016.12.31
Unearned receipts	$558,868	$411,292
Temporary receipts	1,768,412	3,090,841
Guarantee deposits received	5,226,119	4,296,304
Deferred income	1,487,838	1,480,301
Others	14,990	10,129
Total	$9,056,227	$9,288,867

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(23) Capital stock

As of 31 December 2017 and 31 December 2016, the Bank had issued outstanding capital stock of $78,604,060 thousand and $72,099,815 thousand divided into 7,860,406 thousand and 7,209,981 thousand common shares, respectively, with par value $10 per share.

The recapitalization of undistributed earnings of $2,620,210 was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 28 April 2016. The recapitalization was approved by the Financial Supervisory commission and the recapitalization record date was 11 July 2016. The authorized share capital amounted to $72,099,815 after recapitalization.

Insurance of common stock for cash by 535,643 thousand common shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 27 April 2017. The recapitalization was approved by FSC and the recapitalization record date was 13 June 2017. The Bank approved that issue price was $28 per share on 27 April 2017. The authorized share capital amounted to $77,456,243 after recapitalization.

The recapitalization of undistributed earnings of $1,147,816 divided into 114,782 thousand common shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 27 April 2017. The recapitalization was approved by the FSC and the recapitalization record date was 29 June 2017. The authorized share capital amounted to $78,604,060 after recapitalization.

(24) Capital surplus

	2017.12.31	2016.12.31
Capital surplus from the merger Bank	$10,949,303	$10,949,303
Additional paid-in capital	22,648,873	13,007,302
Others	12,807	12,807
Total	$33,610,983	$23,969,412

(25) Retained earnings

A. According to the Bank's Articles of Incorporation, the Bank's annual earnings, after paying tax and deducting any deficits of prior years, if any, shall be appropriated as legal capital reserve according to the law and appropriated special capital reserve in accordance with the resolution.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

B. The Company Act provides that the Bank must retain part of its annual net income as legal reserve, and cash dividend declaration, if any, should not exceed the limit of 15% of paid-in capital until such retention of legal reserve reaches the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches 25% of the paid-in capital, the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed by issuing new shares or by cash.

C. Accounting to Order No. Financial-Supervisory-Securities-Corporate-10310000140 and Financial-Supervisory-Securities-Corporate-1030006415, on the first-time adoption of fair value model for investment properties subsequent measurement, the Bank shall set aside an equal amount of special reserve with transfer the fair value increment of investment properties to retained earnings. After transferring the fair value increment of investment properties to retained earnings, if the Bank could not set aside the enough amount to special reserve, the Bank could only set aside the amount according to the retained earnings balance, and the special reserve that is not enough to be set aside would not be counted in the accumulated fair value increment of investment properties.

When the Bank adopts the fair value model for investment properties subsequent measurement, the Bank shall set aside an equal to amount of special reserve when transfer the fair value increment of investment properties.

For any subsequent reversal of accumulated fair value increment of investment properties or disposal of investment properties, the amount reversed may be distributed.

The Bank has reversed special reserve of investment properties to retained earnings during the years ended 31 December 2017 and 2016 as results of the use, disposal or reclassification of related assets in the amounts set out below:

	Investment properties	Others	Total
2016.01.01	$1,643,528	$271,009	$1,914,537
Reversal of special reserve	(21,869)	-	(21,869)
2016.12.31	1,621,659	271,009	1,892,668
Appropriation of special reserve	-	86,060	86,060
Reversal of special reserve	(1,365)	-	(1,365)
2017.12.31	$1,620,294	$357,069	$1,977,363

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

D. On 15 March 2018 and 27 April 2017, the following are appropriations and distribution approved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) and resolved as follows:

	2017		2016	
	Amount	Dividend per share	Amount	Dividend per share
Appropriation of legal reserves	$5,807,539	$-	$5,164,217	$-
Appropriation of special reserves	951,444	-	84,695	-
Distribution of cash dividends	-	-	10,814,972	1.50
Distribution of stock dividends	12,593,563	1.60	1,147,816	0.16

Please refer to Note 6.(33) for further details on employees' compensation and remuneration to directors and supervisors.

(26) Unrealized gains (losses) on available-for-sale financial assets

	2017	2016
Beginning balance	$468,952	$3,052,854
Unrealized gains (losses) on available-for-sale financial assets	1,217,946	(2,807,897)
Income tax of unrealized gains (losses) on available-for-sale financial assets	62,706	249,910
Share of unrealized gains (losses) on available-for-sale financial assets of associates accounted for using the equity method	157,192	(25,915)
Ending balance	$1,906,796	$468,952

(27) Remeasurements of defined benefit plans

	2017	2016
Beginning balance	$(1,079,139)	$(1,002,133)
Remeasurements of defined benefit plans	(314,377)	(91,626)
Income tax of remeasurements of defined benefit plans	53,444	15,576
Share of remeasurements of defined benefit plans of associates accounted for using the equity method	(739)	(956)
Ending balance	$(1,340,811)	$(1,079,139)

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(28) Non-controlling interests

	2017	2016
Beginning balance	$3,877,157	$3,760,901
Net income attributable to non-controlling interests	361,203	299,560
Other comprehensive income attributable to non-controlling interests		
Exchange differences resulting from translating the financial statements of a foreign operation	(298,287)	(88,626)
Unrealized gains on available-for-sale financial assets	127,816	2,351
Change in non-control interests	(223,800)	(97,029)
Ending balance	$3,844,089	$3,877,157

(29) Net interest income

	2017	2016
Interest income		
Discounts and loans	$32,328,058	$28,070,985
Factoring receivable	41,831	112,614
Due from banks and call loans to banks	1,470,179	1,619,605
Securities	9,773,802	8,670,508
Credit cards	2,146,400	2,005,859
Others	480,711	243,038
Subtotal	46,240,981	40,722,609
Interest expense		
Deposits	11,540,398	11,391,990
Due to Central Bank and other banks	253,359	224,685
Funds borrowed from the Central Bank and banks	866,673	213,318
Structured products	1,704,813	1,573,933
Financial debentures	1,073,667	933,037
Others	1,101,274	475,605
Subtotal	16,540,184	14,812,568
Net interest income	$29,700,797	$25,910,041

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(30) Net fee income

	2017	2016
Fee income:		
Trust business	$2,952,344	$1,951,247
Cross-selling marketing	5,837,945	7,826,712
Credit card business	6,404,811	5,632,076
Loan business	1,070,593	1,380,792
Others	1,870,252	1,814,916
Subtotal	18,135,945	18,605,743
Fee expense:		
Credit card business	2,298,213	1,966,056
Others	975,377	894,861
Subtotal	3,273,590	2,860,917
Net fee income	$14,862,355	$15,744,826

The bank also has business for pay online service , brokerage handling fee revenue was $378 thousand, and fructus or others income which used payment were 0 thousand in 2017.

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

	2017	2016
Stock	$239,824	$220,257
Short-term bills	736,178	763,492
Funds	(714)	8,824
Bonds	823,657	(1,506,934)
Derivative financial instruments	4,812,666	3,787,106
Total	$6,611,611	$3,272,745

Realized gains or losses on financial assets and liabilities at fair value through profit or loss include interest income $2,586,018 thousand and $1,100,538 thousand, dividends income $20,426 thousand and $36,391 thousand, interest expense $1,657,451 thousand and $1,640,803 thousand, and gains or losses on disposal of financial assets or liabilities at fair value through profit or loss were gains $3,823,707 thousand and $4,051,720 thousand, gains or loss on evaluation of financial assets or liabilities at fair value through profit or loss were loss $1,838,911 thousand and gain $275,101 thousand, and net gains were $6,611,611 thousand and $3,272,745 thousand for the years ended 31 December 2017 and 2016, respectively.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(32) Net other net non-interest income

	2017	2016
Income from Securities underwriting	$83,454	$169,705
Rental income from operating assets	252,710	247,172
Rental income from investment properties	395,193	4,265
Gain on disposal of property transactions	337	1,049
Loss from retirement of properties and equipment	(28,383)	(15,172)
(Loss) Gain on disposal of investment properties	(6,095)	218
Loss on valuation of investment properties	(156,008)	(72,289)
Others	675,228	886,604
Total	$1,216,436	$1,221,552

(33) Employee benefits expenses

	2017	2016
Salary	$11,288,043	$10,169,913
Insurance	910,526	847,318
Post-employment benefit	566,353	518,634
Others	657,866	646,288
Total	$13,422,788	$12,182,153

A resolution was passed at a Board of Directors meeting of the Bank held on 28 April 2016 to amend the Articles of Incorporation of the Company. According to the resolution, 0.05% of profit of the current year is distributable as employees' compensation. However, the Bank's accumulated losses shall have been covered. The Bank may, by a resolution adopted by a majority vote at a meeting of Board of Directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation in the form of shares or in cash; and in addition thereto a report of such distribution is submitted to the shareholders' meeting. The Article of Incorporation has been amended in the shareholders' meeting by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) in 28 April 2016. Information on the Board of Directors' resolution regarding the employees' compensation and remuneration to directors and supervisors can be obtained from the "Market Observation Post System" on the website of the TWSE.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Based on profit of current year, the Bank estimated the amounts of the employees' compensation and remuneration of directors for the year ended 31 December 2017 to be 0.05 % and doesn't exceed 0.1% of profit of current year, and recognized employee benefits and remuneration of directors were 10,922 thousand and 7,000 thousand. The estimation of employee bonus for the year ended 31 December 2016 was $9,639 thousand based on profitability of the current year and were recognized as salary expense. The actual amount of payments resolved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference, if any, will be recognized as income or expense in the next year.

A resolution was passed at a Board of Directors meeting held on 8 March 2017 to distribute $9,369 thousand in cash as employees' compensation. No material differences exist between the estimated amount and the actual distribution of the employee bonuses for the year ended 31 December 2016.

A resolution was passed at a Board of Directors meeting held on 17 March 2016 to distribute $10,513 thousand in cash as employees' compensation. No material differences exist between the estimated amount and the actual distribution of the employee bonuses for the year ended 31 December 2015.

As of 31 December 2017 and 2016, the Bank and subsidiaries employed 11,656 and 11,188 employees, respectively.

(34) Depreciation and amortization expenses

	2017	2016
Depreciation expenses - property and equipment	$989,617	$984,970
Amortization expenses - intangible assets	267,014	216,070
Total	$1,256,631	$1,201,040

(35) Other general and administrative expenses

	2017	2016
Rental expenses	$2,135,511	$1,792,473
Business promotion expenses	1,224,439	1,406,613
Product promotion expenses	3,251,032	2,625,361
Insurance expenses	665,658	618,903
Tax expenses	2,149,111	2,270,188
Others	5,196,277	4,862,011
Total	$14,622,028	$13,575,549

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(36) Components of other comprehensive income

2017

	Arising during the period	Reclassification adjustment during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurements of defined benefit plans	$(314,377)	$-	$(314,377)	$53,444	$(260,933)
Revaluation surplus	73,162	-	73,162	6,047	79,209
Change of designated financial liabilities at fair value through profit or loss resulting from credit risk	(1,579,937)	-	(1,579,937)	268,589	(1,311,348)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(739)	-	(739)	-	(739)
To be classified to profit of loss:					
Exchange differences resulting from translating the financial statement of a foreign operation	(1,571,498)	-	(1,571,498)	216,446	(1,355,052)
Unrealized gains (losses) on available-for-sale financial assets	3,024,635	(1,551,058)	1,473,577	62,706	1,536,283
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	29,377	-	29,377	-	29,377
Total	$(339,377)	$(1,551,058)	$(1,890,435)	$607,232	$(1,283,203)

2016

	Arising during the period	Reclassification adjustment during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurements of defined benefit plans	$(91,626)	$-	$(91,626)	$15,576	$(76,050)
Change of designated financial liabilities at fair value through profit or loss resulting from credit risk	44,408	-	44,408	(7,549)	36,859
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	61	-	61	-	61
To be classified to profit of loss:					
Exchange differences resulting from translating the financial statement of a foreign operation	(1,394,461)	-	(1,394,461)	221,992	(1,172,469)
Unrealized gains on available-for-sale financial assets	180,825	(2,984,020)	(2,803,195)	249,910	(2,553,285)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(28,266)	-	(28,266)	-	(28,266)
Total	$(1,289,059)	$(2,984,020)	$(4,273,079)	$479,929	$(3,793,150)

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(37) Income tax

A. Under a directive issued by the Ministry of Finance (MOF), a financial holding company and its domestic subsidiaries that hold over 90% of shares issued by the financial holding company for 12 months within the same tax year may choose to adopt the consolidated income tax return for income tax filings. Additional tax and tax receivable resulting from the consolidated income tax return are recorded in the account of consolidated income tax return payable or receivable.

