Union Bank of Taiwan

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

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Union Bank of Taiwan

Opinion

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The description of each key audit matters of the financial statements for the year ended December 31, 2016 are as follow:

<u>Accuracy of Interest Revenue Recognition of Discounts and Loans</u>

For the year ended 2016, the amount of interest revenue of discounts and loans is $6,189,110 thousand, representing approximately 62% of total net revenue, and is considered material to the financial statements as a whole. Refer to Notes 30. Therefore, we consider the accuracy of the recognition thereof to be a key audit matter for the year ended December 31, 2016.

The main audit procedures we performed in response to certain aspects of the key audit matter described above are as follows:

1. Understanding the design of the Bank's computerized information system and General IT Control, test its operating effectiveness in order to determine the effectiveness of controls over the relevant application system and the information generated.

2. Understanding the design of the application system for recognition of commercial loans discount and interest revenue. Perform operating effectiveness testing of relevant automated controls in the application system.

3. Determine and verify the material classification of loans. Verify if there is any difference in the balance of loans generated by information system and carrying amount on per book.

4. Testing and assessing the accuracy of interest revenue generated by information system. Verify if there is any difference in the balance of loans generated by information system and carrying amount on per book.

Possible Impairments on Discounts and Loans

As of December 31, 2016, the net amount of discounts and loans of the Bank is $284,040,723 thousand, representing approximately 54% of total consolidated assets, and is considered material to the financial statements as a whole. Refer to Note 11. The Bank's management performs loan impairment assessment involving critical judgements such as accounting estimates and assumptions; therefore, we determined allowances for possible losses on discounts and loans to be a key audit matter for the year ended December 31, 2016.

The Bank's management performs loan impairment assessment through reviewing portfolios of loans periodically, and makes a judgement on whether to recognize impairment losses per observable evidence indicating the probable occurrence of impairment events. The amount of impairment losses is the difference between the asset's carrying amount and the present value of the estimated future cash flows with consideration to the collaterals and guarantees, discounted at the financial asset's original effective interest rate. In addition, the allowance provision must comply with relevant regulations issued by the authorities.

For the accounting policies and relevant information on loan impairment assessment, refer to Notes 4, 5 and 12 to the financial statements.

The main audit procedures we performed in response to certain aspects of the key audit matter described above are as follows:

1. Obtain an understanding of and test the controls in respect of the Bank's loan impairment process.

2. Sample individually impairment assessed loans by:

   - Verifying the accuracy of the balance of loans.

   - Considering the payment of principal and interest, in order to assess that the classification of credit assets have complied with relevant regulations issued by the authorities.

   - Assessing the assumptions used to estimate future cash flows and the reasonableness of the value of collateral.

3. Sample collectively impairment assessed loans by:

   - Obtaining an understanding of the reasonableness regarding the classification of collectively assessed loans.

   - Obtaining an understanding of and performing test on the assumptions of critical factors of collectively assessed loans, including the possibility of the impairment and the recoverability of loan balances, used in the impairment assessment model to verify whether the real outcome of each loan portfolio can be reflected.

   - Recalculating the impairment to confirm its adequacy and accuracy.

4. Test the classification of credit assets in order to assess whether the provision of allowances for possible losses complies with relevant regulations issued by the authorities.

Emphasis of Matter

As stated in Notes 1 and 15 to the financial statements, the Bank merged with Union Insurance Broker Company, a 100% owned subsidiary of the Bank on August 1, 2016. The merger should be treated as a reorganization. Thus, the Bank should restate its financial statements retrospectively. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks and Regulations Governing the Preparation of Financial Reports by Securities Firms, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shiuh-Ran Cheng and Chen-Hsiu Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2017

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

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

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

UNION BANK OF TAIWAN

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

ASSETS	2016 Amount	%	2015 (Restated and Note 15) Amount	%
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	$ 9,974,690	2	$ 7,839,544	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Note 7)	54,414,461	10	63,312,965	13
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 8)	9,291,613	2	8,815,810	2
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4 and 9)	27,845,242	5	22,052,189	4
RECEIVABLES, NET (Notes 4, 5, 10 and 12)	17,768,361	3	15,141,449	3
CURRENT TAX ASSETS (Note 4)	183,591	-	316,861	-
DISCOUNTS AND LOANS, NET (Notes 4, 5, 11, 12 and 40)	284,040,723	54	280,781,558	56
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 5, 13 and 40)	39,548,602	8	22,911,977	5
HELD-TO-MATURITY FINANCIAL ASSETS (Notes 4 and 14)	7,192,115	1	4,191,245	1
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 15)	2,910,889	1	2,758,367	1
OTHER FINANCIAL ASSETS, NET (Notes 4, 16 and 41)	56,620,906	11	60,969,196	12
PROPERTY AND EQUIPMENT, NET (Notes 4 and 17)	8,136,374	2	7,713,726	1
INTANGIBLE ASSETS (Note 4)				
Goodwill (Notes 5 and 18)	1,985,307	-	1,985,307	-
Computer software	179,209	-	154,974	-
Total intangible assets	2,164,516	-	2,140,281	-
DEFERRED TAX ASSETS (Notes 4 and 38)	1,307,570	-	1,750,150	-
OTHER ASSETS, NET (Notes 4, 19, 40 and 42)	2,230,774	1	2,193,401	-
TOTAL	$ 523,630,427	100	$ 502,888,719	100
LIABILITIES AND EQUITY				
LIABILITIES				
Due to the Central Bank and other banks (Note 20)	$ 7,017,629	1	$ 3,163,991	1
Financial liabilities at fair value through profit or loss (Notes 4, 5 and 8)	38,430	-	54,271	-
Securities sold under agreements to repurchase (Notes 4 and 21)	28,874,137	6	26,986,936	5
Accounts payable (Notes 22 and 40)	6,889,250	1	4,037,153	1
Current tax liabilities (Note 4)	64,784	-	32,955	-
Deposits (Notes 23 and 40)	432,062,824	83	421,746,026	84
Bank debentures (Notes 4 and 24)	11,200,000	2	9,600,000	2
Other financial liabilities (Note 25)	19,566	-	20,408	-
Provisions (Notes 4, 5, 12 and 26)	176,554	-	1,026,155	-
Deferred tax liabilities (Notes 4 and 38)	815,251	-	869,197	-
Other liabilities (Notes 28, 40 and 42)	522,686	-	461,463	-
Total liabilities	487,681,111	93	467,998,555	93
EQUITY				
Capital stock				
Common stock	26,051,524	5	26,051,524	5
Capital surplus	32,413	-	32,413	-
Retained earnings				
Legal reserve	4,374,367	1	3,450,907	1
Special reserve	558,842	-	558,842	-
Unappropriated earnings	3,740,039	1	3,078,201	1
Total retained earnings	8,673,248	2	7,087,950	2
Other equity	1,192,131	-	1,718,277	-
Total equity	35,949,316	7	34,890,164	7
TOTAL	$ 523,630,427	100	$ 502,888,719	100

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

(With Deloitte & Touche auditors' report dated March 22, 2017)

UNION BANK OF TAIWAN

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

	2016		2015 (Restated and Note 15)		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
NET INTEREST (Notes 4, 30 and 40)					
Interest revenues	$ 10,051,894	102	$ 10,129,151	103	(1)
Interest expenses	3,653,016	37	3,958,924	40	(8)
Net interest	6,398,878	65	6,170,227	63	4
NET REVENUES OTHER THAN INTEREST					
Commissions and fee revenues, net (Notes 4, 31 and 40)	2,454,451	25	2,299,041	23	7
Gain on financial assets and liabilities at fair value through profit or loss (Notes 4 and 32)	365,278	4	420,635	4	(13)
Realized gain on available-for-sale financial assets, net (Notes 4 and 33)	449,182	4	248,489	3	81
Share of profit of associates (Note 4)	173,216	2	141,458	1	22
Foreign exchange gain (loss), net (Note 4)	(9,514)	-	495,162	5	(102)
Impairment loss recognized on financial assets, net (Notes 4, 16 and 34)	(49,283)	(1)	(104,843)	(1)	(53)
Securities brokerage fee revenues, net (Note 40)	52,172	-	64,113	1	(19)
Gain on financial assets measured at cost, net	57,955	1	48,650	1	19
Property loss, net	(3,948)	-	(948)	-	316
Other noninterest net gain	18,806	-	23,906	-	(21)
TOTAL NET REVENUES	9,907,193	100	9,805,890	100	1
PROVISIONS (Notes 4 and 12)					
Provision (reversal) of allowance for doubtful accounts	171,542	2	(113,942)	(1)	251

(Continued)

UNION BANK OF TAIWAN

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

	2016		2015 (Restated and Note 15)		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
OPERATING EXPENSES					
Personnel expenses (Notes 4, 27, 35 and 40)	$ 3,137,375	31	$ 2,959,823	30	6
Depreciation and amortization (Notes 4 and 36)	305,759	3	252,655	3	21
Others (Notes 37 and 40)	3,066,039	31	2,944,211	30	4
Total operating expenses	6,509,173	65	6,156,689	63	6
INCOME BEFORE INCOME TAX	3,226,478	33	3,763,143	38	(14)
INCOME TAX EXPENSE (Notes 4 and 38)	590,103	6	642,241	6	(8)
NET INCOME	2,636,375	27	3,120,902	32	(16)
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans (Note 27)	(16,223)	-	(61,045)	(1)	(73)
Share of the other comprehensive income of subsidiaries and associates	4,449	-	162	-	2,646
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 38)	2,758	-	10,378	-	(73)
	(9,016)	-	(50,505)	(1)	(82)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	(539,546)	(6)	80,338	1	(772)
Unrealized gain on available-for-sale financial assets	(60,740)	(1)	340,347	4	(118)
Share of other comprehensive income (loss) of subsidiaries and associates	5,526	-	37,123	-	(85)

(Continued)

UNION BANK OF TAIWAN

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

	2016		2015 (Restated and Note 15)		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 38)	$ 68,614	1	$ (108,431)	(1)	163
	(526,146)	(6)	349,377	4	(251)
Other comprehensive income for the year, net of income tax	(535,162)	(6)	298,872	3	(279)
TOTAL COMPREHENSIVE INCOME	$ 2,101,213	21	$ 3,419,774	35	(39)
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 39)					
Basic	$1.01		$1.20		
Diluted	$1.01		$1.19		

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

(With Deloitte & Touche auditors' report dated March 22, 2017) (Concluded)

