Cathay United Bank and Subsidiaries
Consolidated Financial Statements
For the three-month periods ended
31 March 2017 and 2016
With Independent Auditors' Review Report

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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" and IAS 34 "Interim Financial Reporting" as recognized by Financial Supervisory Commission. 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.

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Review Report of Independent Auditors

English Translation of a Report Originally Issued in Chinese

The Board of Directors and Shareholders
Cathay United Bank

We have reviewed the accompanying consolidated balance sheets of Cathay United Bank ("the Bank") and its subsidiaries as of 31 March 2017 and 2016, and the related consolidated statements of comprehensive income, changes in equity and cash flows for the three-month periods ended 31 March 2017 and 2016. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to issue a review report on these consolidated financial statement based on our reviews.

We conducted our reviews in accordance with Statements of Auditing Standards No.36 "Review of Financial Statements" of the Republic of China. A review consists principally of inquiries, comparison and analytical procedures. A review was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the consolidated financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with "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 IAS 34"Interim Financial Reporting" as endorsed by Financial Supervisory Commission ("FSC") of the Republic of China.

Ernst & Young

Ernst & Young
Taipei, Taiwan
The Republic of China
27 April 2017

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 review 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 March 2017, 31 December 2016, 31 March 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	2017.3.31	2016.12.31	2016.3.31
Cash and cash equivalents	4, 6, 7	$51,332,404	$63,284,400	$70,613,654
Due from the Central Bank and call loans to banks	6, 7	72,394,108	71,940,935	112,690,285
Financial assets at fair value through profit or loss	4, 5, 6	235,045,705	199,317,591	264,605,677
Securities purchased under agreements to resell	4, 6	46,191,895	38,139,919	23,279,335
Receivables - net	4, 5, 6, 7	80,581,318	80,268,406	66,157,496
Discounts and loans - net	4, 5, 6, 7	1,471,529,384	1,437,530,908	1,199,941,816
Available-for-sale financial assets - net	4, 5, 6	168,193,192	156,153,959	104,649,753
Held-to-maturity financial assets - net	4, 5, 6	43,322,783	47,938,864	44,529,497
Investments accounted for using the equity method - net	4, 6	1,739,564	1,708,349	1,772,315
Other financial assets - net	4, 5	3,207	3,373	2,098
Investments in debt securities with no active market - net	4, 5, 6	407,506,785	397,475,008	458,762,632
Property and equipment - net	4, 6, 7	24,772,349	24,898,412	25,156,273
Investment properties - net	4, 5, 6	1,554,600	1,554,600	1,635,249
Intangible assets - net	4, 5, 6	7,823,909	7,821,006	7,543,376
Deferred tax assets	4, 5	1,657,831	1,410,010	2,164,332
Other assets - net	4, 6, 7	29,244,923	37,222,811	31,373,326
Total assets		$2,642,893,957	$2,566,668,551	$2,414,877,114

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 March 2017, 31 December 2016, 31 March 2016

(31 March 2017 and 2016 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

Liabilities and equity	Notes	2017.3.31	2016.12.31	2016.3.31
Liabilities				
Due to the Central Bank and call loans from banks	6, 7	$141,378,470	$77,493,795	$62,544,384
Financial liabilities at fair value through profit or loss	4, 5, 6	83,963,192	88,136,984	91,984,878
Securities sold under agreements to repurchase	4, 6	60,811,698	56,752,751	42,922,075
Payables	6, 7	28,029,919	24,001,845	14,389,686
Current tax liabilities	4, 5	228,677	294,602	270,510
Deposits and remittances	6, 7	2,037,124,675	2,032,599,788	1,907,621,015
Financial debentures payable	4, 6	51,900,000	51,900,000	51,900,000
Other financial liabilities	6	60,246,453	61,566,809	67,222,391
Provisions	4, 5, 6	3,023,746	3,053,964	3,185,573
Deferred tax liabilities	4, 5	1,587,605	1,611,210	2,205,340
Other liabilities	6, 7	10,240,463	9,288,867	8,304,062
Total liabilities		2,478,534,898	2,406,700,615	2,252,549,914
Equity				
Equity attribute to equity holders of parent				
Capital stock	6			
Common stock		72,099,815	72,099,815	69,479,605
Capital surplus	6	23,969,412	23,969,412	23,969,412
Retained earnings	6			
Legal reserves		40,659,384	40,659,384	35,073,510
Special reserves		1,892,668	1,892,668	1,914,537
Undistributed earnings		22,102,094	17,211,700	24,195,278
Other equity	6	(168,751)	257,800	3,965,291
Subtotal		160,554,622	156,090,779	158,597,633
Non-controlling interests	6	3,804,437	3,877,157	3,729,567
Total equity		164,359,059	159,967,936	162,327,200
Total liabilities and equity		$2,642,893,957	$2,566,668,551	$2,414,877,114

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 three-month periods ended 31 March 2017 and 2016

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

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

Items	Notes	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Interest income	4, 6, 7	$10,904,798	$10,009,972
Interest expense	6, 7	(3,872,054)	(3,799,969)
Net interest income		7,032,744	6,210,003
Non-interest income			
Net fee income	4, 6, 7	3,849,893	4,302,355
Gains on financial assets and liabilities at fair value through profit or loss	6, 7	1,095,300	927,347
Realized gains on available-for-sale financial assets		242,177	1,121,099
Realized gains (losses) on held-to-maturity financial asset		(71)	55,116
Gains on foreign currency exchange	4	105,075	124,146
Share of profit of associates and joint ventures accounted for using the equity method		25,262	26,025
Net other non-interest income	4, 6	282,351	560,672
Total net non-interest income		5,599,987	7,116,760
Net operating income		12,632,731	13,326,763
Bad debt expense and losses on guarantees		(370,427)	(720,291)
Operating expenses			
Employee benefits expenses	4, 5, 6	(3,129,775)	(2,936,286)
Depreciation and amortization expenses	6	(302,803)	(296,708)
Other general and administrative expenses	4, 6, 7	(3,117,251)	(2,932,784)
Total operating expenses		(6,549,829)	(6,165,778)
Profit before income tax from continuing operations		5,712,475	6,440,694
Income tax expense	4, 6	(704,056)	(795,906)
Net income		5,008,419	5,644,788
Other comprehensive income			
Not to be reclassified to profit or loss in subsequent periods			
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	6	(244,938)	948,574
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods	6	41,639	(161,258)
To be reclassified to profit or loss in subsequent periods			
Exchange differences resulting from translating the financial statements of a foreign operation	6	(1,836,504)	(756,650)
Unrealized gains (losses) on available-for-sale financial assets	6	1,177,623	(389,194)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	6	5,954	23,114
Income tax relating to the components to be reclassified to profit or loss in subsequent periods	6	238,930	249,031
Other comprehensive income, net of tax		(617,296)	(86,383)
Total comprehensive income		$4,391,123	$5,558,405
Net income attributable to:			
Owners of the parent		$4,890,394	$5,589,123
Non-controlling interests		118,025	55,665
		$5,008,419	$5,644,788
Total comprehensive income attributable to:			
Owners of the parent		$4,463,843	$5,589,739
Non-controlling interests		(72,720)	(31,334)
		$4,391,123	$5,558,405
Earnings per share (In dollars)			
Net income from continuing operations	6	$0.68	$0.78

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 three-month periods ended 31 March 2017 and 2016

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

	Equity attributable to owners of the parent												Non-controlling interests	Total Equity
			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 (losses) 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		
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
Net income for the three-month period ended 31 March 2016	-	-	-	-	5,589,123	-	-	-	-	-	-	5,589,123	55,665	5,644,788
Other comprehensive income for the three-month period ended 31 March 2016	-	-	-	-	-	(552,647)	(234,053)	787,316	-	-	-	616	(86,999)	(86,383)
Total comprehensive income for the three-month period ended 31 March 2016	-	-	-	-	5,589,123	(552,647)	(234,053)	787,316	-	-	-	5,589,739	(31,334)	5,558,405
Balance, 31 March 2016	$69,479,605	$23,969,412	$35,073,510	$1,914,537	$24,195,278	$1,055,394	$2,818,801	$870,779	$(1,002,133)	$223,467	$(1,017)	$158,597,633	$3,729,567	$162,327,200
Balance, 1 January 2017	$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
Net income for the three-month period ended 31 March 2017	-	-	-	-	4,890,394	-	-	-	-	-	-	4,890,394	118,025	5,008,419
Other comprehensive income for the three-month period ended 31 March 2017	-	-	-	-	-	(1,329,289)	1,106,037	(203,299)	-	-	-	(426,551)	(190,745)	(617,296)
Total comprehensive income for the three-month period ended 31 March 2017	-	-	-	-	4,890,394	(1,329,289)	1,106,037	(203,299)	-	-	-	4,463,843	(72,720)	4,391,123
Balance, 31 March 2017	$72,099,815	$23,969,412	$40,659,384	$1,892,668	$22,102,094	$(805,091)	$1,574,989	$(82,977)	$(1,079,139)	$223,467	$-	$160,554,622	$3,804,437	$164,359,059

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 cash flows

For the three-month periods ended 31 March 2017 and 2016

(Expressed in thousands of New Taiwan Dollars)

Items	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Cash flows from operating activities		
Profit before income tax from continuing operations	$5,712,475	$6,440,694
Adjustment items:		
Income and expense adjustments		
Depreciation expenses	239,274	243,047
Amortization expenses	63,529	53,661
Bad debt expenses	370,427	720,291
Interest expense	3,872,054	3,799,969
Interest income	(10,904,798)	(10,009,972)
Dividends income	(29,672)	(36,685)
Share of profit of associates and joint ventures accounted for using the equity method	(25,262)	(26,025)
Losses (gains) on disposal of property and equipment	2,249	(50)
Foreign currency translation adjustment	(101,827)	(12,950)
Change in operating assets and liabilities		
Increase in due from the Central Bank and call loans to banks	(905,150)	(3,216,893)
Increase in financial assets at fair value through profit or loss	(35,917,228)	(9,694,294)
Decrease in receivables	630,552	15,824,559
Increase in discounts and loans	(36,397,684)	(73,193,624)
(Increase) decrease in available-for-sale financial assets	(10,941,843)	28,920,720
Decrease in held-to-maturity financial assets	4,281,656	7,919,118
(Increase) decrease in other financial assets	166	(748)
Increase in investments in debt securities with no active market	(10,031,777)	(15,998,494)
(Increase) decrease in other assets	(1,350,662)	2,321,837
Increase in due to the Central Bank and call loans from banks	64,842,950	21,462,863
Decrease in financial liabilities at fair value through profit or loss	(4,414,195)	(7,448,542)
Increase (decrease) in securities sold under agreements to repurchase	4,058,947	(11,115,802)
Increase (decrease) in payables	4,015,722	(4,723,691)
Increase in deposits and remittances	6,845,778	26,725,648
Decrease in other financial liabilities	(1,320,356)	(4,715)
Decrease in provisions	(30,218)	(13,457)
Decrease in other liabilities	(730,183)	(88,317)
Cash used in operations	(18,165,076)	(21,151,852)
Interest received	10,711,683	9,788,316
Cash dividends received	29,672	36,685
Interest paid	(3,467,193)	(3,202,663)
Income tax return(paid)	(247,577)	91,889
Net cash used in operating activities	(11,138,491)	(14,437,625)
Cash flows from investing activities		
Acquisition of property and equipment	(187,127)	(218,229)
Disposal of property and equipment	-	1,222
Acquisition of intangible assets	(69,077)	(6,017)
Decrease in other assets	8,352,505	9,314,518
Net cash provided by investing activities	8,096,301	9,091,494
Cash flows from financing activities		
Increase in other liabilities	870,003	1,361,326
Net cash provided by financing activities	870,003	1,361,326
Effects of foreign exchange rate changes	(2,046,776)	(793,142)
Net decrease in cash and cash equivalents	(4,218,963)	(4,777,947)
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	$115,729,447	$152,480,626
The components of cash and cash equivalents		
Cash and cash equivalents in consolidated balance sheets	$51,332,404	$70,613,654
Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS 7	18,205,148	58,587,637
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS 7	46,191,895	23,279,335
Cash and cash equivalents at the end of the periods	$115,729,447	$152,480,626

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 27 April 2017.