B. The major components of income tax expense are as follows:

Income tax (expense) income recognized in profit or loss

	2017	2016
Current income tax (expense) income:		
Current income tax charge	$(2,459,358)	$(1,628,417)
Adjustments in respect of current income tax of prior periods	(117,897)	(9,696)
Deferred tax (expense) income:		
Deferred tax (expense) income relating to origination and reversal of temporary differences	53,255	(417,887)
Income tax of overseas subsidiaries	(238,573)	(172,758)
Income tax expense	$(2,762,573)	$(2,228,758)

Income tax relating to components of other comprehensive income

	2017	2016
Deferred tax (expense) income:		
Remeasurements of defined benefit plans	$53,444	$15,576
Revaluation surplus	6,047	-
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	268,589	(7,549)
Exchange differences resulting from translating the financial statements of a foreign operation	216,446	221,992
Unrealized gains (losses) on available-for-sale financial assets	62,706	249,910
Income tax relating to components of other comprehensive income	$607,232	$479,929

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

C. Reconciliation between tax expense and the product of accounting profit multiplied by applicable tax rates is as follows:

	2017	2016
Accounting profit (loss) before tax from continuing operations	$22,426,179	$19,740,018
At the Bank's statutory income tax rate of 17%	$(3,812,450)	$(3,355,803)
Tax effect of revenues exempt from taxation	1,380,570	322,770
Tax effect of expenses not deductible for tax purposes	(4,570)	(2,608)
Tax effect of deferred tax assets/liabilities	30,347	989,337
Adjustments in respect of current income tax of prior periods	(117,897)	(9,696)
Income tax of overseas subsidiaries	(238,573)	(172,758)
Total income tax expense recognized in profit or loss	$(2,762,573)	$(2,228,758)

D. Deferred tax assets (liabilities) relating to the following:

2017

	2017.1.1	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	2017.12.31
Temporary differences				
Allowance for bad debt	$304,512	$255,051	$-	$559,563
Revaluations of financial assets at fair value through profit or loss	(182,447)	(61,296)	268,589	24,846
Fair value adjustments arising from investment properties	(71,350)	2,014	6,047	(63,289)
Revaluations of available-for-sale investments to fair value	(22,753)	-	62,706	39,953
Impairment on property and equipment	120,772	5,665	-	126,437
Investments accounted for using the equity method	(152,580)	(64,909)	-	(217,489)
Fair value adjustments arising from business combinations	(504,684)	(60,821)	-	(565,505)
Reserve for land value increment tax	(230,671)	(8,030)	-	(238,701)
Pensions	404,104	(19,925)	41,991	426,170
Preferential interest rate deposits	97,933	(10,945)	11,453	98,441
Exchange differences resulting from translating the financial statements of a foreign operation	(107,365)	-	216,446	109,081
Deferred income on customer loyalty programmes	251,652	1,280	-	252,932
Others	9,080	15,171	-	24,251
Deferred tax expense / (income)		$53,255	$607,232	
Net deferred tax assets/(liabilities)	$(83,797)			$576,690
Net deferred income tax assets / (liabilities) of overseas branches	$(58,223)			$66,424
Net deferred income tax assets / (liabilities) of foreign subsidiaries	$(59,180)			$(132,679)
Reflected in balance sheet as follows:				
Deferred tax assets	$1,410,010			$2,223,266
Deferred tax liabilities	$(1,611,210)			$(1,712,831)

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

2016

	2016.1.1	Deferred tax income (expense) recognized in profit or loss	Deferred tax income (expense) recognized in other comprehensive income	2016.12.31
Temporary differences				
Allowance for bad debt	$651,307	$(346,795)	$-	$304,512
Revaluations of financial assets at fair value through profit or loss	(175,000)	102	(7,549)	(182,447)
Fair value adjustments arising from investment properties	(172,465)	101,115	-	(71,350)
Revaluations of available-for-sale investments to fair value	(272,663)	-	249,910	(22,753)
Impairment on property and equipment	112,708	8,064	-	120,772
Investments accounted for using the equity method	(88,663)	(63,917)	-	(152,580)
Fair value adjustments arising from business combinations	(443,864)	(60,820)	-	(504,684)
Reserve for land value increment tax	(188,060)	(42,611)	-	(230,671)
Pensions	418,673	(21,899)	7,330	404,104
Preferential interest rate deposits	102,856	(13,169)	8,246	97,933
Exchange differences resulting from translating the financial statements of a foreign operation	(329,357)	-	221,992	(107,365)
Deferred income on customer loyalty programmes	228,273	23,379	-	251,652
Others	10,416	(1,336)	-	9,080
Deferred tax expense / (income)		$(417,887)	$479,929	
Net deferred tax assets/(liabilities)	$(145,839)			$(83,797)
Net deferred income tax assets / (liabilities) of overseas branches	$90,260			$(58,223)
Net deferred income tax assets / (liabilities) of foreign subsidiaries	$(17,176)			$(59,180)
Reflected in balance sheet as follows:				
Deferred tax assets	$1,864,066			$1,410,010
Deferred tax liabilities	$(1,936,821)			$(1,611,210)

E. Unrecognized deferred tax assets

As of 31 December 2017 and 31 December 2016, deferred tax assets that have not been recognized as they may not be used to offset taxable profits amounted to $756,905 thousand and $637,200 thousand, respectively.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

F. Unrecognized deferred tax liabilities relating to the investment in subsidiaries

The Group did not recognize any deferred tax liability for taxes that would be payable on the unremitted earnings of the Bank's overseas subsidiaries.

G. Imputation credit information

	2017.12.31	2016.12.31
Balances of imputation credit amount	(Note)	$146,560

The actual creditable ratio of cash dividends for 2016 and 2015 were 0.66% and 0.17%, respectively. For 2016, imputation credit ratio for individual stockholders residing in R.O.C. is half of the original ratio according to the Article 66-6 of Income Tax Act.

The Bank's earnings generated in the year ended 31 December 1997 and prior years have been fully appropriated. As of 31 December 2017, the undistributed earnings amounted to $19,302,403 arose from earnings in 1998 and thereafter.

Note: On 18 January 2018, the Legislative Yuan passed amendments to the Income Tax Act and the President announced on 7 February 2018 that the imputation credit ratio will no longer be used.

H. The assessment of income tax returns

As of 31 December 2017, the assessment of the income tax returns of the Bank is as follows:

	The assessment of income tax returns
The Bank	Assessed and approved up to 2012

In 2010 to 2012, the income tax return had been assessed; however, the Bank has invoked the administrative remedy to cases about employee benefit of that year.

(38) Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

	2017	2016
Profit attributable ordinary to owners of the parent (in thousands dollars)	$19,302,403	$17,211,700
Retroactive adjustment weight-average shares outstanding (in thousands shares)	7,621,201	7,324,763
Earnings per share (in dollar)	$2.53	$2.35

The Group adopt Cash-settled share-based payment transactions. Therefore, the amount of weighted average outstanding shares is unaffected. There is no need to calculate the diluted earnings per share.

Insurance of common stock for cash by 535,643 thousand common shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 27 April 2017. The recapitalization was approved by FSC and the recapitalization record date was 13 June 2017. The Bank approved that issue price was $28 per share on 27 April 2017. The authorized share capital amounted to $77,456,243 thousand after recapitalization.

The recapitalization of undistributed earnings of $1,147,816 thousand divided into 114,782 thousand common shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 27 April 2017. The recapitalized was approved by the Financial Supervisory Commission and the recapitalization record date was 29 June 2017. The authorized share capital amounted to $78,604,060 thousand after recapitalization.

The recapitalization of undistributed earnings of $2,620,210 thousand was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 28 April 2016. The recapitalized was approved by the Financial Supervisory Commission and the recapitalization record date was 11 July 2016. The authorized share capital amounted to $72,099,815 thousand after recapitalization.

The recapitalization mentioned above were adjusted retrospectively the calculation of the current and previous periods in accordance with IAS 33 "*Earnings per Share*".

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of financial statements.

7. Related parties transactions

Related parties and relationships

Related parties	Relationships
Cathay Financial Holding Co., Ltd.	Parent Company
Taiwan Real-estate Management Corp	Accociate
Taiwan Finance Corp.	Accociate
Cathay Life Insurance Co., Ltd.	Other related party
Cathay Century Insurance Co., Ltd.	Other related party
Cathay Securities Corp.	Other related party
Cathay Securities (Hong Kong) Ltd.	Other related party
Cathay Venture Inc.	Other related party
Cathay Securities Investment Trust Co., Ltd.	Other related party
Cathay Securities Investment Consulting Co., Ltd.	Other related party
Conning Asia Pacific Ltd.	Other related party
Cathay Life Insurance(Vietnam) Co., Ltd.	Other related party
Cathay Insurance(Vietnam) Co., Ltd.	Other related party
Cathay Futures Co., Ltd.	Other related party
Symphox Information Co., Ltd.	Other related party
Seaward Card Co., Ltd.	Other related party
Tien-Tai energy Corp.	Other related party
Cathay Dragon Fund etc.	Other related party
Cathay United Bank Culture and Charity Foundation	Other related party
Cathay Life Insurance Employees’ Welfare Committee	Other related party
Cathay Real Estate Development Employees’ Welfare Committee	Other related party
Cathay Private Equity Co., Ltd.	Other related party
Vietinbank	Other related party
Cathay Real Estate Development Co., Ltd.	Other related party
Lin Yuan Property Management and Maintenance Co., Ltd.	Other related party
Cathay Hospitality Management Co., Ltd.	Other related party
Cathay Healthcare Management Co., Ltd.	Other related party
Xintai Tai Energy Co., Ltd.	Other related party
Liang Ting Industrial Company	Other related party
Others	Other related party

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Significant transactions with the related parties are summarized as follows:

(1) Loans and Deposits

	2017.12.31		2016.12.31	
	Account balance		Account balance	
Accounts/Related parties	Amount	% of Account	Amount	% of Account
Loans				
Associates				
Taiwan Real-estate Management Corp.	$32,000	-	$35,000	-
Other related parties				
Tien-Tai energy Corp.	87,763	0.01%	96,131	0.01%
Liang Ting Industrial Company	-	-	28,225	-
Others	1,422,061	0.10%	1,384,358	0.10%
Subtotal	1,509,824	0.11%	1,508,714	0.11%
Total	$1,541,824	0.11%	$1,543,714	0.11%
Deposits				
Parent company				
Cathay Financial Holding Co., Ltd.	$137,400	0.01%	$198,101	0.01%
Other related parties				
Cathay Life Insurance Co., Ltd.	28,472,961	1.36%	26,758,316	1.32%
Cathay Century Insurance Co., Ltd.	1,827,176	0.09%	1,400,324	0.07%
Cathay Securities Corp.	3,414,826	0.16%	2,320,198	0.11%
Cathay Securities (Hong Kong) Ltd.	66	-	74	-
Cathay Futures Co., Ltd.	1,041,691	0.05%	1,364,251	0.07%
Cathay Venture Inc.	25,765	-	36,161	-
Cathay Securities Investment Trust Co., Ltd.	179,814	0.01%	168,566	0.01%
Cathay Securities Investment Consulting Co., Ltd.	146,976	0.01%	101,398	
Cathay Real Estate Development Co., Ltd.	253,682	0.01%	466,369	0.02%
Cathay Hospitality Management Co., Ltd.	9,202	-	3,018	-
Cathay Life Insurance (Vietnam) Co., Ltd.	29,124	-	55,198	-
Cathay Insurance (Vietnam) Co., Ltd.	145,661	0.01%	225,719	0.01%
Cathay Dragon Fund etc.	106,497	-	21,461	-
Symphox Information Co., Ltd.	150,870	0.01%	94,865	-
Conning Asia Pacific - Limited	90,502	-	129,781	0.01%
Cathay Private Equity Co., Ltd.	49,963	-	-	-
Cathay United Bank Culture and Charity Foundation	544,588	0.03%	538,766	0.03%
Cathay Life Insurance Employees' Welfare Committee	3,065,254	0.15%	2,748,449	0.14%
Cathay Real Estate Development Employees' Welfare Committee	363,768	0.02%	334,531	0.02%
Xintai Tai Energy Co., Ltd.	308,836	0.01%	1,326,041	0.07%
Others	9,013,397	0.42%	7,949,720	0.39%
Subtotal	49,240,619	2.34%	46,043,206	2.27%
Total	$49,378,019	2.35%	$46,241,307	2.28%

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Accounts/Related parties	Interest Income	
	2017	2016
Loans		
Associates		
Taiwan Real-estate Management Corp.	$613	$263
Other related parties		
Cathay Real Estate Development Co., Ltd.	37	16
Tien-Tai energy Corp.	2,936	3,283
Liang Ting Industrial Company	272	684
Cathay Securities Corp.	11	-
Others	21,453	24,571
Subtotal	24,709	28,554
Total	$25,322	$28,817

Accounts/Related parties	Interest Expense	
	2017	2016
Deposits		
Parent company		
Cathay Financial Holding Co., Ltd.	$294	$696
Other related parties		
Cathay Life Insurance Co., Ltd.	27,653	18,450
Cathay Century Insurance Co., Ltd.	7,110	7,303
Cathay Securities Corp.	4,652	3,814
Cathay Futures Corp.	9,198	15,804
Cathay Venture Inc.	50	49
Cathay Securities Investment Trust Co., Ltd.	249	473
Cathay Securities Investment Consulting Co., Ltd.	565	570
Cathay Real Estate Development Co., Ltd.	45	67
Cathay Hospitality Management Co., Ltd.	22	22
Cathay Life Insurance (Vietnam) Co., Ltd.	1,438	270
Cathay Insurance (Vietnam) Co., Ltd.	5,638	4,954
Cathay Dragon Fund etc.	1	1
Symphox Information Co., Ltd.	585	824
Conning Asia Pacific Ltd.	504	584
Cathay Private Equity Co., Ltd.	3	-
Cathay United Bank Culture and Charity Foundation	5,666	6,233
Cathay Life Insurance Employees' Welfare Committee	23,450	24,578
Cathay Real Estate Development Employees' Welfare Committee	3,761	3,493
Xintai Tai Energy Co., Ltd.	459	68
Others	62,043	71,020
Subtotal	153,092	158,577
Total	$153,386	$159,273

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Accounts / Related parties	Account balance 2017.12.31	Account balance 2016.12.31
Due from commercial banks		
Other related parties		
Vietinbank	$5,340,176	$6,162,462
Due to commercial banks		
Other related parties		
Vietinbank	5,334,420	5,849,798

Accounts / Related parties	Interest Income (Expense) 2017	Interest Income (Expense) 2016
Due from commercial banks		
Other related parties		
Vietinbank	$5,242	$35,271
Due to commercial banks		
Other related parties		
Vietinbank	(5,561)	(10,550)

a. Transactions terms with related parties are similar to those with third parties, expect for the preferential interest rates set by the employees' interest rates on deposits and loans within prescribed limits.
b. Related parties lending, Guarantee payment, Financial tools trading information: Appendix 11 in Chinese version.

(2) Lease

Accounts/Related parties	2017	2016	Payment term
Rental income			
Other related parties			
Cathay Life Insurance Co., Ltd.	$62,552	$62,833	Monthly
Cathay Century Insurance Co., Ltd.	9,004	9,020	Monthly
Cathay Securities Corp.	9,930	9,430	Monthly
Cathay United Bank Culture and Charity Foundation	4,633	4,633	Monthly
Rental expense			
Other related parties			
Cathay Life Insurance Co., Ltd.	580,440	480,382	Monthly
Cathay Real Estate Development Co., Ltd.	20,150	21,166	Monthly

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Accounts/Related parties	2017.12.31	2016.12.31
Refundable deposits		
Other related parties		
Cathay Life Insurance Co., Ltd.	$164,798	$157,492
Cathay Real Estate Development Co., Ltd.	4,549	4,605
Guarantee deposit received		
Other related parties		
Cathay Life Insurance Co., Ltd.	$15,367	15,455
Cathay Century Insurance Co., Ltd.	2,224	2,224
Cathay Securities Corp.	2,597	2,815

The rental period and the way of rent collection are in accordance with the contract. The main collection method is collected on a monthly basis and the general term is one to three years.

The lease period and the way of payment are in accordance with the contract. The main payment method is paid on a monthly basis and the general term is two to five years.

Accounts/Related parties	2017	2016
(3) Commissions and handling fees income		
Other related parties		
Cathay Life Insurance Co., Ltd.	$6,743,403	$8,583,492
Cathay Century Insurance Co., Ltd.	154,446	122,711
Cathay Securities Co., Ltd.	48,216	32,880
Cathay Securities Investment Trust Co., Ltd.	38,319	32,222
Cathay Securities Investment Consulting Co., Ltd.	19,039	21,184
Cathay Real Estate Development Co., Ltd.	4,636	3,495
(4) Other operating income		
Other related parties		
Cathay Life Insurance Co., Ltd.	18,269	1,871
(5) Commissions and handling fees expense		
Other related parties		
Cathay Securities Co., Ltd.	2,980	3,024

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Accounts/Related parties	2017	2016
(6) Operating expenses		
Other related parties		
Cathay Life Insurance Co., Ltd.	$174,073	$181,017
Cathay Securities Co., Ltd.	2,900	2,400
Cathay Real Estate Development Co., Ltd.	5,055	4,933
Symphox Information Co., Ltd.	656,647	446,920
Lin Yuan Property Management and Maintenance Co., Ltd.	10,125	9,441
Cathay Healthcare Inc.	11,524	11,006
Seaward Card Co., Ltd.	199,585	192,472
Cathay Securities Investment Trust Co., Ltd.	4,200	-
(7) Insurance expenses paid		
Other related parties		
Cathay Life Insurance Co., Ltd.	78,392	71,294
Cathay Century Insurance Co., Ltd.	172,376	167,339

Accounts/Related parties	2017.12.31	2016.12.31
(8) Related party recievables for allocation of linked-tax system		
Parent company		
Cathay Financial Holdings Co., Ltd.	$145,836	$-
(9) Receivables		
Other related parties		
Cathay Securities Investment Trust	6,957	2,730
(10) Related party receivables for commission of collecting insurances		
Other related parties		
Cathay Life Insurance Co., Ltd.	163,342	549,934
(11) Refundable deposit		
Other related parties		
Cathay Futures Corp.	79,854	120,374
(12) Accrued expenses		
Subsidiaries		
Seaward Card Co., Ltd.	24,254	23,361

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Accounts/Related parties	2017.12.31	2016.12.31
(13) Accounts payable		
Other related parties		
Cathay Century Insurance Co., Ltd.	$$9,994	$$3,259
Symphox Information Co., Ltd.	157,938	78,383
(14) Related party payables for allocation of linked-tax system		
Parent company		
Cathay Financial Holding Co., Ltd.	-	263,299

(15) Securities trading

		2017	
Related parties	Securities Name	Trading shares	Sale price
Others			
Symphox Information Co., Ltd.	Seaward Card Co., Ltd.	3,000,000 shares	$46,800

There was no securities trading on 2016.

The Bank sold the Seaward Card Co., Ltd. to related party, Symphox Information Co., Ltd., on 21 July 2017. Please refer to Note 6.(8.C) for details on sales.

Accounts/Related parties	2017	2016
(16) Key management personnel compensation		
Short-term employee benefits	$248,445	$240,989
Post-employment benefits	4,583	4,466
Other long-term employee benefits	45	96
Total	$253,073	$245,551

The key management personnel of the Group include the Chairman, Vice-Chairman, Directors, Supervisors, President and Vice-President.

(17) Others

A. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of $13,552 thousand and $17,214 thousand during the years ended 31 December 2017 and 2016, respectively.
B. The Bank purchased bonus points in exchange for merchandise for the Bank’s customer from Symphox Information Co., Ltd. As of 31 December 2017 and 31 December 2016, the unconverted bonus points amounted to $16,690 thousand and $49,570 thousand, respectively.

The terms of the foregoing transactions with related parties are similar to those with third parties.

Combined disclosures have been made for transactions with related parties that are under a certain percentage of the total amount of all transactions with related parties and non-related parties.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

8. Assets pledged as security

Please refer to Note 6.

9. Commitments and contingencies

As of 31 December 2017 and 31 December 2016, the Group had the following commitments and contingent liabilities, which are not reflected in the consolidated financial statements:

(1) The Bank

A. Entrusted Items and Guarantees:

	2017.12.31	2016.12.31
Trust and security held for safekeeping	$684,016,891	$604,042,204
Travelers checks for sale	355,055	403,853
Bills for collection	40,718,597	44,988,442
Book-entry for government bonds and depository for short-term marketable securities under management	388,637,503	367,976,014
Entrusted financial management business	8,827,034	4,965,210
Guarantees on duties and contracts	7,167,460	7,141,798
Unused commercial letters of credit	3,765,996	3,741,879
Irrevocable loan commitments	211,222,089	182,538,242
Unused credit card lines commitments	555,478,907	520,529,231
Underwriting securities	230,000	-

B. As of 31 December 2017, the Bank's significant lawsuits and proceedings are as follows:

As of December 31 2017, the Bank is subject to a major ongoing lawsuit arising in the normal due to normal business relations. The details are elaborated below: Lee & Li, Attorneys-at-Law and SanDisk Corporation of USA alleged that the embezzlement case of Liu Wei-Chieh (an employee of Lee & Li), which occurred in October 2003 was caused by the negligence of the Bank in its operation, and the plaintiffs claimed damages from the Bank in the amount of approximately $991,002 and $3,090,000 separately. The case has been pending in the court since July 2007, and the Bank won favorable decisions in both first instance and second instances. Now the proceeding is still pending in the Supreme Court. Both the Bank and its attorneys hold that this case will not have material adverse effect on the financial position of the Bank.

C. According to the operating leases agreement, rentals for lease that should be paid in future are disclosed in Note 12.(8).