UNION BANK OF TAIWAN

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

	Capital Stock (Note 29)		Retained Earnings (Notes 4 and 29)				Other Equity (Notes 4 and 29)			
	Common Stock	Share Capital (Note 29)	Legal Reserve	Special Reserve	Unappropriated Earnings	Total	Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating Foreign Operations	Total	Total Equity
BALANCE AT JANUARY 1, 2015	$ 24,509,306	$ 33,006	$ 2,522,768	$ 558,842	$ 3,045,300	$ 6,126,910	$ 1,029,647	$ 339,253	$ 1,368,900	$ 32,038,122
Appropriation of the 2014 earnings										
Legal reserve	-	-	928,139	-	(928,139)	-	-	-	-	-
Cash dividends on common shares	-	-	-	-	(637,242)	(637,242)	-	-	-	(637,242)
Stock dividends on common shares	1,470,558	-	-	-	(1,470,558)	(1,470,558)	-	-	-	-
Net income for the for the year ended December 31, 2015	-	-	-	-	3,120,902	3,120,902	-	-	-	3,120,902
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	(50,505)	(50,505)	272,581	76,796	349,377	298,872
Share-based payment	71,660	(593)	-	-	(1,557)	(1,557)	-	-	-	69,510
BALANCE AT DECEMBER 31, 2015	26,051,524	32,413	3,450,907	558,842	3,078,201	7,087,950	1,302,228	416,049	1,718,277	34,890,164
Appropriation of the 2015 earnings										
Legal reserve	-	-	923,460	-	(923,460)	-	-	-	-	-
Cash dividends on common shares	-	-	-	-	(1,042,061)	(1,042,061)	-	-	-	(1,042,061)
Net income for the year ended December 31, 2016	-	-	-	-	2,636,375	2,636,375	-	-	-	2,636,375
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(9,016)	(9,016)	(29,920)	(496,226)	(526,146)	(535,162)
BALANCE AT DECEMBER 31, 2016	$ 26,051,524	$ 32,413	$ 4,374,367	$ 558,842	$ 3,740,039	$ 8,673,248	$ 1,272,308	$ (80,177)	$ 1,192,131	$ 35,949,316

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

(With Deloitte & Touche auditors' report dated March 22, 2017)

UNION BANK OF TAIWAN

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

	2016	2015 (Restated and Note 15)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,226,478	$ 3,763,143
Adjustments for:		
Depreciation expenses	248,210	207,898
Amortization expenses	57,549	44,757
Provision (reversal) of allowance for doubtful accounts	171,542	(113,942)
Net gain on disposal of financial assets designated as at fair value through profit or loss	(365,278)	(420,635)
Interest expenses	3,653,016	3,958,924
Interest revenues	(10,051,894)	(10,129,151)
Dividend income	(208,005)	(228,904)
Share of profit of associates	(173,216)	(141,458)
Loss on disposal of properties and equipment	3,948	948
Gain on disposal of investments	(299,132)	(68,234)
Impairment loss recognized on financial assets	50,000	120,000
Reversal of impairment losses on nonfinancial asset	(717)	(15,157)
Loss (gain) on disposal of collaterals	241	(6,593)
Changes in operating assets and liabilities		
Due from the Central Bank and call loans banks	(1,496)	1,947,488
Financial assets at fair value through profit or loss	127,674	10,205,190
Accounts receivable	(2,731,287)	(161,539)
Discounts and loans	(3,389,657)	(23,205,947)
Available-for-sale financial assets	(16,398,233)	(8,803,577)
Held-to-maturity financial assets	(2,974,151)	(3,657,614)
Other financial assets	4,423,579	(4,489,643)
Due to the Central Bank and other banks	3,853,638	(3,000,753)
Financial liabilities at fair value through profit or loss	(259,375)	(389,629)
Securities sold under repurchase agreements	1,887,201	(4,804,340)
Accounts payable	2,829,338	(1,490,061)
Deposits	10,316,798	25,370,487
Other financial liabilities	(842)	1,480
Provisions for employee benefits	(806,439)	(1,203)
Cash used in operations	(6,810,510)	(15,508,065)
Interest received	9,910,845	10,076,868
Dividend received	241,509	250,264
Interest paid	(3,630,257)	(3,937,804)
Income tax returned (paid)	35,002	(33,178)
Net cash used in operating activities	(253,411)	(9,151,915)

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UNION BANK OF TAIWAN

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

	2016	2015 (Restated and Note 15)
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for properties and equipment	$ (721,944)	$ (143,722)
Proceeds of the disposal of properties and equipment	23	1,080
Increase in settlement fund	(20,334)	-
Decrease in settlement fund	-	24,443
Increase in refundable deposits	-	(194,748)
Decrease in refundable fund	243,501	-
Payments for intangible assets	(34,669)	(90,028)
Proceeds of the disposal of collaterals	476	21,750
Increase in other assets	(260,541)	(56,517)
Net cash used in investing activities	(793,488)	(437,742)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds of the issue of bank debentures	2,500,000	2,200,000
Repayments of bank debentures	(9,000,000)	-
Increase (decrease) in guarantee deposits received	13,889	(11,866)
Increase in other liabilities	40,314	27,227
Cash dividends paid	(1,042,061)	(637,242)
Net cash generated from financing activities	(7,487,858)	1,578,119
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(537,044)	76,004
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,071,801)	(7,935,534)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	77,991,733	85,927,267
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 68,919,932	$ 77,991,733

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UNION BANK OF TAIWAN

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

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

	December 31	
	2016	**2015**
Cash and cash equivalents in balance sheets	$ 9,974,690	$ 7,839,544
Due from the Central Bank and call loans to banks that meet the definition of cash and cash equivalents in IAS 7 "Cash Flow Statements"	39,200,000	48,100,000
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	27,845,242	22,052,189
Cash and cash equivalents in statements of cash flows	$ 77,019,932	$ 77,991,733

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

(With Deloitte & Touche auditors' report dated March 22, 2017) (Concluded)

1. GENERAL INFORMATION

The Union Bank of Taiwan (the Bank) obtained approval from the Ministry of Finance (MOF) to be established on August 1, 1991 and was incorporated on December 31, 1991. It started operations on January 21, 1992.

The Bank engages in activities allowed under the Banking Law, which cover deposits, loans, discounts, remittances, acceptances, issuance of guarantees and letters of credit, short-term bills transactions, investments, foreign exchange transactions, savings, trust, etc.

On the Bank's merger with Chung Shing Bank on March 19, 2005, the Bank took over all of the assets, liabilities and operating units of Chung Shing Bank.

The Bank merged with the Union Bills Finance Corporation (UBF) on August 16, 2010, with the Bank as the survivor entity.

On August 26, 2016, the board of directors of the Bank resolved to merge UIB in order to integrate the resources, strengthen management and business synergy. The merger is approved by FSC (Rule No. 10502022990). The effective date of this merger is August 1, 2016.

As of December 31, 2016, the Bank's operating units included Banking, Trust, Wealth Management, Security Finance, Bills Finance, International Banking Department of the Head Office, an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 90 domestic branches (including Business Department).

The operations of the Bank's Trust Department are (1) trust business planning, managing and operating; and (2) custody of nondiscretionary trust funds in domestic and overseas securities and mutual funds. These foregoing operations are regulated under the Banking Law and Trust Law.

The Bank's shares are traded on the Taiwan Stock Exchange.

The Bank's financial statements are presented in New Taiwan dollars.

2. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the board of directors and authorized for issue on March 22, 2017.

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

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

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Bank should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRS, IAS, IFRIC and SIC (collectively, the IFRSs) issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the New IFRSs)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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

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

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

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

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

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

2) IFRIC 21 "Levies"

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

3) Annual Improvements to IFRSs: 2010-2012 Cycle

   Several standards, including IFRS 2 "Share-based Payment", IFRS 3 "Business Combinations" and IFRS 8 "Operating Segments", were amended in this annual improvement.

   The amended IFRS 2 changes the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Bank or another entity in the same group or the market price of the equity instruments of the group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Bank as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Bank, but also of other entities outside the Bank. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

   IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment will be applied prospectively to business combination with acquisition date on or after January 1, 2017.

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

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

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Bank is a related party of the Bank. Consequently, the Bank is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required. When the amendment becomes effective in 2017, Company which provides key management personnel services to the Bank will be treated retrospectively as a related party and disclosed accordingly.

4) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 "Investment Property", were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself. The amendment will be applied prospectively starting from January 1, 2017.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a Bank of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32. The Bank entered into (crude oil) purchase contracts that could be settled net in cash. When the amended IFRS 13 becomes effective in 2017, the Bank will elect to measure the fair value of those contracts on a net basis retrospectively.

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

5) Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 "Property, Plant and Equipment" stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 “Intangible Assets” clarifies there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity’s use of the intangible asset will expire upon achievement of a revenue threshold); or

b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

6) Annual Improvements to IFRSs: 2012-2014 Cycle

Several standards including IFRS 5 “Non-current assets held for sale and discontinued operations”, IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement.

IFRS 5 was amended to clarify that reclassification between non-current assets (or disposal Bank) “held for sale” and non-current assets “held for distribution to owners” does not constitute a change to a plan of sale or distribution. Therefore, previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for “held for distribution to owners” and do not meet the criteria for “held for sale” should be treated in the same way as assets that cease to be classified as held for sale. The amendment will be applied prospectively to transactions that occur on or after January 1, 2017.

7) Amendments to IFRS 10, IFRS 12 and IAS 28 “'Investment Entities: Applying the Consolidation Exception”

The amendments clarified that when the Bank (non-investment entity) applies the equity method to an associate or a joint venture that is an investment entity, the Bank may retain the fair value measurements that the associate or joint venture used for its subsidiaries. Prior to the amendments, the associate or joint venture measures its interest in subsidiaries at fair value but the fair value is unwound, and instead, those subsidiaries are consolidated in the associate’s or joint venture’s result in order to be equity-accounted by the Bank. When the amendments become effective, the Bank will elect to retain the measurement applied by the associate or joint venture to its interest in subsidiaries.

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

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

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

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

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

The Bank has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

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

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

1) IFRS 9 "Financial Instruments"

    Recognition and measurement of financial assets

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

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

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

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

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

    The impairment of financial assets

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

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

Transition

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

2) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Bank regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

Under IFRS 15, the Bank will allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. Under current standard, the Bank applies residual value method to allocate the amount of revenue to be recognized.

Incremental costs of obtaining a contract will be recognized as an asset to the extent the Bank expects to recover those costs. Such asset will be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This will lead to the later recognition of charges for certain customer-obtaining costs.

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

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

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

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

4) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Bank is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Bank may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Bank should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

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

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

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

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

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

6) Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"

The amendment requires that market condition and non-vesting condition should be taken into account and vesting conditions, other than market conditions, should not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, they should be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction. This amendment applies to share-based payment transactions that are unvested at the date the Bank first applies the amendment and to share-based payment transactions with a grant date on or after the date the Bank first applies the amendment.