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 recognized 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 amendments 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.

(2) Standards or interpretations issued, revised or amended, by IASB but not yet recognized by FSC at the date of issuance of the Group's financial statements 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 company expects to be entitled in exchange for those goods or services. An entity recognises 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: Recognise 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 asset's 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.

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 gain or loss 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 loss 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. *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.

E. *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.

F. *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.

G. *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.

H. *IFRS 2 "Shared-Based Payment" — Amendments to IFRS 2*

The amendments contain (1) clarifying that vesting conditions (service and non-market performance conditions), upon which satisfaction of a cash-settled share-based payment transaction is conditional, are not taken into account when estimating the fair value of the cash-settled 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 transaction, (2) clarifying if tax laws or regulations require the employer to withhold a certain amount 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 (3) 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 recognised 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 derecognised on that date. Any difference between the carrying amount of the liability derecognised and the amount recognised in equity on the modification date is recognised immediately in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2018.

I. *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 (still to be decided, but not before 1 January 2020). 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 2021 (these entities that defer the application of IFRS 9 will continue to apply IAS 39).

J. *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.

K. *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.

L. 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) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises 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 above mentioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Group's financial statements were authorized for issue, the local effective dates are to be determined by FSC. As the Group is still currently determining the potential impact of the standards and interpretations mentioned above.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the three-month periods ended 31 March 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 IAS 34 "*Interim Financial Reporting*" as recognized by the FSC.

(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 Group 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 except for share and per share data and 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	2017.03.31	2016.12.31	2016.03.31
The Bank	Indovina Bank Limited ("Indovina Bank") Indovina Bank was incorporated in Vietnam on 21 November 1990.	Wholesale banking	50%	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%	100%

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

For the three-month periods ended 31 March 2017 and 2016, respectively, the consolidated financial statements excluded the following subsidiaries because their total assets and operating revenues had immaterial impact to the Bank.

		Business	Ownership (%)		
Investor	Subsidiary	nature	2017.03.31	2016.12.31	2016.03.31
The Bank	Seaward Card Co., Ltd. ("Seaward Card") Seaward Card was incorporated on 9 April 1999.	Dispatch work	100%	100%	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.

(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 entity 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 NT 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 performance is 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 FVTPL, 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 Bank 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) Hedge accounting

The Bank uses its derivatives designated as hedging for accounting purposes as either fair value hedges, cash flow hedges or hedges of net investments in foreign operations.

A. Fair value hedges when hedging the exposure to changes in the fair value of a recognized asset or liability or an unrecognized firm commitment;
B. Cash flow hedges hedging exposure to variability in cash flows that is either attributable to a particular risk associated with a recognized asset or liability (e.g. the full or partial interest payable of floating interest rate loans) or a forecasted transactions;
C. Hedges of net investments in foreign operations hedges foreign currency risks as a result of foreign currency operations.

The Group formally documents at inception all relationships between hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking various accounting hedges. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value of the hedged items. The Bank assesses on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

For fair value hedges, the carrying amount of the hedged item is adjusted for gains or losses attributable to the risk being hedged, the derivative is remeasured at fair value with changes in fair value recognized profit or loss.

For fair value hedges relating to items carried at amortized cost, the adjustment to carrying value is amortized through profit or loss over the remaining term to maturity. Any adjustment to the carrying amount of a hedged financial instrument for which the effective interest method is used is amortized to the income statement. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged.

Bank will discontinue the hedge accounting if any of the following situation occurs:

A. The hedge instrument expired or is sold, terminated or exercised.
B. The hedge is no longer meets the criteria set out above.
C. The entity revokes the designation.

(18) 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.

(19) 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.

(20) 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”.

(21) 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.

(22) 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.

(23) 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 Bank 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

(24) 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.

Interim period's income tax expense is calculated and disclosed by applying the applicable tax rate to expected total annual earnings; in other words, applying estimated annual effective tax rate to interim period's pre-tax income.

Cathay Financial Holding Co., Ltd. has adopted the consolidated income tax return for income tax filings with its qualified subsidiaries, including the Bank, since 2003.

(25) 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.

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

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.

(26) 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.

(27) 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.

(28) 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.

(29) 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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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.

6. Breakdown of Significant Accounts

(1) Cash and cash equivalents

	2017.03.31	2016.12.31	2016.03.31
Cash on hand	$16,257,310	$19,950,689	$16,296,122
Checks for clearance	3,948,307	7,390,035	1,936,502
Due from commercial banks	31,126,787	35,943,676	52,381,030
Total	$51,332,404	$63,284,400	$70,613,654

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

	2017.03.31	2016.12.31	2016.03.31
Cash and cash equivalents in consolidated balance sheets	$51,332,404	$63,284,400	$70,613,654
Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS7	18,205,148	18,524,091	58,587,637
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS7	46,191,895	38,139,919	23,279,335
Cash and cash equivalents at end of the periods in statements of cash flows	$115,729,447	$119,948,410	$152,480,626

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

	2017.03.31	2016.12.31	2016.03.31
Call loans to banks	$13,850,767	$10,653,748	$47,128,273
Due from the Central Bank - Statutory reserve on deposits	54,188,960	53,416,844	54,102,648
Due from the Central Bank - General deposits	4,354,381	7,870,343	11,459,364
Total	$72,394,108	$71,940,935	$112,690,285

A. The Bank

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

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 $49,541,793, $48,836,800 and $47,133,921 as of 31 March 2017, 31 December 2016 and 31 March 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 March 2017, 31 December 2016 and 31 March 2016, the balances of foreign-currency deposit reserves were $2,509,364, $2,336,047 and $5,022,711, 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 $958,340, $1,118,112 and $1,015,326 as of 31 March 2017, 31 December 2016 and 31 March 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 $1,179,463, $1,125,885 and $930,690 as of 31 March 2017, 31 December 2016 and 31 March 2016, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

	2017.03.31	2016.12.31	2016.03.31
Financial assets for trading:			
Stocks	$320,918	$-	$1,398,715
Short-term bills	108,553,960	93,126,341	164,367,306
Mutual funds and beneficiary securities	-	-	247,762
Bonds	85,773,797	53,544,936	43,222,265
Derivative financial instruments	40,397,030	52,646,314	55,369,629
Total	$235,045,705	$199,317,591	$264,605,677

A. As of 31 March 2017, 31 December 2016 and 31 March 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):

	2017.03.31	2016.12.31	2016.03.31
Currency forward contracts	$57,332,352	$49,094,551	$54,440,901
Interest rate swap	40,022,121	34,308,903	30,292,337
Cross currency swap	6,254,103	9,733,905	12,618,046
Options	5,859,589	6,213,816	13,045,341
Futures	232,400	15,688	20,000

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 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 three-month periods ended 31 March 2017 and 2016 was net gains $1,457,713 and $4,283,734, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

C. As of 31 March 2017, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of $1,050,000. Such repurchase agreements amounting to $1,049,335, which was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 March 2017 were settled at $1,049,547 prior to 30 April 2017.

As of 31 March 2016, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of $100,000. Such repurchase agreements amounting to $99,044, which was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 March 2016 were settled at $99,044 prior to 30 April 2016.

(4) Receivables - net

	2017.03.31	2016.12.31	2016.03.31
Notes receivable	$10,886	$-	$63
Accounts receivable	60,110,798	66,289,179	53,487,128
Interest receivable	5,774,961	5,721,478	5,685,645
Acceptances	1,097,572	1,045,109	1,202,441
Factoring receivable	1,370,255	4,073,377	3,651,760
Others	15,901,237	6,990,017	5,299,656
Total	84,265,709	84,119,160	69,326,693
Adjustment for discounts and premiums	(13,184)	(14,395)	(15,507)
Less: allowance for doubtful accounts	(3,671,207)	(3,836,359)	(3,153,690)
Net balance	$80,581,318	$80,268,406	$66,157,496

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

	2017.01.01-2017.03.31		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$208,096	$3,628,263	$3,836,359
Provision of doubtful accounts	321	14	335
Write-offs	(106,788)	-	(106,788)
Debt negotiation recoveries	28,871	-	28,871
Recoveries	103,434	-	103,434
Reclassification	(38,239)	9,367	(28,872)
Effects of exchange rates changes	(1,362)	(160,770)	(162,132)
Balance, end of the period	$194,333	$3,476,874	$3,671,207

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2016.01.01-2016.03.31		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$650,596	$2,129,092	$2,779,688
Provision of doubtful accounts	388,017	-	388,017
Write-offs	(97,790)	-	(97,790)
Debt negotiation recoveries	31,352	-	31,352
Recoveries	113,020	-	113,020
Reclassification	(938,406)	917,056	(21,350)
Effects of exchange rates changes	-	(39,247)	(39,247)
Balance, end of the period	$146,789	$3,006,901	$3,153,690

B. Impairment assessment of receivables – the Group

Item		Receivables		
		2017.03.31	2016.12.31	2016.03.31
With objective evidence of impairment	Individual assessment	$52,015	$49,319	$14,306
	Collective assessment	213,495	232,745	190,197
Without objective evidence of impairment	Collective assessment	84,000,199	83,837,096	69,122,190

Item		Allowance for doubtful accounts		
		2017.03.31	2016.12.31	2016.03.31
With objective evidence of impairment	Individual assessment	$36,678	$31,141	$6,141
	Collective assessment	157,655	176,955	140,648
Without objective evidence of impairment	Collective assessment	3,476,874	3,628,263	3,006,901

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

(5) Discounts and loans - net

	2017.03.31	2016.12.31	2016.03.31
Outward documentary bills	$1,517,038	$2,303,674	$1,270,438
Overdrafts	2,811,545	3,239,367	2,512,671
Short-term loans	498,494,765	500,890,187	386,543,771
Medium-term loans	313,149,399	301,913,586	287,052,396
Long-term loans	672,731,676	646,340,706	537,625,152
Delinquent accounts	2,739,027	2,133,624	2,316,965
Total	1,491,443,450	1,456,821,144	1,217,321,393
Adjustment for discounts and premium	525,454	575,212	767,342
Less: allowance for doubtful accounts	(20,439,520)	(19,865,448)	(18,146,919)
Net balance	$1,471,529,384	$1,437,530,908	$1,199,941,816