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(2) Indovina Bank

A. Entrusted Item and Guarantees:

	2017.12.31	2016.12.31
Financial guarantee contracts	$2,587,848	$2,865,926
Unused commercial letters of credit	1,629,282	841,466

B. According to the operating leases agreements of Indovina Bank, rentals for lease that should be paid in the future listed are as follows:

	2017.12.31	2016.12.31
Not later than one year	$31,454	$41,800
Later than one year and not later than five years	61,348	128,388
Later than five years	17,045	33,476

(3) CUBC Bank

A. Entrusted Item and Guarantees:

	2017.12.31	2016.12.31
Financial guarantee contracts	$60,673	$63,479
Unused commercial letters of credit	-	3,223
Irrevocable loan commitments	647,417	546,423
Credit card line commitments	403,120	328,186
Bills for collection	-	1,442

B. According to the operating leases agreements of CUBC Bank, rentals for lease that should be paid in the future listed are as follows:

	2017.12.31	2016.12.31
Not later than one year	$14,845	$13,798
Later than one year and not later than five years	27,551	28,311
Later than five years	15,443	8,359

10. Losses due to major disasters

None.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

11. Significant subsequent events

On 18 January 2018, the Legislative Yuan passed amendments to the Income Tax Act. The amendments raised the corporate income tax rate for companies from 17% to 20%. After the change of the tax rate, the deferred tax assets and deferred tax liabilities will be increased by $393,169 thousand and $293,133 thousand, respectively.

12. Other

(1) Disclosure of financial instruments information

A. Information of fair value

	2017.12.31	
	Carrying value	Fair value
Financial assets		
Financial assets at fair value through profit or loss	$311,985,059	$311,985,059
Available-for-sale financial assets	148,480,669	148,480,669
Held-to-maturity financial assets	34,345,085	35,129,018
Investment in debt securities with no active market	388,287,593	389,043,125
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	47,851,927	47,851,927
Due from the Central Bank and call loan to banks	125,163,780	125,163,780
Securities purchased under agreements to resell	87,483,656	87,483,656
Receivables - net	76,980,817	76,980,817
Discounts and loans - net	1,434,558,167	1,434,558,167
Other financial assets - net	1,276	1,276
Other assets - net	18,354,601	18,354,601
Subtotal	1,790,394,224	1,790,394,224
Total	$2,673,492,630	$2,675,032,095
Financial liabilities		
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	$90,417,859	$90,417,859
Securities sold under agreements to repurchase	109,941,425	109,941,425
Payables	23,457,177	23,457,177
Deposits and remittances	2,098,367,963	2,098,367,963
Financial debentures payable	63,350,000	63,350,000
Other financial liabilities	66,057,646	66,057,646
Other liabilities	5,226,119	5,226,119
Subtotal	2,456,818,189	2,456,818,189
Financial liabilities at fair value through profit or loss		
Held for trading	33,768,641	33,768,641
Designated at fair value through profit or loss	53,639,010	53,639,010
Subtotal	87,407,651	87,407,651
Total	$2,544,225,840	$2,544,225,840

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

	2016.12.31	
	Carrying value	Fair value
Financial assets		
Financial assets at fair value through profit or loss	$199,317,591	$199,317,591
Available-for-sale financial assets	156,153,959	156,153,959
Held-to-maturity financial assets	47,938,864	49,290,107
Investment in debt securities with no active market	397,475,008	396,848,601
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	43,333,711	43,333,711
Due from the Central Bank and call loan to banks	71,940,935	71,940,935
Securities purchased under agreements to resell	38,139,919	38,139,919
Receivables - net	80,268,406	80,268,406
Discounts and loans - net	1,437,530,908	1,437,530,908
Other financial assets - net	3,373	3,373
Other assets - net	28,292,744	28,292,744
Subtotal	1,699,509,996	1,699,509,996
Total	$2,500,395,418	$2,501,120,254
Financial liabilities		
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	$77,493,795	$77,493,795
Securities sold under agreements to repurchase	56,752,751	56,752,751
Payables	24,001,845	24,001,845
Deposits and remittances	2,032,599,788	2,032,599,788
Financial debentures payable	51,900,000	51,900,000
Other financial liabilities	61,566,809	61,566,809
Other liabilities	4,296,304	4,296,304
Subtotal	2,308,611,292	2,308,611,292
Financial liabilities at fair value through profit or loss		
Held for trading	48,645,076	48,645,076
Designated at fair value through profit or loss	39,491,908	39,491,908
Subtotal	88,136,984	88,136,984
Total	$2,396,748,276	$2,396,748,276

B. The methodologies and assumptions used by the Group to estimate the above fair value of financial instruments are summarized as follows:

a. The carrying value of short-term financial instruments, such as cash and cash equivalents, receivables, securities purchased under agreements to resell, securities sold under agreements to repurchase, payables, refundable deposits, guarantee deposits, borrowed funds, due from the Central Bank and call loans to banks and due to the Central Bank and call loans from banks arising in the ordinary course of business, approximate the fair value because of the relatively short period of time between their origination and expected realization.

b. Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss, available-for-sale financial instruments, held-to-maturity financial assets, purchase of foreign exchange, debt instrument investment without active market and derivatives financial instruments of hedging. If no quoted market prices exist for certain financial instruments, the fair value of such instruments has been derived based on pricing models. A price model incorporates all factors that market participants would consider in setting a price. The discounted cash flow technique is used to estimate the fair value of a debt instrument where an active market does not exist. The estimates, hypotheses and discount rates for valuation refer to quoted prices, from financial instruments, of financial instruments having substantially the same terms and characteristics, including the credit quality of debtors, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal, and the currency in which the payments are to be made.

c. Discounts and loans, deposits, financial debentures payable and principals received from the sale of structured products are classified as interest-bearing financial instruments. Thus, their carrying value is equivalent to their fair value. The face value of delinquent accounts deducted from allowance for doubtful accounts is adopted as fair value.

d. Investments accounted for using the equity method were non-listed stocks that do not have a quoted price in an active market. The variability in the range of reasonable fair value estimates is not insignificant for that instrument and the probabilities of the various estimates within the range cannot be reasonably assessed. Since the fair value cannot be reliably measured, the carrying amount should be the reasonable basis to estimate the fair value.

e. The fair value of financial debentures payable which designated as at fair value through profit or loss is estimated by discounting future cash flows using rates currently available for debt on similar terms and remaining maturities.

f. If the derivatives do not have market prices available to compare, the discounted-cash-flow model is applied to forward currency and interest rate swap and Black-Scholes model, Binomial Option Price model or Monte-Carlo-method are applied to option derivatives.

g. The Bank adopts the exchange rates and market interest rates provide by Thomson Reuters' system to evaluate the fair value of forward currency, currency swap, interest rate swap and cross currency swap. The average price or closing price is used to figure the fair value of each contract.

h. Under the assumption that the Bank will not default, the Bank determines its credit value adjustment by multiplying three factors, probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Bank calculates its debit value adjustments by multiplying three factors, PD, LGD, and EAD of the Bank.

C. The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at Taipei Exchange.

D. The Bank sets estimated LGD at 60 % for most of the counterparties, but may apply other assumptions when risk character and data are available.

E. The Bank has considered the adjustment of credit risk in the calculation of the fair value of financial instruments to reflect credit risk and credit quality of counterparty and the Bank, respectively.

(2) The fair value hierarchy information of the financial instruments

A. The definition of the hierarchy of the financial instruments is measured at fair value:

1st Level: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.

2nd Level: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.

3rd Level: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognized in the financial statement on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

B. The Group measures financial instruments and investment properties based on recurring basis, and assets held for sale are measured on the lower of non-recurring basis and fair value minus cost of goods sold. The Group's fair value hierarchy is described as follows:

	2017.12.31			
Item	1st Level	2nd Level	3rd Level	Total
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Stocks	$4,779,697	$-	$-	$4,779,697
Bonds	81,440,783	21,978,452	-	103,419,235
Others	49,939	170,563,632	-	170,613,571
Available-for-sale financial assets				
Stocks	12,435,887	763	3,396,372	15,833,022
Bonds	85,891,057	46,215,235	-	132,106,292
Others	541,355	-	-	541,355
Investment properties	-	-	1,547,372	1,547,372
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss				
Bonds	-	53,639,010	-	53,639,010
Financial liabilities held for trading				
Bonds	49,945	-	-	49,945
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	31,724	24,420,485	8,720,347	33,172,556
Liabilities				
Financial liabilities at fair value through profit or loss	4,101	24,891,723	8,822,872	33,718,696

	2016.12.31			
Item	1st Level	2nd Level	3rd Level	Total
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Bonds	$18,427,748	$35,117,188	$-	$53,544,936
Others	-	93,126,341	-	93,126,341
Available-for-sale financial assets				
Stocks	8,454,576	826	3,278,958	11,734,360
Bonds	81,870,623	58,045,122	-	139,915,745
Others	3,586,499	917,355	-	4,503,854
Investment properties	-	-	1,554,600	1,554,600
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss				
Bonds	-	39,491,908	-	39,491,908
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	3,137	35,020,477	17,622,700	52,646,314
Liabilities				
Financial liabilities at fair value through profit or loss	2,217	30,943,591	17,699,268	48,645,076

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Transfers between 1st Level and 2nd Level during the period

For the year ended 31 December 2017, the Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 1st Level to 2nd Level. A total of $8,431,930 thousand was transferred as it market price was not obtainable.

For the year ended 31 December 2016, the Bank transferred government bonds designated as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 1st Level to 2nd Level. A total of $5,627,229 thousand was transferred as it market price was not obtainable.

Reconciliation for fair value measurements in 3rd Level for movements

Reconciliation for fair value measurements in 3rd Level of the fair value hierarchy for movements during the period is as follows:

	Assets			Liabilities
	At fair value through profit or loss	Available-for-sale	Investment	At fair value through profit or loss
	Derivative	Stock	Properties	Derivatives
Beginning balances as at 1 January 2017	$17,622,700	$3,278,958	$1,554,600	$17,699,268
Total gains and losses recognized				
Amount recognized in profit or loss				
Loss on financial assets and liabilities at fair value through profit or loss	(8,781,888)	-	-	(8,749,500)
Gain on disposal of investment properties	-	-	(6,095)	-
Loss on valuation of investment properties	-	-	(156,008)	-
Amount recognized in other comprehensive income				
Unrealized gains on available-for-sale financial assets	-	223,583	-	-
Acquisition or issues	618,434	4,767	-	618,434
Transfers	-	-	352,200	-
Disposal or settlements	(738,899)	(110,936)	(197,325)	(738,899)
Effects of exchange rates changes	-	-	-	(6,431)
Ending balances as at 31 December 2017	$8,720,347	$3,396,372	$1,547,372	$8,822,872

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

	Assets			Liabilities
	At fair value through profit or loss	Available-for-sale	Investment	At fair value through profit or loss
	Derivative	Stock	Properties	Derivatives
Beginning balances as at 1 January 2016	$22,533,717	$3,115,497	$1,635,249	$22,517,930
Total gains and losses recognized				
Amount recognized in profit or loss				
Loss on financial assets and liabilities at fair value through profit or loss	(2,719,249)	-	-	(2,627,086)
Gain on disposal of investment properties	-	-	218	-
Loss on valuation of investment properties	-	-	(72,289)	-
Amount recognized in other comprehensive income				
Unrealized gains on available-for-sale financial assets	-	177,366	-	-
Acquisition or issues	464,592	19,129	-	464,592
Disposal or settlements	(2,656,016)	(33,034)	(8,578)	(2,656,016)
Effects of exchange rates changes	(344)	-	-	(152)
Ending balances as at 31 December 2016	$17,622,700	$3,278,958	$1,554,600	$17,699,268

Total gains or losses recognized for the years ended 31 December 2017 and 2016 in the table above contain unrealized gains and losses related to assets on hand as at 31 December 2017 and 2016 in the amount of losses $8,937,896 thousand and $2,791,538 thousand, respectively.

Total gains or losses recognized for the years ended 31 December 2017 and 2016 in the table above contain unrealized gains and losses related to liabilities on hand as at 31 December 2017 and 2016 in the amount of gains $8,749,500 thousand and $2,627,086 thousand, respectively.