The amendment also requires that if a cash-settled share-based payment transaction is modified with the result that it becomes an equity-settled share-based payment transaction, the Bank should recognize in equity the fair value of the equity instruments granted at the modification date to the extent of the goods or services received. The difference between the carrying amount of the liability on cash-settled share-based payment transaction derecognized and the amount of equity recognized on the modification date is recognized in profit or loss. This amendment applies only to modifications that occur on or after the date the Bank first applies the amendment.

The amendment states that when the Bank withholds the number of equity instruments equal to the monetary value of tax obligation to fund the withholding tax, the share-based payment has a net settlement feature. Such transaction should be classified in its entirety as equity-settled share-based payment transaction if it would have been so classified in the absence of the net settlement feature. This amendment applies to share-based payment transactions that are unvested or vested but unexercised at the date the Bank first applies the amendment and to share-based payment transactions with a grant date on or after the date the Bank first applies the amendments.

7) Annual Improvements to IFRSs 2014-2016 Cycle

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

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

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

Furthermore, the amendment to IAS 28 clarified that when the Bank (non-investment entity) applies the equity method to account for investment in an associate or a joint venture that is an investment entity, the Bank may elect to retain the fair value of the investment in subsidiaries of the investment entity associate or joint venture. The election should be made separately for each investment entity associate or joint venture, at the later of the date (a) the investment entity associate or joint venture is initially recognized, (b) the associate or joint venture becomes an investment entity, or (c) the investment entity associate or joint venture first becomes a parent.

The Bank shall apply the aforementioned amendments retrospectively.

8) Amendments to IAS 40 “Transfers of Investment Property”

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

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

9) IFRIC 22 “Foreign Currency Transactions and Advance Consideration”

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

When preparing its financial statements, the Bank used the equity method to account for its investment in subsidiaries and associates. In order for the amounts of the net profit for the year, other comprehensive income for the year and total equity in the parent company only financial statements to be the same with the amounts attributable to the owner of the Bank in its consolidated financial statements, adjustments arising from the differences in accounting treatment between parent company only basis and consolidated basis were made to investments accounted for using equity method, share of profit or loss of subsidiaries and associates, share of other comprehensive income of subsidiaries, associates and related equity items, as appropriate, in the financial statements.

Business Combinations

Business combinations involving entities under common control are not accounted for by the acquisition method but are accounted for at the carrying amounts of the entities. Prior period comparative information in the financial statements is restated as if a business combination involving entities under common control had already occurred in that period.

Foreign Currencies

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

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for: Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Nonmonetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of nonmonetary items are included in profit or loss for the period. If a gain or loss on a nonmonetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income.

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

For the purposes of presenting financial statements, the assets and liabilities of the Bank's foreign operations (including those of the subsidiaries, associates and joint ventures operations in other countries or currencies used that are different from that of the Bank) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Bank and noncontrolling interests as appropriate).

Investments Accounted for Using the Equity Method

a. Investments in subsidiaries

   Subsidiaries are the entities controlled by the Bank.

   Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the Bank's share of the profit or loss and other comprehensive income of the subsidiary after the date of acquisition. The Bank also recognizes its share of the change in other equity of the subsidiary.

Changes in the Bank's ownership interests in subsidiaries that do not result in the Bank's loss of control over the subsidiaries are accounted for as equity transactions. Any difference between the carrying amounts of the investment and the fair value of the consideration paid or received is recognized directly in equity.

When the Bank's share of losses of a subsidiary equals or exceeds its interest in that subsidiary (which includes any carrying amount of the investment in subsidiary accounted for by the equity method and long-term interests that, in substance, form part of the Bank's net investment in the subsidiary), the Bank continues recognizing its share of further losses.

The acquisition cost in excess of the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill. Goodwill is not amortized. The acquisition-date fair value of the net identifiable assets acquired in excess of the acquisition cost is recognized immediately in profit or loss.

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

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

Profits and losses from upstream transactions with a subsidiary and sidestream transactions between subsidiaries are recognized in the Bank's financial statements only to the extent of interests in the subsidiary that are not related to the Bank.

b. Investment in associates

An associate is an entity over which the Bank has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the operating and financial policy decision of an entity; it is not control over those policies.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Bank's share of the profit or loss and other comprehensive income of the associate. The Bank also recognizes the changes in the Bank's share of equity of associates attributable to the Group.

When the Bank subscribes for additional new shares of the associate at a percentage different from its current ownership percentage, the resulting carrying amount of the investment differs from the amount of the Bank's proportionate interest in the associate. The Bank records this difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. If the Bank's ownership interest is reduced due to the additional subscription for the new shares of an associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee directly disposes of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

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

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

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

The Bank discontinues the use of the equity method from the date on which it ceases to have significant influence. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between (a) the sum of the proceeds received and any retained interest and (b) the carrying amount of the investment in the associate at the date significant influence is lost is recognized in profit or loss. The Bank accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

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

Financial Instruments

Financial assets and financial liabilities are recognized when a Bank entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

<u>Financial assets</u>

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a. Measurement category

Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables.

1) Financial assets at fair value through profit or loss

A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency; or

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

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

Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Fair value is determined in the manner described in Note 44.

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

2) Held-to-maturity investments

Held-to-maturity investments are nonderivative financial assets with fixed or determinable payments and fixed maturity dates on which the Bank has the positive intent and ability to hold to maturity. In addition, they are not designated as at fair value through profit or loss, are not classified as available for sale, and do not meet the definition of loans and receivables. Foreign corporate bonds and debenture bonds that are above certain credit ratings and on which the Bank has a positive intent and ability to hold to maturity are classified as held-to-maturity investments.

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

3) Available-for-sale financial assets

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

The Bank holds government bonds, corporate bonds, listed stocks, mutual funds, negotiable certificates of deposit and commercial paper in an active market that are classified as trading and available-for-sale financial assets and are stated at fair value at each balance sheet date. Fair value is determined in the manner described in Note 44.

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

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

Available-for-sale equity investments with no quoted prices in an active market and with fair values that cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of these unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

4) Loans and receivables

Loans and receivables (including trade loans, receivables, cash and cash equivalent, debt investments with no active market, and nonperforming loans) are subsequently measured at amortized cost using the effective interest method less any impairment, except when short-term receivables have immaterial effect of discounting.

b. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been affected.

Certain categories of financial assets, such as loans, receivables, nonperforming loans and debt investments with no active market, are assessed for impairment collectively even if they are assessed as not impaired individually. Objective evidence of impairment of a portfolio of discounts and loans, receivables and nonperforming loans could include the significant financial difficulty of the debtor, economic or legal reasons relating to the debtor's financial difficulties, a counterparty's compromise on or breach of a contract, and an asset becoming more than three months overdue.

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

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered an objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

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

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

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables (please specify) where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables and other receivables that are written off against the allowance account.

c. Derecognition of financial assets

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

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

Equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank entity are recognized at the proceeds received, net of direct issue costs.

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

Financial liabilities

a. Subsequent measurement

   Except in the following situations, all financial liabilities are measured at amortized cost using the effective interest method, less any impairment:

   1) Financial liabilities at fair value through profit or loss

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

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

      a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency; or

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

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

      For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and it will not be subsequently reclassified to profit or loss. The remaining amount of changes in the fair value of that liability which incorporates any interest or dividend paid on the financial liability is presented in profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liabilities are derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss. Fair value is determined in the manner described in Note 44.

   2) Financial guarantee contracts

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

b. Derecognition of financial liabilities

   The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments

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

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

Nonperforming Loans

Under the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans" issued by the authorities, loans and other credits (including the accrued interests) that remain unpaid on their maturity are transferred immediately to nonperforming loans if the transfer is approved by the board of directors.

Nonperforming loans transferred from loans are recognized as discounts and loans, and those transferred from other credits are recognized as other financial assets.

Allowance for Doubtful Accounts and Reserve for Losses on Guarantees

In determining the allowance for credit losses and the reserve for losses on guarantees, the Bank assesses the balances of discounts and loans, receivables, nonperforming loans, and other financial assets as well as guarantees and acceptances for their collectability and their specific risks or general risks as of the balance sheet date.

Under the regulations issued by the Ministry of Finance (MOF), the Bank evaluates credit balances on the basis of their estimated collectability.

The MOF regulations also require the grouping of loans into these five classes: Normal, special mention, substandard, with doubtful collectability and uncollectable; the minimum allowances for doubtful accounts and for losses on guarantees for these loans should be 1%, 2%, 10%, 50% and 100%, respectively, of outstanding credits.

Later, the MOF issued a guideline stating that, within three years from January 1, 2011, the normal loans should have a minimum allowance of 1%, with the allowances for the four non-normal loans remaining the same. The Bank believes it can meet this new allowance requirement within three years from January 1, 2011.

Rule No. 10300329440 issued by FSC, stipulated the minimum the allowance for mortgage and improvement loans should be 1.5% by the end of 2016.

Credits deemed uncollectable may be written off if the write-off is approved by the board of directors. Recoveries of amounts previously written off are credited to the allowance account.

Repurchase and Resell Transactions

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

Property and Equipment

Property and equipment are stated at cost, less subsequent accumulated depreciation and subsequent accumulated impairment loss. This cost should be recognized as an asset only if it is probable that future economic benefits associated with the property and equipment item will flow to the Bank and if the cost of the item can be measured reliably.

Freehold land is not depreciated.

Depreciation is recognized as a systematic allocation of the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for prospectively.

For a contract where an owner of land provides land for construction of buildings by a property developer in exchange for a certain percentage of the buildings, exchange gain or loss is recognized when the exchange transaction occurs, if the buildings acquired are classified as property, plant and equipment and the exchange transaction has commercial substance.

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

Goodwill

Goodwill (part of intangible assets) from business combination is recorded at acquisition cost and subsequently measured at cost less accumulated impairment.

For impairment test purposes, goodwill is allocated to each cash-generating unit (CGU) that is expected to benefit from the synergy of a business combination.

In testing assets for impairment, the Bank compares the carrying amounts of CGUS with allocated goodwill with their recoverable amounts on a yearly basis (or when impairment indicators exist). Goodwill arising in a business combination should be tested for impairment during the year in which goodwill is acquired. When the recoverable amount of a CGU is below the carrying amount, an impairment loss should be recognized to reduce first the carrying amount of goodwill of the CGU and then the carrying amounts of other assets of the CGU proportionately. Any impairment loss should be directly recognized as loss in the current period, and subsequent reversal of impairment loss is not allowed.