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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:

a. The Group

	2017.01.01-2017.03.31		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$3,192,994	$16,672,454	$19,865,448
Provision of doubtful accounts	385,016	(13,904)	371,112
Write-offs	(103,573)	-	(103,573)
Debt negotiation recoveries	26,304	-	26,304
Recoveries	395,443	-	395,443
Reclassification	(529,772)	558,644	28,872
Effects of changes in exchange rates	(7,758)	(136,328)	(144,086)
Balance, end of the period	$3,358,654	$17,080,866	$20,439,520

	2016.01.01-2016.03.31		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	$3,440,902	$14,315,090	$17,755,992
Provision of doubtful accounts	300,956	41,692	342,648
Write-offs	(116,708)	-	(116,708)
Debt negotiation recoveries	27,829	-	27,829
Recoveries	174,154	-	174,154
Reclassification	(337,176)	358,526	21,350
Effects of changes in exchange rates	(9,741)	(48,605)	(58,346)
Balance, end of the period	$3,480,216	$14,666,703	$18,146,919

C. Impairment assessment of discounts and loans － the Group

Item		Discounts and loans		
		2017.03.31	2016.12.31	2016.03.31
With objective evidence of impairment	Individual assessment	$8,735,880	$9,189,480	$7,232,730
	Collective assessment	7,813,789	7,405,577	7,272,422
Without objective evidence of impairment	Collective assessment	1,474,893,781	1,440,226,087	1,202,816,241

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Item		Allowance for doubtful account		
		2017.03.31	2016.12.31	2016.03.31
With objective evidence of impairment	Individual assessment	$1,762,185	$1,690,166	$1,798,232
	Collective assessment	1,596,469	1,502,828	1,681,984
Without objective evidence of impairment	Collective assessment	17,080,866	16,672,454	14,666,703

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:

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Provision for allowance for doubtful accounts – receivables	$335	$388,017
Provision for allowance for doubtful accounts – discounts and loans	371,112	342,648
Provision for (reverse of) allowance for doubtful accounts – bills purchased	(2)	8
Reverse of reserve for losses on guarantees	(1,018)	(10,382)
Total	$370,427	$720,291

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

	2017.03.31	2016.12.31	2016.03.31
Stocks	$18,323,837	$11,734,360	$17,610,838
Short-term bills	219,168	917,355	-
Mutual funds and beneficiary securities	1,985,648	3,586,499	993,694
Bonds	147,664,539	139,915,745	86,045,221
Net balance	$168,193,192	$156,153,959	$104,649,753

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

B. As of 31 March 2017, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of $28,216,743. Such repurchase agreements amounting to $27,234,628 were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheet. Repurchase agreements entered prior to 31 March 2017 were settled at $27,251,088 prior to 30 September 2017.

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

As of 31 March 2016, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of $13,155,350. Such repurchase agreements amounting to $13,872,045 were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheet. Repurchase agreements entered prior to 31 March 2016 were settled at $13,881,923 prior to 30 September 2016.

C. Available-for-sale financial assets of $69,239, $79,962 and $928,162 as of 31 March 2017, 31 December 2016 and 31 March 2016, respectively, were pledged to other parties as collateral for business reserves and guarantees.

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

	2017.03.31	2016.12.31	2016.03.31
Short-term bills	$6,947,078	$5,422,099	$-
Bonds	36,375,705	42,516,765	44,529,497
Net balance	$43,322,783	$47,938,864	$44,529,497

A. As of 31 March 2017, held-to-maturity financial assets were sold under repurchase agreements with notional amounts of $36,953,492. Such repurchase agreements amounting to $27,989,552 were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheet. Repurchase agreements entered prior to 31 March 2017 were settled at $28,006,600 prior to 31 May 2017.

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

As of 31 March 2016, held-to-maturity financial assets were sold under repurchase agreements with notional amounts of $36,243,592. Such repurchase agreements amounting to $28,950,986 were posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheet. Repurchase agreements entered prior to 31 March 2016 were settled at $28,965,964 prior to 31 May 2016.

B. Held-to-maturity financial assets of $2,323,876, $2,361,157 and $1,615,208 as of 31 March 2017, 31 December 2016 and 31 March 2016, respectively, were pledged to other parties as collateral of business reserves and guarantees.

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

	2017.03.31		2016.12.31		2016.03.31	
	Carrying value	% of ownership	Carrying value	% of ownership	Carrying value	% of ownership
Investment in subsidiaries						
Seaward Card Co., Ltd.	$40,123	100.00	$39,793	100.00	$39,878	100.00
Investment in associates						
Taiwan Real-estate Management Corp.	98,652	30.15	98,066	30.15	93,739	30.15
Taiwan Finance Corp.	1,600,789	24.57	1,570,490	24.57	1,638,698	24.57
Subtotal	1,699,441		1,668,556		1,732,437	
Total	$1,739,564		$1,708,349		$1,772,315	

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 $1,699,441, $1,668,556 and $1,732,437, as of 31 March 2017, 31 December 2016 and 31 March 2016, respectively. The aggregate financial information of the Bank's investment in the associates is as follows:

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Profit from continuing operations	$24,931	$25,372
Other comprehensive income (post-tax)	5,954	23,114
Total comprehensive income	30,885	48,486

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

The share of the profit or loss of these associates and joint ventures accounted for using the equity method, which were recognized based on the investees' unreviewed financial statements, amount to $24,931 and $25,372 for the three-month periods ended 31 March 2017 and 2016, respectively. The share of other comprehensive income of these associates and joint ventures accounted for using equity method amount to $5,954 and $23,114 for the three-month periods ended 31 March 2017 and 2016, respectively. The carrying amounts accounted for under the equity method were $1,699,441 and $1,732,437 as at 31 March 2017 and 2016, respectively.

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

	2017.03.31	2016.12.31	2016.03.31
Short-term bills	$325,290,000	$316,050,000	$426,325,000
Bonds	82,216,785	81,425,008	32,437,632
Net balance	$407,506,785	$397,475,008	$458,762,632

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

B. As of 31 March 2017, certain investments in debt securities with no active market assets were sold under repurchase agreement with notional amounts of $8,797,463. Such repurchase agreements amounting to $4,538,183 was posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 March 2017 were settled at $4,540,032 prior to 30 April 2017.

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. Such repurchase agreements amounting to $3,217,750 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 prior to 31 January 2017.

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and 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	-	-	19,318	-	2,777	38,808	157,326	218,229
Transfers	-	(3,420)	7,631	1,235	-	88,356	(112,353)	(18,551)
Disposals	-	-	(299,074)	(6,640)	-	(3,189)	-	(308,903)
Exchange differences	(3,399)	(9,466)	(8,673)	(2,553)	2,191	(3,960)	(12,674)	(38,534)
2016.03.31	$15,582,104	$10,573,941	$4,524,655	$113,221	$33,550	$7,307,184	$663,910	$38,798,565
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	-	-	15,566	-	-	33,655	137,906	187,127
Transfers	-	(165)	530	-	(50)	66,250	(85,546)	(18,981)
Disposals	-	-	(100,685)	-	(2,943)	(99,025)	-	(202,653)
Exchange differences	(8,424)	(21,545)	(30,502)	(6,733)	(7,136)	(12,079)	(4,504)	(90,923)
2017.03.31	$15,573,667	$10,532,488	$3,896,738	$109,353	$108,379	$7,458,383	$605,983	38,284,991
Depreciations and impairments:								
2016.01.01	$-	$3,849,887	$4,026,752	$82,711	$16,750	$5,748,721	$-	$13,724,821
Depreciation	-	57,008	80,869	2,479	578	102,113	-	243,047
Transfers	-	(3,256)	(684)	-	-	-	-	(3,940)
Disposals	-	-	(299,074)	(6,101)	-	(2,556)	-	(307,731)
Exchange differences	-	7,186	(18,131)	(1,509)	(412)	(1,039)	-	(13,905)
2016.03.31	$-	$3,910,825	$3,789,732	$77,580	$16,916	$5,847,239	$-	$13,642,292
2017.01.01	$-	$4,036,824	$3,271,890	$77,598	$57,583	$6,068,114	$-	$13,512,009
Depreciation	-	55,075	73,557	2,043	3,428	105,171	-	239,274
Transfers	-	(165)	(126)	-	(50)	-	-	(341)
Disposals	-	-	(100,683)	-	(2,943)	(96,778)	-	(200,404)
Exchange differences	-	(5,272)	(21,062)	(4,448)	(1,573)	(5,541)	-	(37,896)
2017.03.31	$-	$4,086,462	$3,223,576	$75,193	$56,445	$6,070,966	$-	$13,512,642
Net carrying amount:								
2017.03.31	$15,573,667	$6,446,026	$673,162	$34,160	$51,934	$1,387,417	$605,983	$24,772,349
2016.12.31	$15,582,091	$6,517,374	$739,939	$38,488	$60,925	$1,401,468	$558,127	$24,898,412
2016.03.31	$15,582,104	$6,663,116	$734,923	$35,641	$16,634	$1,459,945	$663,910	$25,156,273

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 except for share and per share data and unless otherwise stated)

(11) Investment properties - net

	Land	Buildings	Total
Cost :			
2016.01.01	$1,535,360	$99,889	$1,635,249
2016.03.31	$1,535,360	$99,889	$1,635,249
2017.01.01	$1,466,409	$88,191	$1,554,600
2017.03.31	$1,466,409	$88,191	$1,554,600

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Rental income from investment property	$-	$-
Less: Direct operating expenses from investment property not generating rental income	(271)	(166)
Total	$(271)	$(166)

A. All the lease agreements of the Bank's lease business are operating leases. The content of the lease agreements is the same as general lease agreement.

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

C. 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 2016 and 31 December 2015, and consult the appraisers to review the validity of the original valuation report, the fair value is still valid on 31 March 2017 and 31 March 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 except for share and per share data and 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:

	2017.03.31	2016.12.31	2016.03.31
Direct capitalization rate	1.60% - 2.75%	1.60% - 2.75%	1.60% - 2.75%
Overall capital interest rate	0.84% - 2.23%	0.84% - 2.23%	0.92% - 2.75%

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.