Information on 3rd Level significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within 3rd Level of the fair value hierarchy is as follows:

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

2017.12.31

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available-for-sale				
-Stocks	Market approach	Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
Non-Financial Assets				
Investment properties	Income approach and comparison approach	Direct capitalization rate	2.03%~5.83%	The higher the direct capitalization rate, the lower the fair value
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.76%~2.89%	The higher the Composite interest rate for capital interest, the lower the fair value

2016.12.31

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
Financial assets				
Available-for-sale				
-Stocks	Market approach	Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
Non-Financial Assets				
Investment properties	Income approach and comparison approach	Direct capitalization rate	1.60%~2.75%	The higher the Direct capitalization rate, the lower the fair value
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.84%~16.98%	The higher the Composite interest rate for capital interest, the lower the fair value

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Valuation process used for fair value measurements categorized within 3rd Level of the fair value hierarchy

The Group's Risk Management Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies at each reporting date.

C. Fair value measurement hierarchy of the Bank's assets and liabilities not measured at fair value but for which the fair value is disclosed

2017.12.31	1st Level	2nd Level	3rd Level	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Financial assets held to maturity				
Bonds	$24,588,987	$5,313,456	$-	$29,902,443
Others	-	5,226,575	-	5,226,575
Debt instrument investments for which no active market exists				
Bonds	-	66,491,710	3,650,216	70,141,926
Others	-	318,901,199	-	318,901,199

2016.12.31	1st Level	2nd Level	3rd Level	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Financial assets held to maturity				
Bonds	$35,895,680	$13,394,427	$-	$ 49,290,107
Debt instrument investments for which no active market exists				
Bonds	-	75,686,261	4,840,916	80,527,177
Others	-	316,321,424	-	316,321,424

(3) Transfers of financial assets

A. Financial assets transferred that have not been fully removed

Transferred financial assets that are part of the Group daily operations that do not meet the criteria for full removal are mostly made up of debt securities used as counterparty collateral for repurchase agreements or equity securities lent out as part of securities lending agreement. The nature of these transactions are secured loans, and reflects the liability where the Bank are obligated to repurchase the transferred financial assets according to a fixed price in future periods. With respect to such transactions, the Bank will not be able to use, sell or pledge such transferred financial assets during the effective period. However the Bank is still exposed to interest rate risk and credit risk, hence they are not removed.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

The following table analyses financial assets and financial liabilities that have not been fully removed:

2017.12.31	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair value
Financial assets at fair value through profit or loss Repurchase Agreements	$46,111,758	$43,634,657	$46,023,858	$43,634,657	$2,389,201
Available for sale Financial Assets Repurchase Agreements	30,037,560	29,338,529	29,620,525	29,338,529	281,996
Held to Maturity Financial Assets Repurchase Agreements	23,492,043	23,242,069	23,491,961	23,242,069	249,892
Debt instrument investments for which no active market exists Repurchase Agreements	13,877,559	13,726,170	13,877,559	13,726,170	151,389

2016.12.31	Transferred Financial Assets Carrying Value	Related Financial Liabilities Carrying value	Transferred Financial Assets Fair Value	Related Financial Liabilities Fair value	Net fair value
Available for sale Financial Assets Repurchase Agreements	$23,261,811	$22,468,724	$22,577,930	$22,468,724	$109,206
Held to Maturity Financial Assets Repurchase Agreements	31,325,346	31,066,277	31,325,346	31,066,277	259,069
Debt instrument investments for which no active market exists Repurchase Agreements	4,817,209	3,217,750	4,817,209	3,217,750	1,599,459

(4) Offsetting of Financial assets and liabilities

The Bank own financial instruments that do not offset in accordance with IAS 32 but it executed enforceable master netting arrangement or other similar agreements with counterparties. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Information related to offsetting of financial assets and financial liabilities is disclosed as follows:

2017.12.31						
Financial assets subject to offsetting, master netting arrangement or similar agreement						
				Amount not offset in the balance sheet (d)		
Item	Gross amount of recognized financial assets (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Financial instruments (Note)	Cash collateral received/pledged	Net amount (e)= (c)- (d)
Derivative Financial Instruments	$33,172,556	$-	$33,172,556	$33,172,556	$-	$-

2017.12.31						
Financial liabilities subject to offsetting, master netting arrangement or similar agreement						
				Amount not offset in the balance sheet (d)		
Item	Gross amount of recognized financial liabilities (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Financial instruments (Note)	Cash collateral received/pledged	Net amount (e)= (c)- (d)
Derivative Financial Instruments	$33,616,157	$-	$33,616,157	$33,172,556	$443,601	$-

2016.12.31						
Financial assets subject to offsetting, master netting arrangement or similar agreement						
				Amount not offset in the balance sheet (d)		
Item	Gross amount of recognized financial assets (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Financial instruments (Note)	Cash collateral received/pledged	Net amount (e)= (c)- (d)
Derivative Financial Instruments	$52,646,314	$-	$52,646,314	$48,567,099	$2,907,944	$1,171,271

2016.12.31						
Financial liabilities subject to offsetting, master netting arrangement or similar agreement						
				Amount not offset in the balance sheet (d)		
Item	Gross amount of recognized financial liabilities (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Financial instruments (Note)	Cash collateral received/pledged	Net amount (e)= (c)- (d)
Derivative Financial Instruments	$48,567,099	$-	$48,567,099	$48,567,099	$-	$-

Note: Master netting arrangement and non-cash collateral are included.

(5) Financial risk management

Risk control and hedging strategy

The Bank's risk control and hedging strategy follows the requirement of customer service-oriented banking industry and regulatory environment. In order to comply with the above requirements, the Bank adopted different risk management methods to identify its risks and the Bank followed the spirit and regulation of the "Basel Accord" to keep strengthening its assets and the practices of capital management to maintain the best capital adequacy ratio.

The Bank organized the risk management committee and its responsibilities are illustrated as below:

A. To amend the risk management policies, risk appetite or risk tolerance and report the above issues to board of directors for approval.
B. To manage and decide the strategy about the Bank's credit risk, market risk and operational risk management.
C. To report the significant risk management issues, such as credit ratings, market assessment and risk indicators.
D. To analyze the issues that the Bank's business unit brought up for discussion.
E. Other issues.

The Bank organized a risk management group to monitor, lead, develop, and establish the integral risk management framework.

(6) Market risk

Market risk is the potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity securities.

The Bank organized market risk management department and the committee of assets and liabilities management is responsible for monitoring the market risk management. The department and committee periodically examine the Bank's structure of assets and liabilities; plan the pricing principle of deposit and loan and financing and using scheme of medium and long term funding while executing the market risk management, the market risk management department periodically provides the related information of management and reports to the authorized managers of the Bank for the management system, such as valuating position, risk limit management, calculating of profit and loss, pricing model and risk analysis, in order to control the overall market risk.

Market risk management process

A. Identification and measurement

The operations department and risk management department of the Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have an impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities…etc., including position, gain and loss, the loss of stress test, sensitivity (DV01, Delta, Vega, Gamma) and Value at Risk (VaR)…etc., to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

B. Monitoring and reporting

The risk management department periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress test, and VaR of equity securities to the board of directors, and helps the board of directors to fully understand the status of market risk management. The Bank also establishes a clear reporting process. Each transaction has the requirements about limitation and stop-loss points. If the transaction reaches its stop-loss limitation, stop-loss process will be implemented immediately. If the stop-loss process is not implemented, the transaction department should document the reason of non-implementing stop loss process and responding plan. Furthermore, the department shall report to the executive management for approval and report to the board of directors regularly.

Risk management policy of the trading book

The trading book is the portfolio of financial instruments and physical investment for the purpose of trading or the hedge on the trading book. Portfolio is held for trading, which is intended to earn the profit from bid-ask spread. Any positions aside from the above trading book will be in the banking book.

A. Strategy

In order to control market risk effectively and ensure flexibility in operating the transaction strategy, the Bank carries out various assessment and control. The portfolio of trading book has the risk limitation of each investment portfolio which is set according to the transaction strategy, category of investment and the annual profit target.

B. Policy and procedure

The Bank sets the “Regulation Governing of Market Risk Management” as the important regulation that should be complied with when holding trading portfolio.

C. Valuation policy

If the financial instruments of trading book have market values, they should be evaluated at least once each day by the information that is from an independent source and easily accessible. If it’s evaluated by a model, a mathematical model should be used prudently, and the assumptions and parameters of the valuation model should be regularly reviewed and examined.

D. Method of measurement

a. The assumption and calculation of VaR: see VaR section.
b. The Bank executes the stress test monthly with the following scenarios: the fluctuation of interest rate at 100bp, equity securities at 15% and foreign exchange rate at 3%, and reports to the risk management committee regularly.

Interest risk management of trading book

A. Definition of interest risk

Interest risk is the risk that the trading portfolios suffer losses or the change of its fair value which is caused by the fluctuation of interest rate. The main instruments include the securities and derivatives that relate to interest rates.

B. Interest risk management procedure of trading book

The Bank prudently choose its investment target by studying the credibility and financial position of the securities issuers, their sovereign risk and the trend of interest rates. According to the operating strategy and the circumstances of the market, the Bank sets the transaction limit and stop-loss limit (including the limits of dealing room, traders, and investment…etc.) of the trading book that are reported to the executive management or the board of directors for approval.

C. Method of measurement

a. The assumption and calculation of VaR: see VaR section.
b. The Bank measures the investment portfolio’s interest risk exposure monthly.

Interest risk management of banking book

The main objective of interest risk management of the banking book is to enhance the interest risk management, increase the operating efficiency of the fund and strengthen the business operation.

A. Strategy

Interest risk management enhances the Bank's ability take responsive actions to measure, to manage and avoid the risk that the fluctuation of interest rate may cause on the profit and the economic value of assets/liabilities.

B. Management procedure

When undertaking the operations relating to interest rate instruments, the Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In additional, the Bank also measures the potential impact of interest rate changes on the profit and economic value of the Bank. The Bank analyzes and monitors the interest risk limits and each target of interest risk management monthly. The results of analysis and monitoring are regularly reported to not only the risk management committee but also the board of directors.

If any risk management targets is found to exceed the limit during the monitoring process, it will be reported to the risk management committee and a solution should be proposed.

C. Method of measurement

The interest risk of the Bank mainly measures the repricing risk that is caused by the difference between maturity date and repricing date of the assets, liabilities, and off balance sheet items in banking book. To stabilize long-term profitability and ensure business growth, the Bank sets the monitoring indicators of interest sensitivity in major terms and implements stress test. Each interest risk indicator and the result of stress test are reported to the executive management regularly for review.

Foreign exchange risk management

A. Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two currencies exchange at different times. The Bank's foreign exchange risk arises from the derivative instruments, such as spot exchange, forward exchange and foreign exchange option…etc. The Bank's foreign exchange transactions are implemented daily to offset clients' position. Thus, the Bank suffers little foreign exchange risk.

B. Policy, procedure and measurement methodology of foreign exchange risk management

In order to control foreign exchange risk, the Bank sets the limits of transaction and stop-loss limits for the dealing room and traders. Meanwhile, the Bank also sets the maximum annual loss limit to control the loss within the tolerable extent. Foreign exchange risk is controlled based on VaR. The assumption and calculation of VaR is described in VaR section.

For foreign exchange risk, the Bank sets the scenario at 3% fluctuation of interest rate of major currencies to execute the stress test quarterly, and reports to the risk management committee.

Risk management of equity securities price

A. Definition of risk of equity securities price

The market risk of equity securities held by the Bank includes the individual risk from the fluctuation of individual equity securities' market price and general market risk from the fluctuation of the overall price trend.