On CGU disposal, the amount attributable to goodwill is included in the CGU carrying amount to determine the gain or loss on disposal.

Intangible Assets

Separate acquisition

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis. At year-end, the Bank examines its estimates of the asset useful lives, residual values and amortization method with the effect of any changes in estimate accounted for on a prospective basis. Unless the Bank expects to dispose of an intangible asset before the end of its useful life, the residual value of an intangible asset with limited useful life is estimated to be zero.

Derecognition

Gains or losses recognized on derecognition of an intangible asset are the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period in which the asset is derecognized.

Foreclosed Collaterals

Collaterals assumed (included in other assets) are recorded at cost, which includes the assumed prices and any necessary repairs to make the collaterals saleable, and evaluated at the lower of cost or net realizable value as of the balance sheet date.

Impairment of Tangible and Intangible Assets (Excluded Goodwill)

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a CGU is identified as having a carrying amount that includes assets that can be allocated on a reasonable and consistent basis to the CGU, corporate assets are also allocated to this CGU; otherwise, a portion of the carrying amounts of the corporate assets is allocated to the smallest group of cash-generating units to which a reasonable and consistent allocation of carrying amounts of the corporate assets can be made.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

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

Leasing

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

a. Bank as lessor

   Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern of the lessee’s benefit from the use of the leased asset. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term. Contingent rents arising under operating leases are recognized as income in the period in which they are incurred.

   Lease incentives offered in the operating lease are recognized as an asset. The aggregate cost of incentives is recognized as a reduction of rental income on a straight-line basis over the lease term.

b. Bank as lessee

Lease payments under an operating lease are expensed on a straight-line basis over the lease period. Under operating lease, contingent rentals are recognized as expenses at current period.

Lease incentives received under operating leases are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

Provisions

Provisions, including those arising from contractual obligation specified in service concession arrangement to maintain or restore infrastructure before it is handed over to the grantor, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

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

Employee Benefits

a. Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

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

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

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

c. Other long-term employee benefits

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

d. Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Bank can no longer withdraw the offer of the termination benefit and when the Bank recognizes any related restructuring costs.

Income Tax

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

a. Current tax

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

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax assets and liabilities are measured at the amounts expected to be paid to (recovered from) taxation authorities, using the rates or laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets should reflect the tax consequences of how the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the period

For transactions recognized in profit or loss, current and deferred taxes are also recognized in profit or loss; for transactions recognized outside profit or loss, i.e., in other comprehensive income or directly in equity, the current and deferred taxes are also recognized in other comprehensive income or directly in equity. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Interest Revenue and Service Fees

Interest revenue on loans is recorded by the accrual method. No interest revenue is recognized in the accompanying financial statements on loans and other credits extended by the Bank that are classified as nonperforming loans. The interest revenue on these loans/credits is recognized upon collection. Under a Ministry of Finance regulation, the interest revenue on credits covered by agreements that extend their repayment periods is recorded as deferred revenue and recognized as revenue upon collection

Revenue from brokerage is recognized when the earnings process has been completed.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units (CGUs) to which goodwill has been allocated. The calculation of the value in use requires management to estimate a CGU's future cash flows and a suitable discount rate in order to calculate the CGU's net present value. When the actual future cash flows are less than expected, a material impairment loss may arise.

b. Estimated impairment of loans and receivables

When there is objective evidence of impairment loss, the Bank takes into consideration the estimation of future cash flows. Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If the actual future cash flows are less than expected, a material impairment loss may arise.

c. Fair value measurements and valuation processes

Fair values of financial instruments in an inactive market or with no quoted market prices are determined by valuation techniques. Under these circumstances, fair values are derived from observable market data of other similar financial assets. When there are no observable inputs in the market, the fair values of financial instruments are estimated by making appropriate assumptions. The Bank applies appropriate valuation models to determine the fair values of financial instruments subjective to valuation techniques. All models are fine-tuned to ensure the valuation results fairly reflect actual market information and prices. The Bank's management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

For the fair value determination of financial instruments, refer to Note 44 to the financial statements.

d. Recognition and measurement of defined benefit plans

Net defined benefit liabilities (assets) and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand	$ 5,817,939	$ 5,840,413
Checks for clearing	3,563,014	1,335,777
Due from banks	593,737	663,354
	$ 9,974,690	$ 7,839,544

7. DUE FROM THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2016	2015
Deposit reserve - checking account	$ 3,985,664	$ 4,410,194
Required deposit reserve	11,164,239	10,746,559
Deposit reserve - foreign-currency deposits	64,558	56,212
Deposit account in Central Bank	39,200,000	48,100,000
	$ 54,414,461	$ 63,312,965

Under a directive issued by the Central Bank of the ROC, the Bank determines monthly the New Taiwan dollar (NTD)-denominated deposit reserves at prescribed rates based on the average balances of customers' NTD-denominated deposits, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at rates prescribed for balances of foreign-currency deposits. These reserves may be withdrawn anytime and are noninterest earning.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
Financial assets held for trading		
Commercial paper	$ 8,300,747	$ 5,974,371
Government bonds	151,223	153,772
Domestic quoted stocks	68,371	310,264
Mutual funds	5,662	85,950
	8,526,003	6,524,357

(Continued)

	December 31	
	2016	2015
Derivative instrument		
Forward exchange contracts	$ 418,515	$ 337,231
Currency swap contracts	15,982	25,832
Option contracts	8,145	24,194
	442,642	387,257
	8,968,645	6,911,614
Financial assets designated as at fair value through profit or loss		
Corporate bonds	-	1,076,321
Principal guaranteed notes	322,968	827,875
	322,968	1,904,196
	$ 9,291,613	$ 8,815,810
Financial liabilities held for trading		
Derivative instrument		
Option contracts	$ 8,135	$ 24,190
Forward exchange contracts	23,924	23,115
Currency swap contracts	6,371	6,966
	$ 38,430	$ 54,271

(Concluded)

The Bank engaged in derivative transactions mainly to accommodate customers' needs and manage its exposure positions. The financial risk management objective of the Bank was to minimize risks due to changes in fair value or cash flows.

The contract amounts (notional amounts) of the derivative transactions for accommodating customers' needs and managing its exposure positions as of December 31, 2016 and 2015 were as follows:

	December 31	
	2016	2015
Currency swap contracts	$ 11,612,082	$ 21,330,781
Forward exchange contracts	3,090,128	3,363,668
Option contracts		
Buy	1,684,467	2,535,670
Sell	1,684,467	2,535,670

As of December 31, 2016 and 2015, financial instruments at fair value through profit and loss in the amount of $7,054,785 thousand and $5,080,161 thousand were under agreement to repurchase agreements.

9. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	December 31	
	2016	2015
Commercial paper	$ 14,867,255	$ 11,350,076
Government bonds	940,707	443,723
Corporate bonds	12,037,280	10,258,390
	$ 27,845,242	$ 22,052,189
Date of the resell agreement	2017.01-2017.02	2016.01-2016.03
Amount of the resell	$ 27,852,409	$ 22,062,682

The securities purchased under resell agreements had not been sold under repurchase agreements.

10. RECEIVABLES, NET

	December 31	
	2016	2015
Notes and accounts receivable	$ 14,391,672	$ 13,119,622
Interest receivable	832,976	684,928
Interbank clearing fund receivable	800,493	800,426
Accounts receivable factoring without recourse	799,844	-
Redemption of convertible bond receivable	513,962	-
Investment receivable	438,998	181,140
Acceptances receivable	135,531	116,920
Collections receivable	68,197	59,444
Settlement price	38,153	15,850
Others	116,781	276,477
	18,136,607	15,254,807
Less: Allowance for doubtful accounts	368,246	113,358
	$ 17,768,361	$ 15,141,449

Please refer to Note 45 for the impairment loss analysis of receivables.

The Bank has accrued an allowance for doubtful accounts on receivables. Please refer to Note 12 for the movements of allowance for doubtful accounts.

11. DISCOUNTS AND LOANS, NET

		December 31 2016	December 31 2015
Discounts and overdraft		$ 43,283	$ 739,306
Accounts receivable - financing		29,690	37,911
Loans			
Short-term	- unsecured	48,432,945	51,296,167
	- secured	54,147,371	52,345,949
Medium-term	- unsecured	15,783,090	14,731,841
	- secured	45,771,509	45,023,115
Long-term	- unsecured	4,792,014	4,345,031
	- secured	118,036,010	114,931,001
Import and export negotiations		22,985	47,331
Overdue loans		179,120	80,766
		287,238,017	283,578,418
Less: Allowance for doubtful accounts		3,197,294	2,796,860
		$ 284,040,723	$ 280,781,558

As of December 31, 2016 and 2015, the balances of nonaccrual loans were $179,120 thousand and $80,766 thousand, respectively. The unrecognized interest revenues on nonperforming loans were $5,241 thousand in 2016 and $2,752 thousand in 2015.

In 2016 and 2015, the Bank wrote off certain credits after completing the required legal procedures.

Please refer to Note 45 for impairment loss analysis of discounts and loans. The Bank had set up an allowance for doubtful accounts on discounts and loans. Please refer to Note 12 for the movements in the allowance for doubtful accounts.

12. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The movements in the allowance for doubtful accounts and reserve for losses on guarantees liabilities for the years ended December 31, 2016 and 2015 are summarized as follows:

	Year Ended December 31, 2016			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Balance at January 1, 2016	$ 113,358	$ 2,796,860	$ 194,006	$ 3,104,224
Provision (reversal) of allowance for doubtful accounts	100,436	130,467	(59,361)	171,542
Write-offs	(173,535)	(74,220)	-	(247,755)
Recovery of written-off credits	327,987	345,452	-	673,439
Effects of exchange rate changes	-	(1,265)	(24)	(1,289)
Balance at December 31, 2016	$ 368,246	$ 3,197,294	$ 134,621	$ 3,700,161

	Year Ended December 31, 2015			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Balance at January 1, 2015	$ 137,418	$ 2,567,114	$ 170,000	$ 2,874,532
Provision (reversal) of allowance for doubtful accounts	(194,458)	66,515	14,001	(113,942)
Write-offs	(161,702)	(94,800)	-	(256,502)
Recovery of written-off credits	339,100	362,168	-	701,268
Reclassification	(7,000)	(106,260)	10,000	(103,260)
Effects of exchange rate changes	-	2,123	5	2,128
Balance at December 31, 2015	$ 113,358	$ 2,796,860	$ 194,006	$ 3,104,224

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	2015
Overseas corporate bonds	$ 12,979,154	$ 3,374,593
Overseas financial bonds	8,473,037	6,286,527
Overseas government bonds	5,377,258	-
Domestic corporate bonds	4,424,558	3,471,800
Domestic quoted stocks	3,179,665	3,988,105
Overseas quoted stocks	2,375,111	2,433,640
Mutual funds	1,791,542	2,470,286
Domestic government bonds	948,277	887,026
	$ 39,548,602	$ 22,911,977

The available-for-sale financial assets amounting to $14,636,448 thousand and $3,456,421 thousand as of December 31, 2016 and 2015, respectively, had been sold under repurchase agreements.

14. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2016	2015
Domestic government bonds	$ 6,864,356	$ 3,862,810
Domestic corporate bonds	300,000	300,000
Asset-based securities	27,759	28,435
	$ 7,192,115	$ 4,191,245

The held-to-maturity investments had not been sold under repurchase agreements.

15. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET

	December 31	
	2016	2015
Investments in subsidiaries	$ 2,857,442	$ 2,704,573
Investments in associates	53,447	53,794
	$ 2,910,889	$ 2,758,367

a. Investments in subsidiaries

	December 31	
	2016	2015
Union Finance and Leasing International Corporation (UFLIC)	$ 2,604,833	$ 2,465,877
Union Securities Investment Trust Corporation (USITC)	144,920	140,135
Union Finance International (H.K.) Limited	72,936	72,379
Union Information Technology Corporation (UIT)	34,753	26,182
	$ 2,857,442	$ 2,704,573

At the end of the reporting period, the proportion of ownership and voting rights in subsidiaries held by the Bank were as follows:

	December 31	
	2016	2015
Union Finance and Leasing International Corporation (UFLIC)	100.00%	100.00%
Union Securities Investment Trust Corporation (USITC)	35.00%	35.00%
Union Finance International (H.K.) Limited	99.99%	99.99%
Union Information Technology Corporation (UIT)	99.99%	99.99%

The Bank's share of profit and other comprehensive income of subsidiaries for the years ended December 31, 2016 and 2015 was based on the subsidiaries' audited financial statements for the same reporting periods as those of the Bank.

The Bank merged with Union Insurance Broker Company (UIB) on August 1, 2016 under the approval of the FSC. The merger should be treated as a reorganization. In addition, the Bank should recognize all the assets and liabilities of UIB at carrying amount and retrospectively restate the Bank's prior year's financial statements in the comparative financial statements. The Bank acquired UIB's assets and liabilities amounting to $49,592 thousand.

b. Investment in as associates

	December 31	
	2016	2015
None individually material		
Union Real-Estate Management Corporation	$ 53,447	$ 53,794

The summarized financial information in respect of the Bank's associates was set below:

	For the Year Ended December 31	
	2016	2015
Net loss	$ (347)	$ (389)

The Bank's share of the associate's profit and other comprehensive income for 2016 and 2015 was based on the associate's audited financial statements for the same reporting periods as those of the Bank.

16. OTHER FINANCIAL ASSETS, NET

	December 31	
	2016	**2015**
Debt instruments with no active markets, net	$ 51,433,548	$ 51,446,515
Pledged assets (Note 41)	4,207,784	7,744,951
Due from banks - certificate of deposit	464,500	1,261,813
Financial assets carried at cost, net	507,614	511,514
Non-overdue loans	3,765	3,079
Others	3,695	1,324
	$ 56,620,906	$ 60,969,196

a. Debt instruments with no active markets

As of December 31, 2016 and 2015, debt instruments with no active markets and amounting to $10,163,828 thousand and $25,051,288 thousand, respectively, were under repurchase agreements.

b. Financial assets carried at cost, net

	December 31	
	2016	**2015**
Unquoted stocks		
I Pass Corporation	$ 123,320	$ 123,320
Financial Information Service Company	118,782	118,782
Taiwan Asset Management Corporation	75,000	75,000
Taiwan Future Exchange Corporation	71,250	71,250
Taiwan Financial Asset Service Corporation	50,000	50,000
Other	69,262	73,162
	$ 507,614	$ 511,514

Financial assets carried at cost were unlisted common stocks with no quoted market prices in an active market and with fair values that could not be reliably measured. Thus, these assets were measured at cost less accumulated impairment.

c. Due from banks - certificate of deposit

The amount of due from banks - time deposits with maturities longer than three months or certificate of deposits that cannot be cancelled or used.

17. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Machinery and Computer Equipment	Transportation Equipment	Lease Improvements	Prepayments for Equipment	Total
Cost							
Balance at January 1, 2015	$ 3,421,707	$ 5,073,535	$ 1,269,217	$ 269,906	$ 134,711	$ 127,387	$ 10,296,463
Additions	-	10,722	102,038	6,760	49,220	81,147	249,887
Disposals	-	-	(68,298)	(3,324)	-	-	(71,622)
Reclassification	-	2,970	101,911	728	9,717	(164,139)	(48,813)
Balance at December 31, 2015	3,421,707	5,087,227	1,404,868	274,070	193,648	44,395	10,425,915
Accumulated depreciation							
Balance at January 1, 2015	-	1,174,004	1,136,185	237,158	26,538	-	2,573,885
Depreciation	-	114,315	50,038	6,962	36,583	-	207,898
Disposals	-	-	(66,338)	(3,256)	-	-	(69,594)
Balance at December 31, 2015	-	1,288,319	1,119,885	240,864	63,121	-	2,712,189
Balance at December 31, 2015, net	$ 3,421,707	$ 3,798,908	$ 283,983	$ 33,206	$ 130,527	$ 44,395	$ 7,713,726
Cost							
Balance at January 1, 2016	$ 3,421,707	$ 5,087,227	$ 1,404,868	$ 274,070	$ 193,648	$ 44,395	$ 10,425,915
Additions	423,916	30,931	124,197	12,349	46,389	84,162	721,944
Disposals	-	-	(176,847)	(1,728)	(672)	-	(179,247)
Reclassification	-	20,900	6,951	1,394	8,404	(84,764)	(47,115)
Balance at December 31, 2016	3,845,623	5,139,058	1,359,169	286,085	247,769	43,793	10,921,497
Accumulated depreciation							
Balance at January 1, 2016	-	1,288,319	1,119,885	240,864	63,121	-	2,712,189
Depreciation	-	120,473	77,594	9,700	40,443	-	248,210
Disposals	-	-	(172,920)	(1,684)	(672)	-	(175,276)
Balance at December 31, 2016	-	1,408,792	1,024,559	248,880	102,892	-	2,785,123
Balance at December 31, 2016, net	$ 3,845,623	$ 3,730,266	$ 334,610	$ 37,205	$ 144,877	$ 43,793	$ 8,136,374

The above items of property and equipment were depreciated on a straight-line basis over the useful lives of the assets, estimated as follows:

Buildings	
Main buildings	50-55 years
Equipment installed in buildings	5 years
Machinery and computer equipment	3-5 years
Transportation equipment	3-5 years
Lease improvements	5 years

In August 2016, the Bank acquired a piece of land in Tucheng Dist. from New Taipei City through the public auction in order to construct business operation office for $423,916 thousand. The Bank completed the payment and obtained the ownership of the land in October 2016. On November 9, 2016, the board of directors of the Bank and UFLIC, the property developer, resolved respectively to enter into a cooperation contract with each other to cooperatively construct a building. Upon completion of the building, the ownership thereof will be attributed to the Bank and UFLIC. Per contract, the Bank will provide its land (estimated cost amounting to $439,626 thousand) in Tucheng District, New Taipei City for constructing the building, and UFLIC will render funds and donate a piece of land originally reserved for the public facilities to the government in exchange for transfer development rights (TDR) to increase the building area. The funds and the TDR in the aggregate amount to $447,614 thousand. The building area increased due to the exercise of the TDR belongs to UFLIC.

18. GOODWILL

The Bank acquired Chung Shing Bank (Chung Shing) on March 19, 2005 and recognized goodwill amounting to $3,309,000 thousand. The goodwill amortization period was five years, and the amortization expense in 2005 was $551,500 thousand. However, the amortization of goodwill became no longer required from January 1, 2006.

The Bank merged with Union Bills Finance Corporation on August 16, 2010, with the Bank as the survivor entity, and recognized goodwill amounting to $130,498 thousand.

For the impairment test on Chung Shing, the Bank treated individual business units as cash-generating units (CGUs). Goodwill resulting from the merger was allocated to the relevant CGUs. The recoverable amount was determined by the value in use of each CGU and was calculated at the present values of the cash flow forecast for the next five years based on the going-concern assumption. Future cash flows were estimated on the basis of Chung Shing's present operations and will be adjusted depending on the business outlook and economic trends.

As of December 31, 2016 and 2015, the balances of accumulated impairment both were $902,691 thousand.

19. OTHER ASSETS, NET

	December 31	
	2016	2015
Refundable deposits	$ 1,767,712	$ 1,990,879
Prepaid expenses	462,906	194,404
Others	156	8,118
	$ 2,230,774	$ 2,193,401

20. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2016	2015
Due to Chunghwa Post Co., Ltd.	$ 1,339,430	$ 1,417,120
Call loans from banks	5,565,207	1,570,456
Due to the Central Bank and other banks	51,577	143,931
Overdraft	61,415	32,484
	$ 7,017,629	$ 3,163,991

21. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	December 31	
	2016	2015
Asset-based securities	$ 8,166,461	$ 18,186,300
Corporate bonds	7,514,752	2,733,866
Commercial paper	6,908,529	4,929,255

(Continued)

	December 31	
	2016	2015
Government bonds	$ 5,459,089	$ 1,137,515
Financial bonds	825,306	-
	$ 28,874,137	$ 26,986,936
Date of repurchase agreement	2017.01-2017.06	2016.01-2016.06
Amount of repurchase agreement	$ 28,907,147	$ 27,000,897

(Concluded)

22. PAYABLES

	December 31	
	2016	2015
Notes and checks in clearing	$ 3,563,016	$ 1,335,779
Accrued expenses	693,018	701,086
Interest payable	654,320	631,550
Stock funds payable	284,614	3,330
Reimbursed for settlement	283,907	47,621
Investments payable	191,923	147,864
Collections payable	163,857	166,734
Bank acceptances payable	135,531	116,995
Tax taxable	84,393	121,972
Payables on equipment	70,777	106,165
Provision for payment to the Bank's check	67,087	73,507
Accounts payable on wire transfers received	65,258	58,221
Dishonored accounts payable	44,243	44,233
Others	587,306	482,096
	$ 6,889,250	$ 4,037,153