	2017.03.31	2016.12.31	2016.03.31
Rate of return	25% - 30%	25% - 30%	25% - 30%
Overall capital interest rate	4.99% - 16.98%	4.99% - 16.98%	5.6% - 19.20%

(Expressed in thousands of New Taiwan Dollars except for share and per share data and 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	-	6,017	-	6,017
Disposals	-	(72,526)	-	(72,526)
Transfers	-	22,446	-	22,446
Exchange differences	(8,287)	(3,575)	(33)	(11,895)
2016.03.31	$7,014,317	$1,767,692	$1,351	$8,783,360
2017.01.01	$7,014,285	$1,843,629	$8,257	$8,866,171
Additions-acquired separately	-	62,985	6,092	69,077
Disposals	-	(10,694)	-	(10,694)
Transfers	-	21,801	-	21,801
Exchange differences	(20,538)	(9,072)	(492)	(30,102)
2017.03.31	$6,993,747	$1,908,649	$13,857	$8,916,253
Amortization and impairment:				
2016.01.01	$-	$1,259,680	$-	$1,259,680
Amortization	-	53,661	-	53,661
Disposals	-	(72,526)	-	(72,526)
Exchange differences	-	(831)	-	(831)
2016.03.31	$-	$1,239,984	$-	$1,239,984
2017.01.01	$-	$1,045,165	$-	$1,045,165
Amortization	-	63,529	-	63,529
Disposals	-	(10,694)	-	(10,694)
Exchange differences	-	(5,656)	-	(5,656)
2017.03.31	$-	$1,092,344	$-	$1,092,344
Net carrying amount:				
2017.03.31	$6,993,747	$816,305	$13,857	$7,823,909
2016.12.31	$7,014,285	$798,464	$8,257	$7,821,006
2016.03.31	$7,014,317	$527,708	$1,351	$7,543,376

(Expressed in thousands of New Taiwan Dollars except for share and per share data and 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

	2017.03.31	2016.12.31	2016.03.31
Prepayment	$1,582,348	$1,165,913	$1,398,562
Temporary payments	2,344,214	2,362,178	837,726
Interbank settlement fund	5,268,113	5,300,005	2,817,939
Refundable deposits, net	19,263,962	27,604,939	25,458,537
Operating deposits, net	687,620	687,805	688,120
Foreclosed properties, net	-	-	55,946
Others	98,666	101,971	116,496
Total	$29,244,923	$37,222,811	$31,373,326

As of 31 March 2017, 31 December 2016 and 31 March 2016, the amounts of land use rights of $456,359, $485,627 and $398,041 were recognized under prepayment, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

	2017.03.31	2016.12.31	2016.03.31
Due to commercial banks	$15,011,202	$12,491,685	$12,243,713
Due to Post Co., Ltd.	18,952,512	18,889,713	18,883,049
Overdrafts from banks	4,419,131	1,407,329	459,038
Call loans from banks	102,995,625	44,705,068	30,958,584
Total	$141,378,470	$77,493,795	$62,544,384

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

	2017.03.31	2016.12.31	2016.03.31
Financial liabilities designated at fair value through profit or loss:			
Bonds	$37,711,935	$39,491,908	$41,071,382
Financial liabilities held for trading:			
Bonds	99,553	-	-
Derivative financial instruments	46,151,704	48,645,076	50,913,496
Total	$83,963,192	$88,136,984	$91,984,878

The Bank was authorized to issue subordinated financial debentures amounting to US$990 million in September 2014. The Bank issued subordinated financial debentures amounting to US$660 million with a fixed interest rate of 5.10% (perpetual) and US$330 million (fifteen-year) with a fixed interest rate of 4.00% on 8 October 2014, respectively, and the interest is payable annually. The Bank was authorized 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) on 30 March 2015. Except redeeming debentures by exercising the call option, the debentures are not payable until maturity, and are issued in the form of zero-coupon bonds with an internal rate of return of 4.20%.

(16) Payables

	2017.03.31	2016.12.31	2016.03.31
Accounts payable	$4,297,394	$7,770,115	$2,283,929
Interest payable	3,495,910	3,102,831	3,440,988
Accrued expenses	4,077,902	6,301,996	3,577,837
Acceptance	1,113,412	1,048,958	1,210,029
Tax payable	163,910	326,827	199,683
Receipts under custody	314,093	450,511	334,570
Others	14,567,298	5,000,607	3,342,650
Total	$28,029,919	$24,001,845	$14,389,686

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(17) Deposits and remittances

	2017.03.31	2016.12.31	2016.03.31
Check deposits	$12,574,604	$15,485,908	$12,622,450
Demand deposits	457,658,945	446,127,135	391,659,279
Demand savings deposits	774,328,750	765,842,523	717,804,513
Time deposits	411,722,561	422,483,187	395,431,257
Negotiable certificates of deposit	3,360,900	3,554,400	4,402,400
Time savings deposits	376,285,226	377,702,458	383,728,168
Outward remittances	336,917	554,713	674,710
Remittances payable	856,772	849,464	1,298,238
Total	$2,037,124,675	$2,032,599,788	$1,907,621,015

(18) Financial debentures payable

	2017.03.31	2016.12.31	2016.03.31
Subordinated financial debentures	$51,900,000	$51,900,000	$51,900,000

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

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

The Bank issued a seven-year subordinated financial debentures totaling $3,900,000 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 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 with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

The Bank issued a ten-year subordinated financial debentures totaling $4,200,000 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 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 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 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 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 with a stated interest rate of 1.85% in May 2014, 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

	2017.03.31	2016.12.31	2016.03.31
Principal received from the sale of structured products	$60,246,453	$61,566,809	$67,222,391

(20) Provisions

	2017.03.31	2016.12.31	2016.03.31
Reserve for employee benefits － Defined benefits plan	$2,352,056	$2,377,078	$2,462,781
Reserve for employee benefits － Preferential interest rate deposits	572,763	576,083	601,396
Reserve for losses on guarantees	72,164	73,181	94,513
Other operating reserve	26,763	27,622	26,883
Total	$3,023,746	$3,053,964	$3,185,573

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2017.01.01	Addition (Reversal)	2017.03.31
Reserve for employee benefits — Defined benefits plan	$2,377,078	$(25,022)	$2,352,056
Reserve for employee benefits — Preferential interest rate deposits	576,083	(3,319)	572,764
Reserve for losses on guarantees	73,181	(1,018)	72,163
Other operating reserve	27,622	(859)	26,763
Total	$3,053,964	$(30,218)	$3,023,746

	2016.01.01	Addition (Reversal)	2016.03.31
Reserve for employee benefits — Defined benefits plan	$2,462,781	$-	$2,462,781
Reserve for employee benefits — Preferential interest rate deposits	605,038	(3,642)	601,396
Reserve for losses on guarantees	104,895	(10,382)	94,513
Other operating reserve	26,316	567	26,883
Total	$3,199,030	$(13,457)	$3,185,573

(21) Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plan for three-month periods ended 31 March 2017 and 2016 were $79,978 and $71,885, respectively, and recorded as “Employee benefits expenses”.

Defined benefit plan

Pension costs amounted to $54,028 and $54,969 were recognized for the three-month periods ended 31 March 2017 and 2016, and recorded as “Employee benefits expenses”.

Employee preferential interest rate deposits plan

Expenses under preferential interest rate deposits plan amounted to $81,334 and $79,632 were recognized for the three-month periods ended 31 March 2017 and 2016, respectively, and recorded as “Employee benefits expenses”.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(22) Other liabilities

	2017.03.31	2016.12.31	2016.03.31
Unearned receipts	$347,058	$411,292	$268,831
Temporary receipts	3,018,662	3,090,841	1,195,329
Guarantee deposits received	5,198,841	4,296,304	4,577,627
Deferred income	1,667,880	1,480,301	1,492,106
Others	8,022	10,129	770,169
Total	$10,240,463	$9,288,867	$8,304,062

(23) Capital Stock

As of 31 March 2017, 31 December 2016 and 31 March 2016, the Bank had issued outstanding capital stock of $72,099,815, $72,099,815 and $69,479,605 divided into 7,209,981, 7,209,981 and 6,947,961 thousand common shares, respectively, with par value $10 per share.

The recapitalization of undistributed earnings of $1,147,816 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, and waited to approve by the Financial Supervisory commission.

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.

(24) Capital surplus

	2017.03.31	2016.12.31	2016.03.31
Capital surplus from the merger Bank	$10,949,303	$10,949,303	$10,949,303
Additional paid-in capital	13,007,302	13,007,302	13,007,302
Others	12,807	12,807	12,807
Total	$23,969,412	$23,969,412	$23,969,412

(25) Retained earnings

A. The Bank's original articles of incorporation provide that its annual net income shall be appropriated after paying all outstanding taxes and deducting any deficit of prior years and distributed in the following order:

a. Legal reserve shall be set aside before the total amount of the legal reserve reaches the amount of paid-in capital;
b. Special reserves;
c. Regular dividends; and
d. The remainder, if any, shall be distributed and appropriated as follows: extra dividends: 85%, employees' special bonus: 15%.

However, according to the addition of Article 235-1 of the Company Act announced on 20 May 2015, the Company shall provide a fixed amount or percentage or the actual profit for a year to be distributed as "employee remuneration", after deducting and setting aside an amount equal to the cumulative losses (in any).

On 28 April 2016, the Bank's amended articles of incorporation provide that its annual net income shall be appropriated after paying all outstanding taxes and deducting any deficit of prior years, distributed in the following order, and subsequently formulate a draft for the distribution and appropriation:

a. Legal reserve shall be set aside before the total amount of the legal reserve reaches the amount of paid-in capital;
b. Special reserves;

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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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 three-month periods ended 31 March 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
2016.03.31	$1,643,528	$271,009	$1,914,537
2017.01.01	$1,621,659	$271,009	$1,892,668
2017.03.31	$1,621,659	$271,009	$1,892,668

D. On 27 April 2017 and 28 April 2016, 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:

	2016		2015	
	Amount	Dividend per share	Amount	Dividend per share
Appropriation of legal reserves	$5,164,218	$-	$5,585,874	$-
Appropriation (reversal) of special reserves	84,694	-	(21,869)	-
Distribution of cash dividends	10,814,972	1.50	10,421,940	1.50
Distribution of stock dividends	1,147,816	0.16	2,620,210	0.38

Please refer to Note 6.(32) for further details on employees' compensation and remuneration to directors and supervisors.

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

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Beginning balance	$468,952	$3,052,854
Unrealized gains (losses) on available-for-sale financial assets	1,089,211	(396,816)
Income tax of unrealized gains (losses) on available-for-sale financial assets	(33,334)	135,839
Share of unrealized gains (losses) on available-for-sale financial assets of associates accounted for using the equity method	50,160	26,924
Ending balance	$1,574,989	$2,818,801

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(27) Non-controlling interests

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Beginning balance	$3,877,157	$3,760,901
Net income attributable to non-controlling interests	118,025	55,665
Other comprehensive income attributable to non-controlling interests		
Exchange differences resulting from translating the financial statements of a foreign operation	(234,951)	(90,811)
Unrealized gains (losses) on available-for-sale financial assets	44,206	3,812
Ending balance	$3,804,437	$3,729,567

(28) Net interest income

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Interest income		
Discounts and loans	$7,560,532	$6,819,595
Factoring receivable	12,262	44,785
Due from banks and call loans to banks	224,508	599,001
Securities	2,486,711	2,016,862
Credit cards	519,813	489,742
Others	100,972	39,987
Subtotal	10,904,798	10,009,972
Interest expense		
Deposits	2,798,571	2,955,099
Due to Central Bank and other banks	51,039	61,114
Funds borrowed from the Central Bank and banks	170,240	33,292
Structured products	428,986	397,317
Financial debentures	229,689	231,608
Others	193,529	121,539
Subtotal	3,872,054	3,799,969
Net interest income	$7,032,744	$6,210,003

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(29) Net fee income

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Fee income:		
Trust business	$600,834	$439,892
Cross-selling marketing	2,027,540	2,495,701
Credit card business	1,302,751	1,122,731
Loan business	274,533	440,758
Others	428,416	446,562
Subtotal	4,634,074	4,945,644
Fee expense:		
Credit card business	560,697	458,881
Others	223,484	184,408
Subtotal	784,181	643,289
Net fee income	$3,849,893	$4,302,355