B. Purpose of risk management in equity securities prices

To avoid the massive fluctuation of equity securities price to worsen the Bank's financial situation or earnings. Also, to raise the operating efficiency of capital and strengthen the business operation.

C. Procedure of risk management of equity securities prices

The Bank sets investment limit on industries, using the β value to measure the investment portfolio affected by the systemic risk monthly. The stop-loss point must be authorized by the board of directors, and the equity investment should be authorized by the executives if the stop-loss point is reached but the investment is not going to be disposed of.

D. Measured methodology

The risk of equity securities prices in trading book is mainly controlled by VaR.

The Bank's risk of equity securities prices from its non-trading portfolio should be control by each bank according to its own business scale to develop a stress test under appropriate scenarios and report to the risk management committee.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

The Bank adopts many methodologies to manage its market risk. Value-at-risk(VaR) is one of the methodologies. VaR is a statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence. The Bank applies historical simulation with a statistic confidence of 99% to extrapolate the VaR of one-year fluctuations. The following form indicates the VaR which is the estimation of potential amount of loss within one day. While the statistic confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Base on the assumption, the VaR may exceed the amounts listed in 1 of 100 days due to the price changes in the market. The overall VaR in the market may be less than the aggregate VaR of individual market risk factors.

2017.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	$1,413,900	$1,885,738	$1,105,164
Foreign exchange	252,124	554,769	115,940
Equity securities price	232,500	303,251	165,345

2016.12.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	$1,257,294	$2,000,760	$707,624
Foreign exchange	460,721	619,473	309,051
Equity securities price	227,274	534,899	118,192

The Bank enters into a variety of derivatives transactions for both trading and non-trading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage the Bank's exposure to risks and to generate revenues through trading activities. The Bank trades derivative instruments on behalf of customers and for its own positions. The Bank provides derivative contracts to address customers' demands for customized derivatives and also takes proprietary positions for its own accounts.

Stress testing

The stress testing is used to measure the maximum losses of risk asset portfolio under the worst scenario. The Bank's stress testing considers various types of risk factors and reporting the results will be reported to the executive management.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Stress Test		
Market/ Product	Scenarios	2017.12.31
Stock Market	Major Stock Exchanges +15%	$2,668,120
	Major Stock Exchanges -15%	(2,668,120)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(9,791,210)
	Major Interest Rate - 100bp	10,097,920
Foreign Exchange Market	Major Currencies +3%	6,597,235
	Major Currencies -3%	(6,596,390)
Composite	Major Stock Exchanges -15%	(5,862,095)
	Major Interest Rate + 100bp	
	Major Currencies +3%	

Stress Test		
Market/ Product	Scenarios	2016.12.31
Stock Market	Major Stock Exchanges +15%	$1,781,090
	Major Stock Exchanges -15%	(1,781,090)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(6,797,830)
	Major Interest Rate - 100bp	6,773,150
Foreign Exchange Market	Major Currencies +3%	5,703,175
	Major Currencies -3%	(5,703,175)
Composite	Major Stock Exchanges -15%	(2,875,745)
	Major Interest Rate + 100bp	
	Major Currencies +3%	

Sensitivity analysis

A. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or “PVBP”) represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. The Bank’s interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

B. Foreign exchange risk

Foreign exchange rate factor sensitivities (“FX delta”) represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuation.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

C. Equity securities price risk

Equity securities price factor sensitivities ("Equity delta") represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. The Bank's equity portfolios include stocks and equity index options.

Market risk factor sensitivity of the Bank

	2017.12.31	
	Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	$1,603,478	$785
HKD+1%	3,030	6,815
JPY+1%	5,609	-
AUD+1%	146,393	-
CNY+1%	356,174	25,520
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	(32,220)	(14,516)
Yield curves (HKD) parallel shift+1bp	(11)	-
Yield curves (JPY) parallel shift+1bp	(195)	-
Yield curves (AUD) parallel shift+1bp	(137)	(437)
Yield curves (CNY) parallel shift+1bp	(947)	(16,479)
Equity securities price factor sensitivity (Equity Delta)	-	177,875

	2016.12.31	
	Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	$620,573	$523
HKD+1%	3,576	1,142
JPY+1%	8,865	-
AUD+1%	86,912	-
CNY+1%	256,047	25,929
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	(2,558)	(36,101)
Yield curves (HKD) parallel shift+1bp	(1)	(24)
Yield curves (JPY) parallel shift+1bp	(11)	(262)
Yield curves (AUD) parallel shift+1bp	-	(2,959)
Yield curves (CNY) parallel shift+1bp	(90)	(12,449)
Equity securities price factor sensitivity (Equity Delta)	-	118,740

(7) Credit risk

Credit risk represents the risk of loss that the Group would incur if counterparty fails to perform its contractual obligations.

To centralize risk management functions currently handled by different departments, the Bank's board of directors resolved that a risk management department would be established to manage the credit risk. The objectives of a credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balanced loan portfolio. The Bank's board of directors sets the counterparty credit limits, which are then implemented by the credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. The Bank performs periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectability of those portfolios.

The Bank maintains a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and the Bank retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

The management procedure and measurement methodology of credit risk in the Bank's main business are as follows:

Credit business (including the loan commitments and guarantees)

The category of credit asset and the grade of credit quality were narrated as follow:

A. Category of credit risk

The credit risk of the Bank was classified into five categories. Normal credit assets shall be classified as "Category One." The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as "Category Two," assets that are substandard shall be classified as "Category Three," assets that are doubtful shall be classified as "Category Four," and assets for which there is loss shall be classified as "Category Five". For managing the default credits, the Bank established the regulations governing the procedure to deal with non-performing loans, non-accrual loans and bad debts.

B. Grade of credit quality

The Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed with risk management.

In order to measure the credit risk of the clients, the Bank employs the statistic methods and the professional judgment from the experts. The Bank develops the rating model of business credit after considering the clients' relevant information. The model shall be reviewed periodically to verify if the calculated results conform to the reality and revise every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, the Bank also evaluates default risk of clients by using the credit rating scores developed by the Bank and the external due diligence services.

The credit quality of the Bank's corporate borrowers is classified as excellent, good, and average.

To ensure the reasonable estimated values of credit rating system's design, process, and relevant risk factors, the Bank executes the relevant verification and tests the model according to the actual default every year so that the calculated results will be close to actual default.

Due from and call loans to other banks

The Bank evaluates the counterparties' credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

C. Hedge of credit risk and easing policy

a. Collateral

The Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collaterals. To ensure the creditor's rights, the Bank sets the scope available as collaterals and the procedures of appraising, managing, and disposing the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collaterals, and offset provisions to stipulate when a credit trigger event occurs, the Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, the Bank will use the deposits that the borrowers saved in the Bank to offset the liabilities to lower the credit risk.

Other non-credit business collaterals shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

b. Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, the Bank limits the credit amounts of single counterparties and groups; the Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, the Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

c. Net settlement agreement

The Bank usually settles by the gross balance, but signs contract with some counterparties to settle by net balance. If a default happens, the Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

D. The Bank’s maximum exposures to credit risk

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

a. The Bank

Off balance sheet items	Maximum exposure to credit risk	
	2017.12.31	2016.12.31
Irrevocable loan commitments	$211,222,089	$182,538,242
Credit card commitments	626,829,201	584,566,895
Unused commercial letters of credit	3,765,996	3,741,879
Guarantees on duties and contracts	7,167,460	7,141,798
Total	$848,984,746	$777,988,814

b. Indovina Bank

Off balance sheet items	Maximum exposure to credit risk	
	2017.12.31	2016.12.31
Unused commercial letters of credit	$1,629,282	$841,466
Financial guarantee contracts	2,587,848	2,865,926
Total	$4,217,130	$3,707,392

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

c. CUBC Bank

Off balance sheet items	Maximum exposure to credit risk	
	2017.12.31	2016.12.31
Irrevocable loan commitments	$647,417	$546,423
Credit card commitments	403,120	328,186
Unused commercial letters of credit	-	3,223
Financial guarantee contracts	60,673	63,479
Total	$1,111,210	$941,311

To reduce the risk from any businesses, the bank conducts an overall assessment and takes appropriate risk reduction measures, such as obtaining collaterals and guarantors. For obtaining of collaterals, the Bank has *Collateral Management Guidelines*, to ensure that collaterals meet the specific criteria and has the effect of reducing the business risk.

The management deems the Group is able to control and minimize the credit risk exposures in off-balance-sheet items as the Group uses more strict rating procedures when extending credits and conduct reviews regularly.

E. Credit concentration risk of the Group

When the counterparties are obviously the same party, or there are several counterparties but engaging in similar business activities and sharing similar economic characteristics, and vulnerable to the same economic impacts or other changes, the credit concentration risk is apparent.

Credit concentration risk of the Group derives from the assets, liabilities and off-balance-sheet items, and arise from performing obligations or engaging in transactions or cross-line portfolio of risk exposures including credit extension, due from and call loans to other banks, securities investment, receivables and derivatives. The Group does not significantly concentrate on a single client or counterparty, and the transaction amount with a single client or counterparty accounted for the Bank's total bills discounts and loans and overdue receivables is not significant. Discounts and loans, guarantees, bills purchased, and acceptances receivable of the Group according to industry and country are listed below:

	2017.12.31		2016.12.31	
Item	Amount	%	Amount	%
Industry type				
Manufacturing	$98,481,993	6.72	$80,057,522	5.46
Financial institutions and insurance	67,599,101	4.61	52,975,202	3.61
Leasing and real estate	122,798,794	8.38	115,994,786	7.90
Individuals	822,631,846	56.14	726,970,977	49.52
Others	353,911,306	24.15	491,942,342	33.51
Total	$1,465,423,040	100.00	$1,467,940,829	100.00

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Item	2017.12.31 Amount	2017.12.31 %	2016.12.31 Amount	2016.12.31 %
Geographic Region				
Domestic	$1,223,249,877	83.47	$1,262,746,943	86.02
Asia	130,593,968	8.91	116,804,425	7.96
America	28,077,424	1.92	24,369,284	1.66
Others	83,501,771	5.70	64,020,177	4.36
Total	$1,465,423,040	100.00	$1,467,940,829	100.00

F. Credit quality analysis of the financial assets

Some of the financial assets held by the Group, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit and loss, securities purchased under agreements to resell, refundable deposits, operating deposits and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and is considered as low credit risk.