23. DEPOSITS AND REMITTANCES

	December 31	
	2016	2015
Checking deposits	$ 5,489,110	$ 4,713,786
Demand deposits	67,195,542	61,376,432
Savings deposits	285,095,150	279,077,038
Time deposits	73,959,307	76,287,305
Negotiable certificates of deposit	250,700	263,300
Inward and outward remittances	73,015	28,165
	$ 432,062,824	$ 421,746,026

24. BANK DEBENTURES

	December 31	
	2016	2015
First issue of subordinated bank debentures in 2009; fixed rate at 2.95%; maturity: June 2016	$ -	$ 900,000
First issue of subordinated bank debentures in 2011; fixed rate at 2.78%; maturity: June 2018	2,000,000	2,000,000
First issue of subordinated bank debentures in 2012; fixed rate at 2.32%; maturity: March 2019	1,500,000	1,500,000
First issue of subordinated bank debentures in 2013; fixed rate at 2.10%; maturity: December 2020	3,000,000	3,000,000
First issue of subordinated bank debentures in 2015; fixed rate at 2.08%; maturity: April 2022	2,200,000	2,200,000
First issue of subordinated bank debentures in 2016; no maturity date and non-cumulative; redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years; fixed rate at 4.20%	2,500,000	-
	$ 11,200,000	$ 9,600,000

25. OTHER FINANCIAL LIABILITIES

	December 31	
	2016	2015
Principals of structured products	$ 14,953	$ 11,898
Funds obtained from the government - intended for specific types of loans	4,613	8,510
	$ 19,566	$ 20,408

26. PROVISIONS

	December 31	
	2016	2015
Provisions for employee benefits	$ 15,654	$ 805,870
Reserve for losses on guarantees (Note 12)	134,621	194,006
Others	26,279	26,279
	$ 176,554	$ 1,026,155

27. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

The Bank adopted a pension plan under the Labor Pension Act (LPA), a state-managed defined contribution plan. Under LPA, the Bank makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

b. Defined benefit plans

The Bank adopted the defined benefit plan under the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement.

The Bank contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan and in the Bank's Business Department in the committee's name.

The fund is deposited in the Bank of Taiwan under management of Bureau of Labor Funds, Ministry of Labor. The Bank has no right to influence the investment policy and strategy. Before the end of each year, the Bank assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Bank is required to fund the difference in one appropriation that should be made before the end of March of the next year.

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

	December 31	
	2016	**2015**
Present value of defined benefit obligation	$ (1,544,965)	$ (1,514,365)
Fair value of plan assets	1,529,311	708,495
Deficit (surplus)	(15,654)	(805,870)
Net defined benefit liability	$ (15,654)	$ (805,870)

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	**Fair Value of the Plan Assets**	**Total**
Balance at January 1, 2015	$ (1,437,866)	$ 691,360	$ (746,506)
Service cost			
Current service cost	(18,565)	-	(18,565)
Net interest expense (income)	(22,125)	12,206	(9,919)
Recognized in profit or loss	(40,690)	12,206	(28,484)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(3,610)	(3,610)
Actuarial loss - changes in demographic assumption	(19,810)	-	(19,810)
Actuarial loss - changes in financial assumptions	(46,636)	-	(46,636)
Actuarial gain - experience adjustments	9,011	-	9,011
Recognized in other comprehensive income	(57,435)	(3,610)	(61,045)
Contributions from the employer	-	30,165	30,165
Benefits paid	21,626	(21,626)	-
Balance at December 31, 2015	$ (1,514,365)	$ 708,495	$ (805,870)

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Total
Balance at January 1, 2016	$ (1,514,365)	$ 708,495	$ (805,870)
Service cost			
Current service cost	(17,840)	-	(17,840)
Net interest expense (income)	(22,715)	10,850	(11,865)
Recognized in profit or loss	(40,555)	10,850	(29,705)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(3,673)	(3,673)
Actuarial loss - changes in financial assumptions	(21,652)	-	(21,652)
Actuarial gain - experience adjustments	9,102	-	9,102
Recognized in other comprehensive income	(12,550)	(3,673)	(16,223)
Contributions from the employer	-	836,144	836,144
Benefits paid	22,505	(22,505)	-
Balance at December 31, 2016	$ (1,544,965)	$ 1,529,311	$ (15,654)

(Concluded)

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

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

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

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

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

	December 31	
	2016	2015
Discount rate	1.375%	1.50%
Expected rates of future salary increase	3.00%	3.00%

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

	December 31	
	2016	2015
Discount rate(s)		
0.25% increase	$ (48,617)	$ (47,547)
0.25% decrease	$ 50,824	$ 49,738
Expected rate(s) of salary increase		
0.25% increase	$ 49,217	$ 48,876
0.25% decrease	$ (47,343)	$ (46,982)

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

	December 31	
	2016	2015
The expected contributions to the plan for the next year	$ 24,000	$ 29,705
The average duration of the defined benefit obligation	13 years	13 years

28. OTHER LIABILITIES

	December 31	
	2016	2015
Advance receipts	$ 335,971	$ 310,349
Guarantee deposits received	99,806	85,917
Others	86,909	65,197
	$ 522,686	$ 461,463

29. EQUITY

a. Capital stock

Common stock

	December 31	
	2016	2015
Number of shares authorized (in thousands)	3,000,000	3,000,000
Amount of shares authorized	$ 30,000,000	$ 30,000,000
Number of shares issued and fully paid (in thousands)	2,605,152	2,605,152
Amount of shares issued	$ 26,051,524	$ 26,051,524

Fully paid common shares, which have a par value of NT$10, carry one vote per share and carry a right to dividends.

b. Capital surplus

	December 31	
	2016	2015
Treasury stock transactions	$ 32,413	$ 32,413

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Bank has no deficit, this capital surplus may be distributed in cash or mar be capitalized within a certain percentage of the Bank's paid-in capital once a year.

The capital surplus from long-term investments, employee stock options and conversion options may not be used for any purpose.

c. Legal reserve

Legal reserve should be appropriated until it equals the Bank's paid-in-capital. Legal reserve may be used to offset deficit. If the Bank has no deficit and the legal reserve has exceeded 25% of its paid-in capital, the excess may be transferred to capital or distributed in cash. In addition, based on the Banking Act, if the legal reserve is less than the Bank's paid-in capital, the amount that may be distributed in cash should not exceed 15% of the Bank's paid-in-capital.

d. Special reserve

Items referred to under Rule No. 1010012865, Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Bank.

The above special reserve may be used to offset a deficit; if the reserve has reached at least 50% of the paid-in capital, half of this special reserve may be capitalized.

According to Order No. 10510001510 issued by the FSC, a special reserve should be appropriated between 0.5% and 1% of net income after tax when banks appropriate earnings of 2016 through 2018. Since 2017, the Bank is allowed to reverse the special reserve at the amount of the costs of employee transfer and arrangement in connection with the development of financial technology.

e. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to stockholders and do not include employees. The stockholders held their regular meeting on June 8, 2016 and, in that meeting, had resolved amendments to the Bank's Articles of Incorporation (the Articles), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to Employee benefits expense in Note 35.

The Bank's Articles of Incorporation provide that annual net income less any prior years' deficit should be appropriated in the following order:

1) 30% as legal reserve;

2) Special reserve, as deemed proper;

3) Remainder plus prior year's unappropriated earnings: Dividends;

These appropriations should be approved by the stockholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

The board of directors decides the appropriation and distribution of cash and stock dividends, taking into account the Bank's overall financial and economic condition, future profitability and capital expenditure requirements. In principle, when the Bank of International Settlement ratio is lower than the ratio approved by the authorities plus 1%, primarily stock dividends will be declared. If the legal reserve has not reached the Bank's paid-in capital, cash dividends are limited to 15% of the Bank's paid-in capital. The plan on employees' bonus and remuneration to directors and supervisors is proposed by the board of directors.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Bank.

The appropriations from the earnings of 2015 and 2014 were approved in stockholders' meetings on June 8, 2016 and June 26, 2015, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2015	**2014**	**2015**	**2014**
Legal reserve	$ 923,460	$ 928,139		
Stock dividends on common shares	-	1,470,558	$ -	$ 0.60
Cash dividends on common shares	1,042,061	637,242	0.40	0.26

The appropriations from the 2016 earnings were proposed by the board of directors on March 22, 2017. The appropriations, including the dividends per share, were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 790,913	
Special reserve	26,364	
Cash dividends	1,172,319	$0.45

The proposed appropriations from the 2016 earnings, including the bonus to employees and remuneration to directors and supervisors, will be presented to the stockholders in their meeting on June 2017.

The board of directors of the Bank resolved to raise long-term funds in order to cope with long-term business development in the future and the expanding scale of business. The situation depends on the market condition and capital requirements. Also, the board will request stockholders to authorize the board to raise funds by issuing either common stock or preferred stock according to the Bank's Articles of Incorporation or relevant or regulations. The number of shares will not exceed 800,000 thousand shares and issuance amount will not exceed $10,000,000 thousand.

f. Special reserve

Under Rule No. 1010012865 issued by the FSC, the Bank's the special reserve appropriated following IFRSs.

If the special reserve appropriated on the first-time adoption of IFRSs relates to investment property other than land, the special reserve may be reversed continually over the period of property use. The special reserve for land may be reversed on disposal or reclassification.

g. Other equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ 416,049	$ 339,253
Exchange differences arising on translating the foreign operations	(539,546)	80,338
Income tax on related from translating the net assets of foreign operations	58,664	(33,116)
Share of exchange difference of subsidiaries accounted for using the equity method	(15,344)	29,574
Balance at December 31	$ (80,177)	$ 416,049

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ 1,302,228	$ 1,029,647
Unrealized gain from the revaluation of available-for-sale financial assets	238,392	408,917
Income tax on unrealized gain from the revaluation of available-for-sale financial assets	9,950	(75,315)
Cumulative gain reclassified to profit or loss on sale of available-for-sale financial assets	(299,132)	(68,570)
Share of exchange difference of subsidiaries accounted for using the equity method	20,870	7,549
Balance at December 31	$ 1,272,308	$ 1,302,228

30. NET INTEREST

	For the Year Ended December 31	
	2016	2015
Interest revenue		
Discounts and loans	$ 6,189,110	$ 6,423,553
Debt instruments with no active market	1,715,733	1,709,484
Credit card	706,213	803,670
Due from the Central Bank and call loans to other banks	392,886	629,167
Available-for-sale financial assets	845,680	415,129
Securities purchased under resell agreements	119,833	109,332
Held-to-maturity financial assets	63,214	26,146
Others	19,225	12,670
	10,051,894	10,129,151

(Continued)