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

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Stock	$16,956	$31,731
Short-term bills	150,819	192,638
Funds	(1,307)	7,480
Bonds	207,345	(2,314,127)
Derivative financial instruments	721,487	3,009,625
Total	$1,095,300	$927,347

Realized gains or losses on financial assets and liabilities at fair value through profit or loss include interest income $297,187 and $269,379, interest expense $388,916 and $438,516, and gains or losses on disposal of financial assets or liabilities at fair value through profit or loss were gains $1,180,733 and $1,111,287, gains or loss on evaluation of financial assets or liabilities at fair value through profit or loss were gain $6,296 and loss $14,803, and net gains were $1,095,300 and $927,347 for three-month periods ended 31 March 2017 and 2016, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(31) Net other net non-interest income

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Income from Securities underwriting	$26,069	$41,980
Rental income from operating assets	63,476	61,527
Gain (loss) on disposal of property transactions	(2)	683
Loss from retirement of properties and equipment	(2,247)	(633)
Others	195,055	457,115
Total	$282,351	$560,672

(32) Employee benefits expenses

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Salary	$2,583,062	$2,419,688
Insurance	221,716	206,080
Post-employment benefit	156,696	150,339
Others	168,301	160,179
Total	$3,129,775	$2,936,286

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 except for share and per share data and unless otherwise stated)

Based on profit of current year, the Bank estimated the amounts of the employees' compensation for the three-month periods ended 31 March 2017 to be 0.05 % of profit of current year, recognized as employee benefits expense. The estimation of employee bonus and remuneration of directors for the three-month periods ended 31 March 2017 was $2,773 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 $9,639 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 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 March 2017 and 2016, the Bank and subsidiaries employed 11,155 and 10,519 employees, respectively.

(33) Depreciation and amortization expenses

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Depreciation expenses - property and equipment	$239,274	$243,047
Amortization expenses - intangible assets	63,529	53,661
Total	$302,803	$296,708

(34) Other general and administrative expenses

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Rental expenses	$463,086	$407,930
Business promotion expenses	396,649	368,108
Product promotion expenses	534,984	397,835
Insurance expenses	164,573	152,579
Tax expenses	484,601	566,378
Others	1,073,358	1,039,954
Total	$3,117,251	$2,932,784

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(35) Components of other comprehensive income

2017.01.01-2017.03.31

	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:					
Change of designated financial liabilities at fair value through profit or loss resulting from credit risk	$(244,938)	$-	$(244,938)	$41,639	$(203,299)
To be classified to profit of loss:					
Exchange differences resulting from translating the financial statement of a foreign operation	(1,836,504)	-	(1,836,504)	272,264	(1,564,240)
Unrealized gains (losses) on available-for-sale financial assets	1,390,128	(212,505)	1,177,623	(33,334)	1,144,289
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	5,954	-	5,954	-	5,954
Total	$(685,360)	$(212,505)	$(897,865)	$280,569	$(617,296)

2016.01.01-2016.03.31

	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:					
Change of designated financial liabilities at fair value through profit or loss resulting from credit risk	$948,574	$-	$948,574	$(161,258)	$787,316
To be classified to profit of loss:					
Exchange differences resulting from translating the financial statement of a foreign operation	(756,650)	-	(756,650)	113,192	(643,458)
Unrealized gains (losses) on available-for-sale financial assets	695,221	(1,084,415)	(389,194)	135,839	(253,355)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	23,114	-	23,114	-	23,114
Total	$910,259	$(1,084,415)	$(174,156)	$87,773	$(86,383)

(36) 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:

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Income tax (expense) income recognized in profit or loss

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Current income tax (expense) income:		
Current income tax charge	$(663,392)	$(902,839)
Adjustments in respect of current income tax of prior periods	194	182,102
Deferred tax (expense) income:		
Deferred tax (expense) income relating to origination and reversal of temporary differences	6,198	(30,263)
Income tax of overseas subsidiaries	(47,056)	(44,906)
Income tax expense	$(704,056)	$(795,906)

Income tax relating to components of other comprehensive income

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Deferred tax (expense) income:		
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	$41,639	$(161,258)
Exchange differences resulting from translating the financial statements of a foreign operation	272,264	113,192
Unrealized gains (losses) on available-for-sale financial assets	(33,334)	135,839
Income tax relating to components of other comprehensive income	$280,569	$87,773

C. Imputation credit information

	2017.03.31	2016.12.31	2016.03.31
Balances of imputation credit amount	$145,703	$145,703	$55,057

The expected creditable ratio for 2016 and the actual creditable ratio for 2015 were 0.85% and 0.17%, respectively.

The Bank's earnings generated in the year ended 31 December 1997 and prior years have been fully appropriated. As of 31 March 2017, the undistributed earnings amounted to $22,102,094 arose from earnings in 1998 and thereafter.

D. The assessment of income tax returns

As of 31 March 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 2010

In 2009, the income tax return had been assessed; however, the Bank has invoked the administrative remedy to cases about goodwill amortization from merging Lucky Bank and China United Trust & Investment Corp and employee benefit of that year.

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

(37) 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.

	2017.01.01-2017.03.31	2016.01.01-2016.03.31
Profit attributable ordinary to owners of the parent (in thousands dollars)	$4,890,394	$5,589,123
Retroactive adjustment weight-average shares outstanding (in thousands shares)	7,209,981	7,209,981
Earnings per share (in dollar)	$0.68	$0.78

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.

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 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 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
Seaward Card Co., Ltd.	Subsidiary
Taiwan Real-estate Management 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 Venture Inc.	Other related party
Cathay Securities Investment Trust Co., Ltd.	Other related party
Cathay Life Insurance (Vietnam) Co., Ltd.	Other related party
Cathay Securities Investment Consulting Co., Ltd.	Other related party
Conning Asia Pacific - Limited	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
Tien-Tai energy Corp.	Other related party
Cathay Dragon Fund etc.	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
Liang Ting Industrial Company	Other related party
Others	Other related party

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Significant transactions with the related parties are summarized as follows:

(1) A. Loans and Deposits

Accounts/Related parties	2017.03.31 Amount	2017.03.31 % of Account	2016.12.31 Amount	2016.12.31 % of Account	2016.03.31 Amount	2016.03.31 % of Account
Loans						
Associates						
Taiwan Real-estate Management Corp.	$35,000	-	$35,000	-	$3,000	-
Other related parties						
Cathay Real Estate Development Co., Ltd.	10,000	-	-	-	20,000	-
Tien-Tai energy Corp.	94,039	0.01%	96,131	0.01%	102,407	0.01%
Liang Ting Industrial Company	27,886	-	28,225	-	44,439	-
Others	1,564,410	0.11%	1,384,358	0.10%	1,185,574	0.10%
Subtotal	1,696,335	0.12%	1,508,714	0.11%	1,352,420	0.11%
Total	$1,731,335	0.12%	$1,543,714	0.11%	$1,355,420	0.11%

Accounts/Related parties	2017.03.31 Amount	2017.03.31 % of Account	2016.12.31 Amount	2016.12.31 % of Account	2016.03.31 Amount	2016.03.31 % of Account
Deposits						
Parent company						
Cathay Financial Holding Co., Ltd.	$148,535	0.01%	$198,101	0.01%	$708,827	0.04%
Other related parties						
Cathay Life Insurance Co., Ltd.	16,339,265	0.80%	26,758,316	1.32%	18,714,981	0.98%
Cathay Century Insurance Co., Ltd.	1,554,411	0.08%	1,400,324	0.07%	1,240,839	0.07%
Cathay Securities Corp.	2,418,900	0.12%	2,320,198	0.11%	3,832,385	0.20%
Cathay Futures Co., Ltd.	1,497,817	0.07%	1,364,251	0.07%	2,288,472	0.12%
Cathay Venture Inc.	18,601	-	36,161	-	88,273	-
Cathay Securities Investment Trust Co., Ltd.	154,083	0.01%	168,566	0.01%	194,914	0.01%
Cathay Securities Investment Consulting Co., Ltd.	124,129	0.01%	101,398	0.01%	82,726	-
Cathay Real Estate Development Co., Ltd.	240,355	0.01%	466,369	0.02%	163,683	0.01%
Cathay Hospitality Management Co., Ltd.	9,098	-	3,018	-	257,944	0.01%
Cathay Life Insurance (Vietnam) Co., Ltd.	31,311	-	55,198	-	16,221	-
Cathay Insurance (Vietnam) Co., Ltd.	141,915	0.01%	225,719	0.01%	188,834	0.01%
Cathay Dragon Fund etc.	45,932	-	21,461	-	71,312	-
Symphox Information Co., Ltd.	68,384	-	94,865	-	157,140	0.01%
Conning Asia Pacific - Limited	2,089	-	129,781	0.01%	107,126	0.01%
Others	16,130,090	0.79%	12,897,581	0.64%	13,249,969	0.71%
Subtotal	38,776,380	1.90%	46,043,206	2.27%	40,654,819	2.14%
Total	$38,924,915	1.91%	$46,241,307	2.28%	$41,363,646	2.18%

Note: Cathay Conning Asset Management Ltd. has been renamed as Conning Asia Pacific Ltd. on 18 April 2016.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Accounts/Related parties	Interest Income 2017.01.01-2017.03.31	Interest Income 2016.01.01-2016.03.31
Loans		
Associates		
Taiwan Real-estate Management Corp.	$154	$-
Other related parties		
Cathay Real Estate Development Co., Ltd.	1	6
Tien-Tai energy Corp.	749	865
Liang Ting Industrial Company	117	206
Others	6,389	5,528
Subtotal	7,256	6,605
Total	$7,410	$6,605

Accounts/Related parties	Interest Expense 2017.01.01-2017.03.31	Interest Expense 2016.01.01-2016.03.31
Deposits		
Parent company		
Cathay Financial Holding Co., Ltd.	$(57)	$(150)
Other related parties		
Cathay Life Insurance Co., Ltd.	(5,425)	(5,076)
Cathay Century Insurance Co., Ltd.	(1,721)	(1,930)
Cathay Securities Corp.	(861)	(1,030)
Cathay Futures Corp.	(2,966)	(5,352)
Cathay Venture Inc.	(7)	(28)
Cathay Securities Investment Trust Co., Ltd.	(84)	(159)
Cathay Securities Investment Consulting Co., Ltd.	(139)	(170)
Cathay Real Estate Development Co., Ltd.	(14)	(13)
Cathay Hospitality Management Co., Ltd.	(1)	(6)
Cathay Life Insurance (Vietnam) Co., Ltd.	(107)	(110)
Cathay Insurance (Vietnam) Co., Ltd.	(1,892)	(2,550)
Symphox Information Co., Ltd.	(141)	(295)
Conning Asia Pacific Ltd.	(65)	(118)
Others	(26,412)	(28,482)
Subtotal	(39,835)	(45,319)
Total	$(39,892)	$(45,469)

Accounts / Related parties	Account balance 2017.03.31	Account balance 2016.12.31	Account balance 2016.03.31
Due from commercial banks			
Other related parties			
Vietinbank	$5,510,808	$6,162,462	$4,241,093
Due to commercial banks			
Other related parties			
Vietinbank	5,453,717	5,849,798	-

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Accounts / Related parties	Interest Income (Expense) 2017.01.01-2017.03.31	2016.01.01-2016.03.31
Due from commercial banks		
Other related parties		
Vietinbank	$3,964	$13,861
Due to commercial banks		
Other related parties		
Vietinbank	(1,598)	(153)

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.