In addition to all of the above, the credit quality analysis of the financial assets was shown as follows:

a. Credit quality analysis to loans and receivables of the Bank

2017.12.31	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal (A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card business	$49,329,442	$10,191,113	$3,585,181	$63,105,736	$170,565	$161,634	$63,437,935	$130,938	$1,238,855	$62,068,142
Others	13,169,520	2,658,060	64,064	15,891,644	6,803	52,462	15,950,909	12,657	1,042,859	14,895,393
Discounts and loans	941,240,553	413,585,185	48,456,790	1,403,282,528	868,799	17,579,331	1,421,730,658	4,239,528	18,313,706	1,399,177,424

2016.12.31	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal (A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card business	$45,930,089	$10,400,044	$3,620,218	$59,950,351	$177,494	$166,800	$60,294,645	$135,097	$1,008,209	$59,151,339
Others	18,043,437	4,588,328	84,966	22,716,731	5,583	84,087	22,806,401	49,991	2,619,510	20,136,900
Discounts and loans	929,993,249	435,476,181	40,751,762	1,406,221,192	913,366	15,811,890	1,422,946,448	3,088,327	16,597,827	1,403,260,294

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

b. The credit quality analysis on neither past due nor impaired discounts and loans of the Bank

2017.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	$288,306,859	$61,393,161	$9,757,389	$359,457,409
Unsecured personal loans	33,796,775	19,384,730	5,789,780	58,971,285
Other	362,886,985	68,568,088	9,065,468	440,520,541
Corporate banking				
Secured	41,310,306	162,034,535	20,899,707	224,244,548
Unsecured	214,939,628	102,204,671	2,944,446	320,088,745
Total	$941,240,553	$413,585,185	$48,456,790	$1,403,282,528

2016.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	$260,337,798	$70,434,151	$11,978,542	$342,750,491
Unsecured personal loans	25,676,322	15,839,926	4,634,166	46,150,414
Other	293,208,211	64,003,096	9,591,057	366,802,364
Corporate banking				
Secured	33,210,000	169,692,228	6,202,863	209,105,091
Unsecured	317,560,918	115,506,780	8,345,134	441,412,832
Total	$929,993,249	$435,476,181	$40,751,762	$1,406,221,192

c. Credit quality analysis on securities investment of the Bank

2017.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	$124,014,858	$1,824,503	$125,839,361	$-	$-	$125,839,361	$-	$125,839,361
Stocks	1,512,618	14,319,641	15,832,259	-	146,379	15,978,638	146,379	15,832,259
Others	-	541,355	541,355	-	-	541,355	-	541,355
Held-to-maturity financial assets								
Bonds	24,522,472	2,109,403	26,631,875	-	-	26,631,875	-	26,631,875
Others	5,221,668	-	5,221,668	-	-	5,221,668	-	5,221,668
Investments in debt securities with no active market								
Bonds	69,662,593	-	69,662,593	-	-	69,662,593	-	69,662,593
Others	318,625,000	-	318,625,000	-	-	318,625,000	-	318,625,000

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

2016.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	$135,593,396	$101,939	$135,695,335	$-	$-	$135,695,335	$-	$135,695,335
Stocks	1,547,161	10,186,373	11,733,534	-	140,985	11,874,519	140,985	11,733,534
Others	917,355	3,586,499	4,503,854	-	-	4,503,854	-	4,503,854
Held-to-maturity financial assets								
Bonds	35,526,500	1,946,358	37,472,858	-	-	37,472,858	-	37,472,858
Others	5,422,099	-	5,422,099	-	-	5,422,099	-	5,422,099
Investments in debt securities with no active market								
Bonds	81,310,348	114,660	81,425,008	-	1,478,556	82,903,564	1,478,556	81,425,008
Others	316,050,000	-	316,050,000	-	-	316,050,000	-	316,050,000

d. Aging analysis on past due but not impaired financial assets of the Bank

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

2017.12.31	Less than 60 days	61-90 days	Total
Receivables			
Credit card business	$98,072	$72,493	$170,565
Others	4,299	2,504	6,803
Discounts and loans			
Consumer banking			
Residential mortgage loans	273,792	50,936	324,728
Unsecured personal loans	91,079	76,553	167,632
Others	255,977	45,463	301,440
Corporate banking			
Secured	60,166	-	60,166
Unsecured	14,833	-	14,833

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

2016.12.31	Less than 60 days	61-90 days	Total
Receivables			
Credit card business	$107,733	$69,761	$177,494
Others	3,335	2,248	5,583
Discounts and loans			
Consumer banking			
Residential mortgage loans	276,308	144,448	420,756
Unsecured personal loans	70,608	57,371	127,979
Others	182,770	35,679	218,449
Corporate banking			
Secured	140,175	-	140,175
Unsecured	6,007	-	6,007

G. Impairment analysis of financial assets of the Group

a. The Group has recognized accumulated impairment loss for available-for-sale financial assets in the amount of $146,379 thousand and $140,985 thousand as of 31 December thousand 2017 and 31 December 2016, due to the existence of objective impairment evidence.

b. The Group has recognized accumulated impairment loss for investments in debt securities with no active market in the amount of $0 and $1,382,970 thousand as of 31 December 2017 and 31 December 2016, respectively, due to credit deterioration of securitization products and financial debentures.

   The Group has recognized accumulated impairment loss for investment in debt securities with no active market in the amount of $0 and $95,586 thousand as of 31 December 2017 and 31 December 2016, due to the default on the convertible bonds.

c. The Group's impairment assessment of discounts and loans and receivables, please refer to Note 6.(5) and Note 6.(6).

H. Impairment analysis of non-financial assets of the Group

Foreclosed properties management policy

The Group has recognized impairment loss for foreclosed properties in CUBC Bank for the years ended 31 December 2017 and 2016 were $0 and $58,161 thousand, respectively, due to the existence of objective impairment evidence. The accumulated impairment loss in the amount of $53,726 thousand and $58,102 thousand as of 31 December 2017 and 31 December 2016, respectively.

Foreclosed properties will be sold when are available to sell. The proceeds are used to reduce or repay the outstanding claim. Foreclosed properties are classified under other assets in the consolidated balance sheets.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(8) Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. Liquidity risk is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Group believes it can generate within that period. As part of our liquidity risk management, the Group focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

A. Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

a. Financial assets were held to manage liquidity risk

The Group holds highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit and loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets and investments in debt securities with no active market.

b. Maturity analysis of non-derivative financial liabilities of the Bank

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	$39,789,043	$23,513,092	$18,408,292	$2,851,614	$84,562,041
Non-derivative financial liabilities at fair value through profit or loss	49,914	-	593,179	49,696,920	50,340,013
Securities sold under agreements to repurchase	97,261,840	9,954,474	-	2,896,151	110,112,465
Payables	11,947,054	7,208,487	70,925	372,275	19,598,741
Deposits and remittances	326,857,503	809,442,125	815,158,881	106,700,709	2,058,159,218
Financial debentures payable	3,850,000	3,900,000	-	56,190,661	63,940,661
Other capital outflow at maturity	20,427,101	37,656,749	7,500,761	729,552	66,314,163

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

2016.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	$36,668,211	$19,582,460	$11,159,327	$11,987	$67,421,985
Non-derivative financial liabilities at fair value through profit or loss	-	-	641,491	37,766,430	38,407,921
Securities sold under agreements to repurchase	32,151,648	18,162,666	-	6,458,060	56,772,374
Payables	17,087,536	1,882,092	68,098	402,241	19,439,967
Deposits and remittances	270,499,401	837,032,161	764,993,589	123,482,329	1,996,007,480
Financial debentures payable	7,800	3,986,939	37,213	48,250,000	52,281,952
Other capital outflow at maturity	26,286,100	30,646,766	4,455,094	389,911	61,777,871

B. Maturity analysis of derivative financial liabilities

a. Net settled derivative financial instruments

Net settled derivatives engaged by the Bank include:

i. Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
ii. Interest rate derivative instruments: swaptions, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivative financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	$98,475	$14,663	$213,193	$463	$326,794
- Interest rate derivative instruments	3,061,667	292,540	147,564	11,944,700	15,446,471
Total	$3,160,142	$307,203	$360,757	$11,945,163	$15,773,265

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

2016.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	$121,095	$1,576,083	$1,796,462	$307	$3,493,947
- Interest rate derivative instruments	1,886,141	419,128	88,343	22,041,123	24,434,735
Total	$2,007,236	$1,995,211	$1,884,805	$22,041,430	$27,928,682

b. Maturity analysis of gross settled derivative financial instruments

Gross settled derivatives engaged by the Bank include:

i. Foreign exchange derivative instruments: currency futures and swaps;
ii. Interest rate derivative instruments: cross currency swaps;
iii. Credit derivative instruments: all derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event.

The contract maturity date is the basic element to understand the Bank’s gross settled derivative instruments as at balance sheet dates. The disclosed amounts are based on contract cash flows and part of the disclosed are not in conformity with related items on consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	$(2,282,100)	$(4,014,702)	$(744,683)	$(111,439)	$(7,152,924)
-Cash inflow	11,422	7,488	-	-	18,910
- Interest rate derivative instruments					
-Cash outflow	(59,474)	(233,906)	(130,287)	(205,167)	(628,834)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,341,574)	(4,248,608)	(874,970)	(316,606)	(7,781,758)
Cash inflow subtotal	11,422	7,488	-	-	18,910
Net cash flow	$(2,330,152)	$(4,241,120)	$(874,970)	$(316,606)	$(7,762,848)

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

2016.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	$(2,608,154)	$(7,043,669)	$(1,487,912)	$(330,246)	$(11,469,981)
-Cash inflow	31,816	48,284	69,423	-	149,523
- Interest rate derivative instruments					
-Cash outflow	(169,357)	(880,692)	(617,141)	(1,021,022)	(2,688,212)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,777,511)	(7,924,361)	(2,105,053)	(1,351,268)	(14,158,193)
Cash inflow subtotal	31,816	48,284	69,423	-	149,523
Net cash flow	$(2,745,695)	$(7,876,077)	$(2,035,630)	$(1,351,268)	$(14,008,670)

C. Maturity analysis of off-balance sheet items

a. Irrevocable commitments: include the Bank's irrevocable loan commitments and credit card commitments.

b. Financial guarantee contracts: the Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.

c. Leasing commitments: the Bank acts as a lessor/lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

2017.12.31	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	$191,776,099	$18,595,520	$850,470	$211,222,089
Credit card commitments	52,188,926	285,821,408	288,818,867	626,829,201
Financial guarantee contracts	9,933,790	940,456	59,210	10,933,456
Leasing commitments				
- Non-cancellable operating lease payments	1,666,530	2,938,921	75,995	4,681,446
Total	$255,565,345	$308,296,305	$289,804,542	$853,666,192

2016.12.31	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	$129,060,972	$51,146,768	$2,330,502	$182,538,242
Credit card commitments	78,376,870	229,495,576	276,694,449	584,566,895
Financial guarantee contracts	9,837,073	1,035,270	11,334	10,883,677
Leasing commitments				
- Non-cancellable operating lease payments	1,657,098	3,472,465	113,195	5,242,758
Total	$218,932,013	$285,150,079	$279,149,480	$783,231,572

(9) Capital management

A. Overview

a. The capital management objectives of the Group are as follows:

i. The eligible capital of the Group must conform to the regulatory capital requirements and achieve the minimum adequacy ratio. The calculation of the eligible capital and regulatory capital should follow the rules issued by the competent authority.

ii. To ensure the Group possesses sufficient capital to assume various risk, the Group assesses required capital for the portfolios and characteristics of risk and execute risk management through capital allocation to realize optimization of resources.

B. Capital management procedures

a. The Group follows the guides and the spirit established by the Basel Committee on Banking Supervision, "The Banking Act of The Republic of China" and the local regulations governing the foreign operations to assess and monitoring the capital adequacy ratio monthly. The information about capital adequacy ratio is reported to the competent authority quarterly.

b. The Group maintains the BIS (Bank for International Settlement) capital adequacy ratio at 8%, the minimum standard set by the competent authority. To implement capital management, the Group considers not only the business development but also the revised regulation from the competent authority, significant fund operations and capital increase plans to evaluate the capital adequacy ratio. To enhance internal monitoring efficiency, the Bank established an early-warning mechanism to reduce the impact of significant events, to maintain the capital adequacy ratio and to ensure the integrity of the capital structures.

c. The risk management team is responsible for monitoring the regulatory capital of the Group. The regulatory capital is divided into net Tier 1 Capital and net Tier 2 Capital listed as follows:

i. Net Tier 1 Capital: The aggregate amount of net Common Equity Tier 1 and net additional Tier 1 Capital.

Net common equity tier 1 capital: Primarily consists of common equity minus intangible assets (including goodwill), unamortized losses on sales of non-performing loans, deferred tax assets due to losses from the previous year and other statutory adjustments.

Net additional tier 1 capital: Consists of the aggregate amount of non-cumulative perpetual preferred stocks and non-cumulative perpetual subordinated debts, etc.

ii. Net Tier 2 Capital: Consists of cumulative perpetual preferred stocks, cumulative perpetual subordinated debts, revaluation increments, convertible bonds, operating reserves and allowance for uncollectible accounts.

d. According to “Regulations Governing the Capital Adequacy and Capital Category of Banks”, terms of risk-weighted assets are defined as follows:

i. Total Risk-weighted Assets: The sum of the risk-weighted assets and the capital requirements for market risk and operational risk multiplied by 12.5. Those assets already deducted from the regulatory capital, however, shall be deducted from the total risk-weighted assets.

ii. Risk-weighted Assets for Credit Risk: The measurement of the risk of loss caused by the counterparty’s default. This risk measurement is expressed as the total of each of the bank’s transaction items on and off the balance sheet times a risk weight.

iii. The Capital Requirement for Market Risk: The capital required for assessed losses from the bank’s transaction items on and off the balance sheet arising from movements in market prices (interest rates, exchange rates, and stock prices, etc.).

iv. The Capital Requirement for Operational Risk: The capital required for the risk of loss resulting from inadequate or failed internal process, people and systems or external events.

C. Regulatory capital ratio

Pursuant to of the Banking Act, the ratio of a bank’s eligible capital to its risk-weighted assets must not be lower than a certain ratio; if such ratio is lower than the prescribed ratio, the Bank’s ability to distribute cash earnings or repurchase its shares may be restricted by the regulatory.

As of 31 December 2017 and 2016, the ratio of the Group eligible capital to its consolidated risk-weighted assets were 15.78% and 14.05%, respectively.

(10) Unconsolidated structured entities

A. The Group does not provide financial support or other support to the unconsolidated structured entities. The Group’s maximum exposure to loss from its interests in these structured entities is limited to the carrying amount of assets the Group recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

Types of structured entity	Nature and purpose	Interests owned
Securitization vehicle	Investment in asset-backed securities to receive returns	Investment in securitization vehicles issued by the entity

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

B. As of 31 December 2017 and 31 December 2016, the carrying amount of assets recognized by Group relating to its interests in unconsolidated structured entities is disclosed as follows:

	2017.12.31	2016.12.31
Available-for-sale financial assets	$581,533	$922,506
Held-to maturity financial assets	9,843,981	12,296,939
Investments in debt securities with no active market	27,141,758	28,079,749
Total	$37,567,272	$41,299,194

(11) The assets and liabilities managed under the Bank's trust in accordance with the Trust Enterprise Act

A. In accordance with Article 17 of "Enforcement Rules of the Trust Enterprise Act" the balance sheet and income statement based on trust and details of trust properties are as follows:

Balance Sheet Based on Trust

Trust Assets			Trust Liabilities		
	2017.12.31	2016.12.31		2017.12.31	2016.12.31
Bank deposits	$10,474,729	$10,712,259	Payables	$210	$-
Bonds	53,075,477	100,655,714	Tax Payable	38	-
Stocks	37,580,235	31,430,344	Custody securities payable	115,412,690	115,283,884
Mutual funds	205,412,786	186,704,972	Other liabilities	6	-
Insurance product	2,837,954	2,774,416	Trust capital	355,232,038	367,505,709
Receivables	2,492	-	Accumulated Losses		
Real estate			Earnings distribution	(92,145)	99,813
Land	44,789,865	34,114,766	Net income	129,789	111,504
Buildings, net	46,079	55,732	Retained Losses	(168,287)	(379,604)
Construction in progress	882,032	889,219	Net assets		
Custody securities	115,412,690	115,283,884	Capital account	-	-
			Distributable revenue	-	-
Total	$470,514,339	$482,621,306	Total	$470,514,339	$482,621,306

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

Income Statement Based on Trust

Items	2017	2016
Trust revenue		
Interest income	$32,885	$40,673
Rental income	36	84
Cash dividend income	116,244	94,626
Investment income-stocks	886	120
Investment income-funds	8,340	16,823
Unrealized Investment income-stocks	20,507	-
Unrealized Investment income-funds	2,177	-
Others	-	6
Subtotal	181,075	148,332
Trust expense		
Management fee	18,392	15,972
Supervisor fee	1,251	1,117
Taxes	1,317	1,292
Processing fee	1,383	3,679
Investment loss-stocks	24,382	10,460
Unrealized Investment loss-stocks	508	-
Unrealized Investment loss-funds	752	-
Others	3,301	4,308
Subtotal	51,286	36,828
Income equalization		
Net income before tax	129,789	111,504
Tax expenses	-	-
Net income	$129,789	$111,504

Details of Trust Properties

Items	2017.12.31	2016.12.31
Bank deposits	$10,474,729	$10,712,259
Bonds	53,075,477	100,655,714
Common stock	37,580,235	31,430,344
Mutual fund	205,412,786	186,704,972
Insurance product	2,837,954	2,774,416
Receivables	2,492	-
Real estate		
Land	44,789,865	34,114,766
Buildings, net	46,079	55,732
Construction in progress	882,032	889,219
Custody securities	115,412,690	115,283,884
Total	$470,514,339	$482,621,306

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

B. The Bank conducts trust business by Trust Enterprise Act Article 3. The related trust business information as of 31 December 2017 and 2016 are as follows:

Items	2017.12.31	2016.12.31
Special trust of money that invest in foreign securities	$205,950,455	$245,096,136
Special trust money that invest in domestic securities	51,048,312	41,299,863
Trust of money-custody securities	115,412,690	115,283,884
Trust of real estate	45,424,195	36,079,365
Trust of real estate price	3,083,420	3,070,475
Trust of insurance claims	209,081	186,669
Personal and corporate trust	46,498,114	37,955,601
Trust of business employee's savings	2,151,132	2,148,416
Trust of securities	736,940	1,500,897
Total	$470,514,339	$482,621,306

(12) Implementation of cross-selling marketing strategies implemented between the Bank, Cathay Financial Holding Co., Ltd., and its subsidiaries

The Bank has entered into cross-selling marketing contracts with Cathay Life Insurance Co., Ltd., Cathay Century Insurance Co., Ltd. and Cathay Securities Corp. The contracts cover joint use of operation sites and facilities as well as cross-selling marketing personnel. Remuneration apportionment and expenses allocation for cross-selling marketing personnel follow the "Cathay Financial Group Scope of Cross-selling Marketing and Rules for Reward".

The Bank has entered into cooperation contracts with Cathay Financial Holding Co., Ltd., Cathay Life Insurance Co., Ltd., Cathay Century Insurance Co., Ltd., and Cathay Securities Corp. for the joint use of information equipment and the development, operation, maintenance and management of information systems. Calculation methodologies for expenses allocation have been established.

(13) The significant portfolio of foreign currency financial assets and liabilities are as follows:

	2017.12.31		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$13,335,856	29.8480	$398,048,630
CNY	11,814,038	4.5789	54,095,299
AUD	915,339	23.2635	21,293,989
Financial liabilities			
Monetary Items			
USD	12,308,567	29.8480	367,386,108
CNY	8,615,933	4.5789	39,451,496
AUD	1,475,664	23.2635	34,329,109

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

	2016.12.31		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$9,791,650	32.2790	$316,064,670
HKD	3,528,433	4.1622	14,686,044
CNY	7,749,947	4.6220	35,820,255
Financial liabilities			
Monetary Items			
USD	11,210,625	32.2790	361,867,764
CNY	8,151,331	4.6220	37,675,452
AUD	1,159,402	23.3103	27,026,008

As the Group has a large variety of foreign currencies, it is not possible to disclose foreign currency exchange gain or loss based on each foreign currency's exposure to major impact. The foreign currency exchange gains for the years ended 31 December 2017 and 2016 were $459,492 thousand and $1,118,602 thousand, respectively.

13. Segment information

For management purposes, the Group is organized into business units based on products and services and have four reportable segments as follows:

a. Corporate banking segment - syndication loans, large-sized loans, group loans and general loans, etc.

b. Retail banking segment - deposits and consumer loans, foreign exchange services, endorsement guarantees business, note discounting, disbursements and receipts, safe deposit boxes, credit card-related products, and trust business, etc.

c. Offshore banking segment, offshore banking unit, overseas branches and representative office, etc.

d. Other segments - these parts contain the Bank's assets, liabilities, revenues and expenses that cannot be attributed to or allocated reasonably to certain operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessments. Segment performance is evaluated based on operating profit or loss. Segments' accounting policies are the same as Note 4 mentioned above.

(Expressed in thousands of New Taiwan Dollars unless otherwise stated)

(1) Segment information

2017	Corporate Banking Segment	Retail Banking Segment	Offshore Banking Segment	Other Segment	Consolidated
Net interest income (from external customer)	$7,822,828	$11,393,161	$5,828,850	$4,655,958	$29,700,797
Inter-segment revenues (expense)	$(2,737,301)	$9,660,926	$(50,432)	$(6,873,193)	$-
Segment net income	$4,345,194	$15,707,060	$4,188,942	$(1,815,017)	$22,426,179
Income tax expense					(2,762,573)
Net income after income taxes					$19,663,606

2016	Corporate Banking Segment	Retail Banking Segment	Offshore Banking Segment	Other Segment	Consolidated
Net interest income (from external customer)	$7,203,660	$8,489,930	$4,973,453	$5,242,998	$25,910,041
Inter-segment revenues (expense)	$(2,312,909)	$9,157,752	$(168,603)	$(6,676,240)	$-
Segment net income	$4,115,481	$13,167,615	$3,092,983	$(636,061)	$19,740,018
Income tax expense					(2,228,758)
Net income after income taxes					$17,511,260

(2) Geographic regions information

Income from external customer:

	2017	2016
Taiwan	$23,871,947	$20,936,588
Other countries	5,828,850	4,973,453
Total	$29,700,797	$25,910,041

Income is based on the country where the customer is located.

Note:

A. No revenue from transactions with a single external customer amounted to 10% or more of the Group total revenue during the years ended 31 December 2017 and 2016.

B. Operating segments' profit are measured at pre-tax income basis, the income taxes are not allocated to reporting segments for the purpose of making decisions about resource allocation and performance assessment.

C. The Group provide the average of deposits and loans to assess the performance, the disclosed measure amounts of assets and liabilities are zero.

14. Other information

Pursuant to "Regulations Governing the Preparation of Financial Reports by Public Banks", the Group should disclose the relevant information about capital adequacy.

As of 31 December 2017 and 2016, the regulatory capital were $253,819,539 thousand and $221,328,589 thousand, respectively. The regulatory capital were divided to the net Common Equity Tier 1, the net additional Tier 1 Capital and the Net Tier 2 Capital. As of 31 December 2017 and 2016, the net Common Equity Tier 1 were $151,860 690 thousand and $145,012,403 thousand, the net additional Tier 1 Capital were $33,690,073 thousand and $20,424,620 thousand, and the Net Tier 2 Capital were $68,268,776 thousand and $55,891,566 thousand, respectively.

As of 31 December 2017 and 2016, the Risk-weighted Assets were $1,608,306,654 thousand and $1,575,245,555 thousand, respectively. The Risk-weighted Assets were divided to credit risk, market risk and operational risk. As of 31 December 2017 and 2016, the Risk-weighted Assets for Credit Risk were $1,384,495,613 thousand and $1,405,125,068 thousand, the Capital Requirement for Market Risk were $140,437,191 thousand and $89,363,378 thousand, and the Capital Requirement for Operational Risk were $83,373,850 thousand and $80,755,109 thousand, respectively.

As of 31 December 2017 and 2016, the ratio of the Group eligible capital to its consolidated risk-weighted assets were 15.78% and 14.05%, the ratio of the net Common Equity Tier 1 to its consolidated risk-weighted assets were 9.44% and 9.21%, the ratio of total Tier 1 Capital to its consolidated risk-weighted assets were 11.54% and 10.50%, and the ratio of total Tier 1 Capital to total exposure were 6.27% and 5.99%, respectively.