(2) Lease

Accounts/Related parties	2017.01.01-2017.03.31	2016.01.01-2016.03.31	Payment term
Rental income			
Other related parties			
Cathay Life Insurance Co., Ltd.	$15,641	$15,703	Monthly
Rental expense			
Other related parties			
Cathay Life Insurance Co., Ltd.	118,532	106,733	Monthly
Cathay Real Estate Development Co., Ltd.	4,917	5,098	Monthly

Accounts/Related parties	2017.03.31	2016.12.31	2016.03.31
Refundable deposits			
Other related parties			
Cathay Life Insurance Co., Ltd.	$152,996	$157,492	$127,481
Cathay Real Estate Development Co., Ltd.	4,549	4,605	4,605
Guarantee deposit received			
Cathay Life Insurance Co., Ltd.	$15,367	$15,455	$15,455

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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Accounts/Related parties	2017.01.01-2017.03.31	2016.01.01-2016.03.31
(3) Commissions and handling fees income		
Other related parties		
Cathay Life Insurance Co., Ltd.	$2,199,791	$2,686,017
Cathay Century Insurance Co., Ltd.	36,112	25,443
Cathay Securities Co., Ltd.	11,096	7,013
Cathay Securities Investment Trust Co., Ltd.	8,182	7,405
Cathay Securities Investment Consulting Co., Ltd.	4,805	4,715
(4) Operating expenses		
Subsidiaries		
Seaward Card Co., Ltd.	60,188	61,626
Other related parties		
Cathay Life Insurance Co., Ltd.	40,414	32,051
Symphox Information Co., Ltd.	199,978	116,416
(5) Insurance expenses paid		
Other related parties		
Cathay Life Insurance Co., Ltd.	19,741	18,465
Cathay Century Insurance Co., Ltd.	40,333	37,364

Accounts/Related parties	2017.03.31	2016.12.31	2016.03.31
(6) Receivables			
Other related parties			
Cathay Securities Investment Trust	$3,505	$2,730	$2,282
(7) Related party receivables for commission of collecting insurances			
Other related parties			
Cathay Life Insurance Co., Ltd.	416,288	549,934	745,498
(8) Refundable deposit			
Other related parties			
Cathay Futures Corp.	120,374	120,374	62,460
(9) Accrued expenses			
Subsidiaries			
Seaward Card Co., Ltd.	23,773	23,361	23,892

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Accounts/Related parties	2017.03.31	2016.12.31	2016.03.31
(10) Accounts payable			
Other related parties			
Cathay Century Insurance Co., Ltd.	$20,489	$3,259	$18,329
Symphox Information Co., Ltd.	108,614	78,383	38,253
(11) Related party payables for allocation of linked-tax system			
Parent company			
Cathay Financial Holding Co., Ltd.	47,252	263,299	280,877

Accounts/Related parties	2017.01.01-2017.03.31	2016.01.01-2016.03.31
(12) Key management personnel compensation		
Short-term employee benefits	$60,208	$45,514
Post-employment benefits	1,111	1,053
Other long-term employee benefits	45	96
Total	$61,364	$46,663

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

(13) 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 $378 and $6,319 during three-month periods ended 31 March 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 March 2017, 31 December 2016 and 31 March 2016, the unconverted bonus points amounted to $16,383, $49,570 and $18,612, 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 except for share and per share data and unless otherwise stated)

8. Assets pledged as security

See Note 6.

9. Commitments and contingencies

As of 31 March 2017, 31 December 2016 and 31 March 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:

	2017.03.31	2016.12.31	2016.03.31
Trust and security held for safekeeping	$612,657,908	$604,042,204	$595,656,592
Travelers checks for sale	401,383	403,853	491,927
Bills for collection	42,933,600	44,988,442	47,870,252
Book-entry for government bonds and depository for short-term marketable securities under management	362,891,358	367,976,014	482,578,141
Entrusted financial management business	5,896,966	4,965,210	7,293,020
Guarantees on duties and contracts	7,019,160	7,141,798	9,319,443
Unused commercial letters of credit	3,796,971	3,741,879	4,432,267
Irrevocable loan commitments	193,301,995	182,538,242	123,099,870
Unused credit card lines commitments	532,243,797	520,529,231	473,915,869
Underwriting securities	1,000,000	-	2,750,000

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

As of 31 March 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. The claim for damages by SanDisk is now in the process of mediation and not yet filed for legal proceedings. 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 except for share and per share data and unless otherwise stated)

(2) Indovina Bank

A. Entrusted Item and Guarantees:

	2017.03.31	2016.12.31	2016.03.31
Financial guarantee contracts	$2,730,583	$2,865,926	$1,732,121
Unused commercial letters of credit	1,198,939	841,466	1,153,096

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

	2017.03.31	2016.12.31	2016.03.31
Not later than one year	$38,327	$41,800	$41,832
Later than one year and not later than five years	76,906	128,388	109,118
Later than five years	25,291	33,476	32,574

(3) CUBC Bank

A. Entrusted Item and Guarantees:

	2017.03.31	2016.12.31	2016.03.31
Financial guarantee contracts	$45,513	$63,479	$34,954
Unused commercial letters of credit	3,063	3,223	-
Irrevocable loan commitments	652,755	546,423	606,789
Credit card line commitments	356,429	328,186	357,831
Bills for collection	5,035	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:

	2017.03.31	2016.12.31	2016.03.31
Not later than one year	$14,676	$13,798	$13,223
Later than one year and not later than five years	35,059	28,311	28,957
Later than five years	20,089	8,359	6,199

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

10. Losses due to major disasters

None.

11. Significant subsequent events

(1) On 11 April 2017 the Bank issued a thirty-year unsecured financial debentures amounting to US$195 million with an internal rate of return 4.30%, which can be redeemed one year later, or be redeemed plus compound interests based on the internal rate of return at maturity.

(2) On 18 April 2017 the Bank issued a thrity-year unsecured subordinated financial debentures amounting to $15.1 billion in total with a coupon rate of 1.50%($2.4 billion) and 1.85%($12.7 billion), respectively, and the interest is payable annually.

12. Other

(1) Disclosure of financial instruments information

A. Information of fair value

	2017.03.31	
	Carrying value	Fair value
Financial assets		
Financial assets at fair value through profit or loss	$235,045,705	$235,045,705
Available-for-sale financial assets	168,193,192	168,193,192
Held-to-maturity financial assets	43,322,783	44,465,041
Investment in debt securities with no active market	407,506,785	407,280,266
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	35,075,094	35,075,094
Due from the Central Bank and call loan to banks	72,394,108	72,394,108
Securities purchased under agreements to resell	46,191,895	46,191,895
Receivables - net	80,581,318	80,581,318
Discounts and loans - net	1,471,529,384	1,471,529,384
Other financial assets - net	3,207	3,207
Other assets - net	19,951,582	19,951,582
Subtotal	1,725,726,588	1,725,726,588
Total	$2,579,795,053	$2,580,710,792

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2017.03.31	
	Carrying value	Fair value
Financial liabilities		
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	$141,378,470	$141,378,470
Securities sold under agreements to repurchase	60,811,698	60,811,698
Payables	28,029,919	28,029,919
Deposits and remittances	2,037,124,675	2,037,124,675
Financial debentures payable	51,900,000	51,900,000
Other financial liabilities	60,246,453	60,246,453
Other liabilities	5,198,841	5,198,841
Subtotal	2,384,690,056	2,384,690,056
Financial liabilities at fair value through profit or loss		
Held for trading	46,251,257	46,251,257
Designated at fair value through profit or loss	37,711,935	37,711,935
Subtotal	83,963,192	83,963,192
Total	$2,468,653,248	$2,468,653,248

	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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2016.12.31	
	Carrying value	Fair value
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

	2016.03.31	
	Carrying value	Fair value
Financial assets		
Financial assets at fair value through profit or loss	$264,605,677	$264,605,677
Available-for-sale financial assets	104,649,753	104,649,753
Held-to-maturity financial assets	44,529,497	46,535,417
Investment in debt securities with no active market	458,762,632	463,261,294
Loans and receivables:		
Cash and cash equivalents (exclude cash on hand)	54,317,532	54,317,532
Due from the Central Bank and call loan to banks	112,690,285	112,690,285
Securities purchased under agreements to resell	23,279,335	23,279,335
Receivables - net	66,157,496	66,157,496
Discounts and loans - net	1,199,941,816	1,199,941,816
Other financial assets - net	2,098	2,098
Other assets - net	26,146,657	26,146,657
Subtotal	1,482,535,219	1,482,535,219
Total	$2,355,082,778	$2,361,587,360

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2016.03.31	
	Carrying value	Fair value
Financial liabilities		
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	$62,544,384	$62,544,384
Securities sold under agreements to repurchase	42,922,075	42,922,075
Payables	14,389,686	14,389,686
Deposits and remittances	1,907,621,015	1,907,621,015
Financial debentures payable	51,900,000	51,900,000
Other financial liabilities	67,222,391	67,222,391
Other liabilities	4,577,627	4,577,627
Subtotal	2,151,177,178	2,151,177,178
Financial liabilities at fair value through profit or loss		
Held for trading	50,913,496	50,913,496
Designated at fair value through profit or loss	41,071,382	41,071,382
Subtotal	91,984,878	91,984,878
Total	$2,243,162,056	$2,243,162,056

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.

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

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

   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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(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.

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:

	2017.03.31			
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	$320,918	$-	$-	$320,918
Bonds	56,774,298	28,999,499	-	85,773,797
Others	-	108,553,960	-	108,553,960
Available-for-sale financial assets				
Stocks	14,940,907	776	3,382,154	18,323,837
Bonds	47,762,759	99,901,780	-	147,664,539
Others	1,985,648	219,168	-	2,204,816
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	-	37,711,935	-	37,711,935
Financial assets held for trading				
Bonds	99,553	-	-	99,553
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	-	26,715,704	13,681,326	40,397,030
Liabilities				
Financial liabilities at fair value through profit or loss	70,775	32,220,488	13,860,441	46,151,704

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Item	2016.12.31			
	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

Item	2016.03.31			
	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	$1,398,715	$-	$-	$1,398,715
Bonds	5,837,759	37,384,506	-	43,222,265
Others	247,762	164,367,306	-	164,615,068
Available-for-sale financial assets				
Stocks	14,404,761	826	3,205,251	17,610,838
Bonds	36,403,380	49,641,841	-	86,045,221
Others	993,694	-	-	993,694
Investment properties	-	-	1,635,249	1,635,249

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

Item	2016.03.31			
	1st Level	2nd Level	3rd Level	Total
Liabilities				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss				
Bonds	$-	$41,071,382	$-	$41,071,382
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	6,222	35,009,955	20,353,452	55,369,629
Liabilities				
Financial liabilities at fair value through profit or loss	-	30,560,044	20,353,452	50,913,496

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

For the three-month period ended 31 March 2017, the Bank had no assets or liabilities transferred from 1st Level to 2nd Level.

For the theree-month period ended 31 March 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 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	(4,187,242)	-	-	(4,077,191)
Amount recognized in other comprehensive income				
Unrealized gains on available-for-sale financial assets	-	103,196	-	-
Acquisition or issues	432,441	-	-	432,441
Disposal or settlements	(186,573)	-	-	(186,573)
Effects of exchange rates changes	-	-	-	(7,504)
Ending balances as at 31 March 2017	$13,681,326	$3,382,154	$1,554,600	$13,860,441

(Expressed in thousands of New Taiwan Dollars except for share and per share data and 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				
Gain on financial assets and liabilities at fair value through profit or loss	(2,118,898)	-	-	(2,103,083)
Amount recognized in other comprehensive income				
Unrealized losses on available-for-sale financial assets	-	89,754	-	-
Acquisition or issues	159,471	-	-	159,471
Disposal or settlements	(220,866)	-	-	(220,866)
Effects of exchange rates changes	28	-	-	-
Ending balances as at 31 March 2016	$20,353,452	$3,205,251	$1,635,249	$20,353,452

Total gains or losses recognized for three-month periods ended 31 March 2017 and 2016 in the table above contain unrealized gains and losses related to assets on hand as at 31 March 2017 and 2016 in the amount of losses $4,187,242 and $2,118,898, respectively.

Total gains or losses recognized for three-month periods ended 31 March 2017 and 2016 in the table above contain unrealized gains and losses related to liabilities on hand as at 31 March 2017 and 2016 in the amount of losses $4,077,191 and $2,103,083, 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:

2017.03.31

	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 except for share and per share data and unless otherwise stated)

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

2016.03.31

	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	20% - 25%	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	0.92% - 19.20%	The higher the Composite interest rate for capital interest, the lower the fair value

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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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

2017.03.31	1st Level	2st Level	3st Level	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Financial assets held to maturity				
Bonds	$30,884,092	$13,580,949	$-	$44,465,041
Debt instrument investments for which no active market exists				
Bonds	-	78,816,414	2,821,461	81,637,875
Others	-	325,642,391	-	325,642,391

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

2016.03.31	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	$39,773,359	$6,762,058	$-	$46,535,417
Debt instrument investments for which no active market exists				
Bonds	-	31,527,149	1,737,697	33,264,846
Others	-	429,996,448	-	429,996,448

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(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.

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

2017.03.31	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	$1,049,450	$1,049,335	$999,834	$1,049,335	$(49,501)
Available for sale Financial Assets					
Repurchase Agreements	28,389,179	27,234,629	27,606,518	27,234,629	371,889
Held to Maturity Financial Assets					
Repurchase Agreements	27,934,461	27,989,552	27,937,710	27,989,552	(51,842)
Debt instrument investments for which no active market exists					
Repurchase Agreements	5,221,268	4,538,182	5,221,268	4,538,182	683,086

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2016.03.31	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	$99,307	$99,044	$99,698	$99,044	$654
Available for sale Financial Assets					
Repurchase Agreements	11,918,318	13,872,045	12,221,012	13,872,045	(1,651,033)
Held to Maturity Financial Assets					
Repurchase Agreements	29,320,892	28,950,986	29,230,892	28,950,986	279,906

(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.

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

2017.03.31						
Financial assets subject to offsetting, master netting arrangement or similar agreement						
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)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	$40,397,030	$-	$40,397,030	$40,397,030	$-	$-

2017.03.31						
Financial liabilities subject to offsetting, master netting arrangement or similar agreement						
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)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	$45,972,589	$-	$45,972,589	$40,397,030	$5,575,559	$-

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2016.12.31

Financial assets subject to offsetting, master netting arrangement or similar agreement

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)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
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

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)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	$48,567,099	$-	$48,567,099	$48,567,099	$-	$-

2016.03.31

Financial assets subject to offsetting, master netting arrangement or similar agreement

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)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	$55,363,407	$-	$55,363,407	$50,913,496	$3,376,944	$1,072,967

2016.03.31

Financial liabilities subject to offsetting, master netting arrangement or similar agreement

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)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	$50,913,496	$-	$50,913,496	$50,913,496	$-	$-

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 except for share and per share data and 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.

2017.03.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	$1,325,111	$2,000,760	$707,624
Foreign exchange	467,060	619,473	309,051
Equity securities price	207,770	345,229	118,192

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

2016.03.31			
Factors of market risk	Average balance	Maximum balance	Minimum balance
Interest rate	$907,428	$1,058,200	$680,493
Foreign exchange	420,704	528,143	273,426
Equity securities price	291,886	534,899	131,033

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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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.

Stress Test		
Market/ Product	Scenarios	2017.03.31
Stock Market	Major Stock Exchanges +15%	$2,586,990
	Major Stock Exchanges -15%	(2,586,990)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(11,173,960)
	Major Interest Rate - 100bp	11,676,220
Foreign Exchange Market	Major Currencies +3%	5,299,518
	Major Currencies -3%	(5,286,359)
Composite	Major Stock Exchanges -15%	(8,461,432)
	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%	

Stress Test		
Market/ Product	Scenarios	2016.03.31
Stock Market	Major Stock Exchanges +15%	$2,498,160
	Major Stock Exchanges -15%	(2,495,370)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(7,702,240)
	Major Interest Rate - 100bp	7,815,720
Foreign Exchange Market	Major Currencies +3%	3,435,337
	Major Currencies -3%	(3,435,337)
Composite	Major Stock Exchanges -15%	(6,762,273)
	Major Interest Rate + 100bp	
	Major Currencies +3%	

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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.

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

	2017.03.31	
	Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	$775,583	$280
HKD+1%	3,156	1,165
JPY+1%	6,984	-
AUD+1%	166,739	-
CNY+1%	276,108	29,106
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	(34,633)	(15,989)
Yield curves (HKD) parallel shift+1bp	(15)	-
Yield curves (JPY) parallel shift+1bp	(245)	-
Yield curves (AUD) parallel shift+1bp	(51)	(5,497)
Yield curves (CNY) parallel shift+1bp	(2,686)	(11,518)
Equity securities price factor sensitivity (Equity Delta)	-	172,466

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	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

	2016.03.31	
	Sensitivity of profit or loss	Sensitivity of equity
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	$734,150	$-
HKD+1%	3,515	3,543
JPY+1%	1,163	-
AUD+1%	36,116	-
CNY+1%	185,751	22,706
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	1,127	(27,990)
Yield curves (HKD) parallel shift+1bp	(3)	(48)
Yield curves (JPY) parallel shift+1bp	(1)	-
Yield curves (AUD) parallel shift+1bp	-	(818)
Yield curves (CNY) parallel shift+1bp	(319)	(10,628)
Equity securities price factor sensitivity (Equity Delta)	-	166,763

(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 Group 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 Group 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 except for share and per share data and 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		
	2017.03.31	2016.12.31	2016.03.31
Irrevocable loan commitments	$193,301,995	$182,538,242	$123,099,870
Credit card commitments	590,447,490	584,566,895	524,940,603
Unused commercial letters of credit	3,796,971	3,741,879	4,432,267
Guarantees on duties and contracts	7,019,160	7,141,798	9,319,443
Total	$794,565,616	$777,988,814	$661,792,183

b. Indovina Bank

Off balance sheet items	Maximum exposure to credit risk		
	2017.03.31	2016.12.31	2016.03.31
Unused commercial letters of credit	$1,198,939	$841,466	$1,153,096
Financial guarantee contracts	2,730,583	2,865,926	1,732,121
Total	$3,929,522	$3,707,392	$2,885,217

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

c. CUBC Bank

Off balance sheet items	Maximum exposure to credit risk		
	2017.03.31	2016.12.31	2016.03.31
Irrevocable loan commitments	$652,755	$546,423	$606,789
Credit card commitments	356,429	328,186	357,831
Unused commercial letters of credit	3,063	3,223	-
Financial guarantee contracts	45,513	63,479	34,954
Total	$1,057,760	$941,311	$999,574

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:

	2017.03.31		2016.12.31		2016.03.31	
Item	Amount	%	Amount	%	Amount	%
Industry type						
Manufacturing	$69,530,679	4.73	$80,057,522	5.46	$70,968,051	5.77
Financial institutions and insurance	57,494,800	3.92	52,975,202	3.61	41,111,126	3.34
Leasing and real estate	118,184,773	8.05	115,994,786	7.90	92,032,713	7.49
Individuals	754,958,038	51.42	726,970,977	49.52	616,533,589	50.14
Others	468,026,328	31.88	491,942,342	33.51	408,966,971	33.26
Total	$1,468,194,618	100.00	$1,467,940,829	100.00	$1,229,612,450	100.00

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2017.03.31		2016.12.31		2016.03.31	
Item	Amount	%	Amount	%	Amount	%
Geographic Region						
Domestic	$1,294,085,369	88.15	$1,262,746,943	86.02	$1,088,325,875	86.14
Asia	79,482,634	5.41	116,804,425	7.96	76,507,532	8.59
America	27,709,133	1.88	24,369,284	1.66	23,542,451	1.92
Others	66,917,482	4.56	64,020,177	4.36	41,236,592	3.35
Total	$1,468,194,618	100.00	$1,467,940,829	100.00	$1,229,612,450	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

2017.03.31	Neither past due nor impaired							Impairment allowances (D)		
	Excellent	Good	Average	Subtotal (A)	Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	With objective evidence of impairment individual	Without objective evidence of impairment individual	Net balance (A)+(B)+(C)-(D)
Receivables										
Credit card business	$41,725,742	$8,615,387	$3,040,800	$53,381,929	$152,685	$173,061	$53,707,675	$140,102	$1,252,822	$52,314,751
Others	28,770,274	1,362,715	50,671	30,183,660	7,407	58,432	30,249,499	25,221	2,223,526	28,000,752
Discounts and loans	983,703,110	424,930,844	34,587,837	1,443,221,791	872,372	15,980,515	1,460,074,678	3,147,603	17,024,496	1,439,902,579

2016.12.31	Neither past due nor impaired							Impairment allowances (D)		
	Excellent	Good	Average	Subtotal (A)	Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	With objective evidence of impairment individual	Without objective evidence of impairment individual	Net balance (A)+(B)+(C)-(D)
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 except for share and per share data and unless otherwise stated)

2016.03.31	Neither past due nor impaired							Impairment allowances (D)		
	Excellent	Good	Average	Subtotal (A)	Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	With objective evidence of impairment individual	Without objective evidence of impairment individual	Net balance (A)+(B)+(C)-(D)
Receivables										
Credit card business	$37,237,252	$8,422,194	$3,046,861	$48,706,307	$150,085	$165,016	$49,021,408	$133,563	$1,293,158	$47,594,687
Others	15,971,435	3,159,447	212,318	19,343,200	6,193	39,487	19,388,880	13,226	1,713,743	17,661,911
Discounts and loans	823,248,968	319,694,278	32,176,456	1,175,119,702	992,695	13,859,712	1,189,972,109	3,174,903	14,525,141	1,172,272,065

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

2017.03.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	$279,920,086	$68,117,991	$11,241,851	359,279,928
Unsecured personal loans	27,696,089	15,147,571	4,214,477	47,058,137
Other	312,234,038	60,881,558	8,834,081	381,949,677
Corporate banking				
Secured	48,926,997	168,357,854	6,703,171	223,988,022
Unsecured	314,925,900	112,425,870	3,594,257	430,946,027
Total	$983,703,110	$424,930,844	$34,587,837	$1,443,221,791

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

2016.03.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	$235,519,810	$51,098,730	$9,112,495	$295,731,035
Unsecured personal loans	22,842,809	13,411,359	3,622,584	39,876,752
Other	263,809,071	45,549,577	6,480,408	315,839,056
Corporate banking				
Secured	47,613,030	118,527,447	8,030,354	174,170,831
Unsecured	253,464,248	91,107,165	4,930,615	349,502,028
Total	$823,248,968	$319,694,278	$32,176,456	$1,175,119,702

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

c. Credit quality analysis on securities investment of the Bank

2017.03.31	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	$137,785,764	$1,106,436	$138,892,200	$-	$-	$138,892,200	$-	$138,892,200
Stocks	3,090,646	15,232,415	18,323,061	-	140,985	18,464,046	140,985	18,323,061
Others	219,168	1,985,648	2,204,816	-	-	2,204,816	-	2,204,816
Held-to-maturity financial assets								
Bonds	30,793,050	1,830,820	32,623,870	-	-	32,623,870	-	32,623,870
Others	6,947,078	-	6,947,078	-	-	6,947,078	-	6,947,078
Investments in debt securities with no active market								
Bonds	82,161,431	55,354	82,216,785	-	1,395,310	83,612,095	1,395,310	82,216,785
Others	325,290,000	-	325,290,000	-	-	325,290,000	-	325,290,000

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2016.03.31	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	$82,861,970	$-	82,861,970	$-	$-	$82,861,970	$-	$82,816,970
Stocks	8,722,290	8,887,722	17,610,012	-	140,985	17,750,997	140,985	17,610,012
Others	-	993,694	993,694	-	-	993,694	-	993,694
Held-to-maturity financial assets								
Bonds	40,609,789	40,496	40,650,285	-	-	40,650,285	-	40,650,285
Investments in debt securities with no active market								
Bonds	32,437,028	604	32,437,632	-	1,478,685	33,916,317	1,478,685	32,437,632
Others	426,325,000	-	426,325,000	-	-	426,325,000	-	426,325,000

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.

2017.03.31	Less than 60 days	61-90 days	Total
Receivables			
Credit card business	$91,882	$60,803	$152,685
Others	5,682	1,725	7,407
Discounts and loans			
Consumer banking			
Residential mortgage loans	252,823	57,714	310,537
Unsecured personal loans	71,616	49,906	121,522
Others	212,292	60,569	272,861
Corporate banking			
Secured	15,143	-	15,143
Unsecured	152,310	-	152,310

(Expressed in thousands of New Taiwan Dollars except for share and per share data and 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

2016.03.31	Less than 60 days	61-90 days	Total
Receivables			
Credit card business	$91,703	$58,382	$150,085
Others	3,715	2,478	6,193
Discounts and loans			
Consumer banking			
Residential mortgage loans	213,145	109,957	323,102
Unsecured personal loans	43,587	36,733	80,320
Others	182,666	113,030	295,696
Corporate banking			
Secured	228,643	26,960	255,603
Unsecured	17,877	20,097	37,974

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 $140,985 as of 31 March 2017, 31 December 2016 and 31 March 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 $1,299,724, $1,382,970 and $1,383,099 as of 31 March 2017, 31 December 2016 and 31 March 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 $95,586 as of 31 March 2017, 31 December 2016 and 31 March 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.(4) and Note 6.(5).

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

Foreclosed properties management policy

The Group has no recognized impairment loss for foreclosed properties in CUBC Bank for three-month periods ended 31 March 2017 and 2016, due to the existence of objective impairment evidence. The accumulated impairment loss in the amount of \$58,102, \$58,102 and \$0 as of 31 March 2017, 31 December 2016 and 31 March 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.

(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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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.

2017.03.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	$68,108,466	$46,297,553	$15,794,579	$12,163	$130,212,761
Non-derivative financial liabilities at fair value through profit or loss	100,248	-	-	-	100,248
Securities sold under agreements to repurchase	41,303,068	8,229,945	-	11,308,138	60,841,151
Payables	14,090,541	5,686,792	3,484,055	702,625	23,964,013
Deposits and remittances	255,425,556	811,618,948	819,350,543	115,196,708	2,001,591,755
Financial debentures payable	166,733	4,014,802	3,850,000	44,400,000	52,431,535
Other capital outflow at maturity	22,910,018	30,095,668	7,019,499	427,120	60,452,305

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
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

2016.03.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	$35,192,868	$5,723,074	$13,299,803	$80,155	$54,295,900
Securities sold under agreements to repurchase	40,408,466	2,520,446	-	-	42,928,912
Payables	3,032,995	1,970,089	934,747	259,235	6,197,066
Deposits and remittances	250,090,707	725,729,751	784,773,834	117,189,818	1,877,784,110
Financial debentures payable	166,848	365,003	-	51,900,000	52,431,851
Other capital outflow at maturity	20,206,030	35,743,137	8,754,175	2,732,753	67,436,095

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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:

2017.03.31	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	$(132,167)	$1,448,730	$64,612	$162	$1,381,337
- Interest rate derivative instruments	1,950,007	347,261	253,663	18,355,116	20,906,047
Total	$1,817,840	$1,795,991	$318,275	$18,355,278	$22,287,384

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

2016.03.31	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	$143,777	$506,522	$886,732	$1,886,109	$3,423,140
- Interest rate derivative instruments	460,967	182,507	4,848,366	20,262,161	25,754,001
Total	$604,744	$689,029	$5,735,098	$22,148,270	$29,177,141

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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:

2017.03.31	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	$(7,069,411)	$(8,214,482)	$(1,760,999)	$(186,406)	$(17,231,298)
-Cash inflow	-	-	-	-	-
- Interest rate derivative instruments					
-Cash outflow	(44,011)	(769,507)	(1,642,814)	(286,023)	(2,742,355)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(7,113,422)	(8,983,989)	(3,403,813)	(472,429)	(19,973,653)
Cash inflow subtotal	-	-	-	-	-
Net cash flow	$(7,113,422)	$(8,983,989)	$(3,403,813)	$(472,429)	$(19,973,653)

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)

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2016.03.31	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	$(3,966,997)	$(9,779,559)	$(2,648,589)	$(183,111)	$(16,578,256)
-Cash inflow	37,043	268,737	319,056	238,895	863,731
- Interest rate derivative instruments					
-Cash outflow	(145,928)	(383,602)	(753,901)	(769,921)	(2,053,352)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(4,112,925)	(10,163,161)	(3,402,490)	(953,032)	(18,631,608)
Cash inflow subtotal	37,043	268,737	319,056	238,895	863,731
Net cash flow	$(4,075,882)	$(9,894,424)	$(3,083,434)	$(714,137)	$(17,767,877)

C. Maturity analysis of off-balance sheet items

a. Irrevocable commitments: include CUB'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:

2017.03.31	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	$47,962,887	$1,274,366	$144,064,742	$193,301,995
Credit card commitments	13,644,573	282,401,245	294,401,672	590,447,490
Financial guarantee contracts	876,835	3,742,169	6,197,126	10,816,131
Leasing commitments				
- Non-cancellable operating lease payments	1,689,419	3,342,754	67,056	5,099,229
Total	$64,173,714	$290,760,534	$444,730,596	$799,664,845

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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

2016.03.31	Not later than 1 year	1~5 years	Later than 5 years	Total
Irrevocable loan commitments	$84,028,292	$36,232,983	$2,838,595	$123,099,870
Credit card commitments	15,885,487	227,367,944	281,687,172	524,940,603
Financial guarantee contracts	11,833,685	1,896,698	21,327	13,751,710
Leasing commitments				
- Non-cancellable operating lease payments	2,903,498	2,638,470	115,005	5,656,973
Total	$114,650,962	$268,136,095	$284,662,099	$667,449,156

(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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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 2016 and 2015, the ratio of the Group eligible capital to its consolidated risk-weighted assets were 14.05% and 16.29%, 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

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

	2017.03.31	2016.12.31	2016.03.31
Available-for-sale financial assets	$838,377	$922,506	$95,699
Held-to maturity financial assets	11,137,478	12,296,939	14,380,662
Investments in debt securities with no active market	34,777,621	28,079,749	12,687,089
Total	$46,753,476	$41,299,194	$27,163,450

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

As of 31 March 2017, 31 December 2016, and 31 March 2016 the trust assets (liabilities) were in the amount of $463,874,973, $482,621,306 and $488,426,534, respectively.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

(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:

	2017.03.31		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$11,332,385	30.3360	$343,779,231
CNY	5,725,687	4.4079	25,238,256
SGD	1,064,283	21.7120	23,107,712
Financial liabilities			
Monetary Items			
USD	11,867,156	30.3360	360,002,044
CNY	8,090,679	4.4079	35,662,904
AUD	1,076,896	23.2252	25,011,125

	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

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

	2016.03.31		
	Foreign Currency	Exchange Rate	NTD
Financial Assets			
Monetary Items			
USD	$7,380,099	32.2820	$238,244,356
HKD	2,660,538	4.1631	11,076,086
CNY	13,496,330	4.9874	67,311,596
Financial liabilities			
Monetary Items			
USD	9,415,458	32.2820	303,949,815
CNY	7,918,007	4.9874	39,490,268
AUD	824,687	24.7199	20,386,180

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 three-month periods ended 31 March 2017 and 2016 were $105,075 and $124,146, 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:

(1) Corporate banking segment - syndication loans, large-sized loans, group loans and general loans, etc.

(2) 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.

(3) Offshore banking segment - international banking department, offshore banking unit, overseas branches and representative office, etc.

(4) 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.

(Expressed in thousands of New Taiwan Dollars except for share and per share data and unless otherwise stated)

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.

2017.01.01-2017.03.31	Corporate Banking Segment	Retail Banking Segment	Offshore Banking Segment	Other Segment	Consolidated
Net interest income (from external customer)	$1,911,168	$2,574,913	$1,388,490	$1,158,173	$7,032,744
Inter-segment revenues (expense)	$(728,130)	$2,170,775	$(21,015)	$(1,421,630)	$-
Segment net income	$1,021,031	$3,787,130	$967,033	$(62,719)	$5,712,475
Income tax expense					(704,056)
Net income after income taxes					$5,008,419

2016.01.01-2016.03.31	Corporate Banking Segment	Retail Banking Segment	Offshore Banking Segment	Other Segment	Consolidated
Net interest income (from external customer)	$1,257,774	$1,866,606	$1,666,262	$1,419,361	$6,210,003
Inter-segment revenues (expense)	$(588,709)	$2,475,453	$5,332	$(1,892,076)	$-
Segment net income	$412,722	$4,298,933	$1,718,570	$10,469	$6,440,694
Income tax expense					(795,906)
Net income after income taxes					$5,644,788

Note:

A. No revenue from transactions with a single external customer amounted to 10% or more of the Group total revenue during three-month periods ended 31 March 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.