	For the Year Ended December 31	
	2016	2015
Interest expense		
Deposits	$ 3,113,462	$ 3,512,644
Securities sold under repurchase agreements	214,377	183,609
Bank debentures	291,833	209,162
Due to Chunghwa Post Co., Ltd.	14,366	34,727
Others	18,978	18,782
	3,653,016	3,958,924
	$ 6,398,878	$ 6,170,227

(Concluded)

31. COMMISSION AND FEE REVENUES, NET

	For the Year Ended December 31	
	2016	2015
Commission and fee revenues		
Insurance commission	$ 1,220,848	$ 1,048,454
Credit cards and cash cards	1,029,415	808,374
Trust business	255,903	351,418
Loan business	207,199	191,591
Interbank service fee	143,489	129,293
Underwriting business	105,940	123,231
Guarantee business	82,908	84,113
Remittances	37,062	36,359
Postage/cable charge	22,752	22,534
Custody	17,226	16,313
Agency	16,456	18,800
Import and export business	10,787	8,630
Others	112,731	105,140
	3,262,716	2,944,250
Commission and fee expense		
Credit card	663,369	514,112
Verification of credit	30,588	25,440
Interbank service fee	17,687	15,581
Acquiring liquidation deal	14,340	13,721
Agency fee	13,748	11,795
Others	68,533	64,560
	808,265	645,209
	$ 2,454,451	$ 2,299,041

32. GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Year Ended December 31	
	2016	2015
Realized gain or loss on financial assets at fair value through profit or loss		
Forward exchange contracts	$ 6,434	$ (25,398)
Interest revenue	163,896	174,282
Currency swap contracts	188,186	212,133
Convertible corporate bonds	19,160	35,809
Commercial paper	22,037	45,772
Option contracts	1,534	6,896
Beneficial securities and stocks	(28,113)	(96,545)
Government bonds	(734)	(2,179)
Dividend	5,335	5,587
	377,735	356,357
Unrealized gain or loss on financial assets at fair value through profit or loss		
Derivative financial assets and liabilities	63,013	84,827
Government bonds and corporate bonds	(88,726)	4,389
Beneficial securities and stocks	14,666	(25,245)
Commercial paper	(1,410)	307
	(12,457)	64,278
	$ 365,278	$ 420,635

33. REALIZED INCOME FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS

	For the Year Ended December 31	
	2016	2015
Net income (loss) on disposal - beneficial securities	$ (1,999)	$ 50,752
Dividend	150,050	179,919
Net income on disposal - stocks	213,461	6,853
Net income on disposal - corporate bonds	42,678	10,965
Net income on disposal - financial bonds	44,992	-
	$ 449,182	$ 248,489

34. REVERSAL OF IMPAIRMENT INCOME (LOSS) ON ASSETS

	For the Year Ended December 31	
	2016	2015
Other financial assets	$ (50,000)	$ (120,000)
Foreclosed collaterals	717	15,157
	$ (49,283)	$ (104,843)

35. EMPLOYEE BENEFIT EXPENSES

	For the Year Ended December 31	
	2016	2015
Salaries and wages	$ 1,959,049	$ 1,919,763
Bonus	734,364	618,259
Pension		
Defined contribution plans	116,886	109,030
Defined benefit plans	29,705	28,484
Labor insurance and national health insurance	243,088	233,181
Others	54,283	51,106
	$ 3,137,375	$ 2,959,823

As of December 31, 2016 and 2015, the Bank had 3,631 and 3,572 employees, respectively.

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the stockholders in their meeting on June 8, 2016, the Bank accrued employees' compensation and remuneration of directors at the rates of between 1% to 5% and no higher than 0.1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2016 and 2015 which have been approved by the Bank's board of directors on March 22, 2017 and March 16, 2016, respectively, were as follows:

Accrual Rate

	For the Year Ended December 31	
	2016	2015
Employees' compensation	1.84%	1.84%
Remuneration of directors	0.09%	0.09%

Amount

	For the Year Ended December 31			
	2016		2015	
	Cash	Share	Cash	Share
Employees' compensation	$ 60,602	$ -	$ 70,497	$ -
Remuneration of directors and supervisors	2,964	-	3,448	-

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

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

Information on the employees' compensation and remuneration of directors resolved by the Bank's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

The bonus to employees and remuneration of directors for 2014 which have been approved in the stockholders' meeting on June 26, 2015 were as follows:

	For the Year Ended December 31, 2014	
	Cash	Share
Bonus to employees	$ -	$ 69,510
Remuneration of directors	3,475	-

The stock bonus to employees was $7,166 thousand and $6,103 thousand, determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting in 2016 and 2015.

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the stockholders' meetings in 2015 and the amounts recognized in the financial statements for the year ended December 31, 2014.

Information on the bonus to employees and remuneration of directors resolved by the stockholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

36. DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31	
	2016	2015
Property and equipment	$ 248,210	$ 207,898
Intangible assets	57,549	44,757
	$ 305,759	$ 252,655

37. OTHER OPERATING EXPENSES

	For the Year Ended December 31	
	2016	2015
Rental	$ 608,604	$ 592,499
Outsourcing service	314,283	278,591
Taxation and government fee	534,009	575,090
Advertisement	413,792	356,373
Postage/cable charge	231,534	223,967
Computer operating	161,181	159,186
Deposit insurance	127,965	123,393
Maintenance charge	89,916	97,013
Marketing	71,117	63,768
Donation	32,869	27,937
Printing and binding	42,648	42,602
Others	438,121	403,792
	$ 3,066,039	$ 2,944,211

38. INCOME TAX

a. Income tax recognized in profit or loss

The main components of income tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current tax		
Current year	$ 27,731	$ 40,202
Prior year's adjustments	(8,122)	34,732
Additional tax of unappropriated earnings	110,488	-
	130,097	74,934
Deferred tax		
Current year	460,006	567,307
Income tax expense recognized in profit or loss	$ 590,103	$ 642,241

A reconciliation of accounting profit and current income tax expenses for the years ended December 31, 2016 and 2015 is as follows:

	For the Year Ended December 31	
	2016	2015
Income before tax	$ 3,226,478	$ 3,763,143
Income tax expense at the 17% statutory rate	$ 548,501	$ 639,734
Nondeductible expenses in determining taxable income	201	4,379
Additional income tax under the Alternative Minimum Tax Act	21,432	34,483
Unrecognized deductible temporary differences	42,934	31,417
Additional tax of unappropriated earnings	110,488	-
Tax-exempt income	(125,331)	(102,504)
Adjustments for prior year's tax	(8,122)	34,732
Income tax expense recognized in profit or loss	$ 590,103	$ 642,241

The applicable tax rate used by the Bank was 17%.

As the manner of the 2017 appropriation of the 2016 earnings is uncertain, the income tax consequences on the 2016 unappropriated earnings cannot be reliably determined.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
Deferred tax		
Recognized in other comprehensive income:		
Unrealized gains on available-for-sale financial assets	$ (9,950)	$ 75,315
Exchange differences on the translation of financial statements of foreign operations	(58,664)	33,116
Actuarial gains and losses on defined benefit plans	(2,758)	(10,378)
Total income tax expenses recognized in other comprehensive income	$ (71,372)	$ 98,053

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Impairment loss of financial instruments	$ 37,954	$ 8,500	$ -	$ 46,454
Employee benefit plan	135,559	4,462	2,758	142,779
Payable for annual leave	5,310	(3,173)	-	2,137
Allowance for possible losses and reserve for losses on guarantees	13,175	36,404	-	49,579
Others	15,385	(142)	-	15,243
	207,383	46,051	2,758	256,192
Loss carryforwards	1,542,767	(491,389)	-	1,051,378
	$ 1,750,150	$ (445,338)	$ 2,758	$ 1,307,570
Deferred tax liabilities				
Temporary differences				
Exchange difference on foreign operations	$ (62,629)	$ -	$ 58,664	$ (3,965)
Available-for-sale finance assets	(357,391)	-	9,950	(347,441)
Amortization of goodwill impairment loss	(337,502)	-	-	(337,502)
Others	(111,675)	(14,668)	-	(126,343)
	$ (869,197)	$ (14,668)	$ 68,614	$ (815,251)

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Com-prehensive Income	Closing Balance
Deferred tax assets				
Temporary differences				
Impairment loss of financial instruments	$ -	$ 37,954	$ -	$ 37,954
Employee benefit plan	125,467	(286)	10,378	135,559
Payable for annual leave	18,470	(13,160)	-	5,310
Allowance for possible losses and reserve for losses on guarantees	17,281	(4,106)	-	13,175
Others	16,495	(1,110)	-	15,385
	177,713	19,292	10,378	207,383
Loss carryforwards	2,068,330	(525,563)	-	1,542,767
	$ 2,246,043	$ (506,271)	$ 10,378	$ 1,750,150
Deferred tax liabilities				
Temporary differences				
Exchange difference on foreign operations	$ (29,513)	$ -	$ (33,116)	$ (62,629)
Available-for-sale finance assets	(282,076)	-	(75,315)	(357,391)
Amortization of goodwill impairment loss	(334,729)	(2,773)	-	(337,502)
Others	(53,412)	(58,263)	-	(111,675)
	$ (699,730)	$ (61,036)	$ (108,431)	$ (869,197)

d. Information about loss carryforwards

The Bank's loss carryforwards as of December 31, 2016 were as followed:

Unused Amount	Expiry Year
$ 2,489,453	2018
3,654,948	2019
40,176	2020
$ 6,184,577	

e. Information on the Bank's integrated income tax

	December 31 2016	December 31 2015
Imputation credits accounts	$ 114,475	$ 79,165

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

The creditable ratios for the distribution of the earnings of 2016 and 2015 were 3.06% (expected ratio) and 3.49%, respectively.

Under the Income Tax Law, for the distribution of earnings generated from January 1, 1998, the imputation credits allocable to ROC resident stockholders of the Bank are calculated on the basis of the creditable ratio as of the date of dividend distribution. The actual imputation credits allocable to stockholders of the Bank are based on the balance of the imputation credit accounts as of the date of dividend distribution. Thus, the expected creditable ratio for the 2016 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the stockholders.

f. The Bank's income tax returns through 2014 were examined and cleared by the tax authorities. The Bank disagreed with the tax authorities' assessment of the ending balance of imputation credit accounts (ICA) for 2012 and applied for a re-examination. The tax authorities replied on August 24, 2016 that the balance shall be reexamined. The bank expects that there is no major difference between the applied amount and the approved amount.

39. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) are summarized as follows:

	Numerator (Amounts)		Denominator (Shares in Thousands)	Earnings Per Share (NT$)	
	Pretax	After Tax		Pretax	After Tax
2016					
Basic EPS					
Income for the year attributable to common stockholders	$ 3,226,478	$ 2,636,375	2,605,152	$ 1.24	$ 1.01
Bonus to employees	-	-	8,328		
Diluted EPS	$ 3,226,478	$ 2,636,375	2,613,480	$ 1.23	$ 1.01
2015					
Basic EPS					
Income for the year attributable to common stockholders	$ 3,763,143	$ 3,120,902	2,601,697	$ 1.45	$ 1.20
Bonus to employees	-	-	11,011		
Diluted EPS	$ 3,763,143	$ 3,120,902	2,612,708	$ 1.44	$ 1.19

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

40. RELATED-PARTY TRANSACTIONS

In addition to those disclosed in other footnotes, significant transactions between the Bank and related parties are summarized as follows:

a. Related parties and their relationships with the Bank

Related Party	Relationship with the Bank
Union Finance and Leasing International Corporation (UFLIC)	Subsidiary
Union Information Technology Corporation (UIT)	Subsidiary
Union Finance International (H.K.) Limited	Subsidiary
Union Securities Investment Trust Corporation (USITC)	Subsidiary
Union Capital (Cayman) Corp. (UCCC)	Subsidiary of UFLIC
New Asian Ventures Ltd. (New Asian)	Subsidiary of UFLIC
Union Capital (Singapore) Holding Pte. Ltd. (UCSH)	Subsidiary of Cayman
Uflc Capital (Singapore) Holding Pte. Ltd. (UFLC)	Subsidiary of Cayman
Kabushiki Kaisha UCJ1 (KK)	Subsidiary of UCSH and UFLC
Tokutei Mokuteki Kaisha SSG15 (TMK SSG15)	Subsidiary of UCSH and KK
Tokutei Mokuteki Kaisha SSG12 (TMK SSG12)	Subsidiary of UFLC and KK
Tokutei Mokuteki Kaisha SSG16 (TMK SSG16)	Subsidiary of UFLC and KK
Union Real-Estate Management Corporation	Equity-method investee of the Bank
Hung-Kou Construction Inc., Ltd. (Hung-Kou)	Its chairman is a close relative of the Bank's director/general manager
The Liberty Times Co., Ltd. (Liberty Times)	The Bank's director/general manager and the chairman of the board of directors are the director and supervisor, respectively, of Liberty Times
Long Shan Lin Corporation	Its chairman is a close relative of the Bank's director/general manager
Yong-Xuan Co., Ltd. (Yong-Xuan)	Its chairman is a close relative of the Bank's director/general manager
Union Enterprise Construction Co., Ltd. (UECC)	Director of the Bank
Yu-Pang Co., Ltd. (Yu-Pang)	Director of the Bank
Union Recreation Enterprise Corporation	Related party in substance
Others	Directors, managers and their relatives and affiliates

b. Significant transactions with related parties:

1) Loans

December 31, 2016

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2016	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonper-forming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	7	$ 9,602	$ 4,353	$ 4,353	$ -	Land and buildings	None
Self-used housing mortgage loans	17	129,901	96,949	96,949	-	Real estate	None
Others	UFLIC	2,311,542	1,623,773	1,623,773	-	Land and buildings	None
Others	4	1,102,950	1,096,150	1,096,150	-	Land, plant buildings, quoted stock and time deposits	None

December 31, 2015

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2015	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonperforming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	6	$ 8,006	$ 6,122	$ 6,122	$ -	Land and buildings	None
Self-used housing mortgage loans	17	120,365	108,854	108,854	-	Real estate	None
Others	UFLIC	1,999,303	1,980,506	1,980,506	-	Land, buildings and foreign time deposits	None
Others	3	1,091,750	1,087,000	1,087,000	-	Land, plant buildings and time deposits	None

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2016	$ 2,821,225	0.99	1.06%-3.00%	$ 58,109	0.58
2015	3,182,482	1.13	1.12%-2.94%	51,001	0.50

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate	Amount	%
2016	$ 5,450,753	1.26	0%-4.80%	$ 33,158	0.91
2015	5,000,105	1.19	0%-3.80%	42,830	1.08

3) Guarantees and letters of credit

December 31, 2016

Name	Highest Balance in the Year Ended December 31, 2016	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 39,874	$ 19,316	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	11,484	-	-	0.05%	Time deposits
Long Shan Lin Corporation	71,040	71,040	-	0.5%	Time deposits

December 31, 2015

Name	Highest Balance in the Year Ended December 31, 2015	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 39,874	$ 39,874	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	18,721	11,387	-	0.05%	Land and buildings
Long Shan Lin Corporation	71,040	71,040	-	0.3%	Time deposits

Note: Reserve for guarantee loss is provided on the basis of the estimated unrecoverable amount.

4) Securities brokerage fees

	For the Year Ended December 31	
	Amount	%
2016	$ 4,221	8.09
2015	4,381	6.83

5) Leases

a) The Bank as lessee

Under operating lease agreements with terms of one year to five years, the Bank rents from related parties office spaces for use by the Head Office, Trust, International Banking Department, Wealth Management, Information Technology Department, Consumer Banking Department, Credit Card Department, the Northern Collateral Appraisal Center, and five branches. Rentals are payable quarterly, with some contracts allowing placement with the lessors of lease deposits in lieu of rental payments. Rental expenses and lease deposits were as follows:

	Lease Deposit (Part of Other Assets)		Rental Expense (Part of Other Operating Expense)	
	Amount	%	Amount	%
2016				
Yu-Pang	$ 454,888	25.73	$ 15,251	2.51
Hung-Kuo	218,768	12.38	101,476	16.69
Yong-Xuan	13,979	0.79	58,207	9.58
UECC	4,384	0.25	9,410	1.55
UFLIC	1,158	0.07	3,470	0.57
2015				
Yu-Pang	454,905	22.85	15,804	2.67
Hung-Kuo	218,768	10.99	101,275	17.09
Yong-Xuan	13,979	0.70	57,659	9.73
UECC	4,384	0.22	9,374	1.58
UFLIC	-	-	3,451	0.58

The Bank rented cars for business use from UFLIC; the rental expenses were $10,582 thousand in 2016 and $10,197 thousand in 2015. Rentals payable as of December 31, 2016 and 2015 were $48 thousand and $68 thousand, respectively.

b) The Bank as lessor

The Bank's South Taoyuan Branch, Kaohsiung Branch, Minchuan Branch, Chiayi Branch and Fucheng Branch leased part of their office premises to UFLIC under operating lease agreements starting from December 2014 to August 2019, from January 2016 to December 2020, from November 2011 to September 2017, from July 2014 to October 2016 (no extension), and from June 2013 to June 2018, respectively. The leasing revenues received were $1,171 thousand and $1,187 thousand in 2016 and 2015, respectively. The lease deposits received (included in other liabilities) were $269 thousand and $295 thousand in 2016 and 2015, respectively.

6) Available-for-sale financial assets

As of December 31, 2016 and 2015, the Bank had purchased 85,608 thousand units and 102,564 thousand units, respectively, of beneficial certificates issued by USITC, which amounted to $1,018,028 thousand and $1,241,659 thousand, respectively.

7) UIT sold computers and related materials and software and provided network services to the Bank. The purchase and service fees were $105,137 thousand in 2016 and $133,867 thousand in 2015.

8) Derivative financial instruments

December 31, 2016						
Related Party	Contract	Period	Notional Amount	Unrealized Gain (Loss)	Balance Sheets	Balance
UCCC	Currency Swap Contracts	2016.12.27-2017.01.25	JPY1,480,000/ US$12,626	$ (9)	Financial liabilities at fair value through profit or loss	$ (9)

	2016
Gain (loss) on financial instruments at fair value through profit or loss	
UFLIC	$ (3,917)
UCCC	(4,503)
	$ (8,420)

Under the Banking Law, except for consumer and government loans, credits extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those for unrelated parties.

For transactions between the Bank and related parties, the terms are similar to those transacted with third parties, except for the preferential interest rates offered to Bank employees for savings and loans within prescribed amounts.

c. Compensation of directors, supervisors and management personnel:

	For the Year Ended December 31	
	2016	2015
Short-term employment benefits		
Salaries	$ 32,177	$ 33,656
Transportation expenses	1,140	1,666
	33,317	35,322
Post-employment benefits	2,167	2,246
	$ 35,484	$ 37,568

Compensation of directors and management personnel is determined by the remuneration committee on the basis of individual performance and market trends.

41. PLEDGED ASSETS

As of December 31, 2016 and 2015, government bonds and bank debentures, which amounted to $154,405 thousand and $92,100 thousand (all amounts included in other financial assets), respectively, had been provided to the courts and the Bank of Taiwan as guarantee deposits on provisional seizures against the debtors' properties, as reserve for credit card receivables, as guarantee deposits on bills finance operations, brokering life insurance, property and casualty insurance, and as trust reserve. In addition, as of December 31, 2016 and 2015, negotiable certificates of deposit, which amounted to $3,800,000 thousand and $7,400,000 thousand, respectively (all amounts included in other financial assets), had been provided to the Central Bank as collateral for day-term overdraft.

As of December 31, 2016 and 2015, the Bank pledged a time deposit of $300,000 thousand and $300,000 thousand (part of other financial assets) to Mega International Commercial Bank to be part of the latter's online bank-to-bank payment system.

42. CONTINGENCIES AND COMMITMENTS

a. As of December 31, 2016 and 2015, the Bank's commitments consisted of the following:

	December 31	
	2016	2015
Irrevocable standby loan commitment	$ 109,697,387	$ 95,989,931
Unused credit card commitment	238,271,865	192,845,887
Unused letters of credit	860,155	741,548
Other guarantees	10,270,804	11,605,965
Collections for customers	30,941,654	27,068,197
Travelers' checks consigned-in	115,788	130,409
Guarantee notes payable	4,265,400	7,816,100
Trust assets	59,974,657	56,720,926
Marketable securities under custody	4,262,547	3,005,248

b. The Bank as lessee

The Bank rents several office premises for its branches under operating leases with terms ranging between 2 and 20 years. All operating lease contracts over 5 years contain clauses for market rental reviews for every five years. The Bank does not have a bargain purchase option to acquire the leased premises at the expiration of the lease period.

As of December 31, 2016 and 2015, refundable deposits paid under operating leases were $797,483 thousand and $794,636 thousand, respectively (included in other assets - refundable deposits).

The Bank's future minimum lease payments for noncancellable operating lease commitments were as follows:

	December 31	
	2016	2015
Within 1 year	$ 423,831	$ 397,419
Over 1 year up to 5 years	1,086,397	1,099,096
Over 5 years	380,035	368,223
	$ 1,890,263	$ 1,864,738

c. The Bank as lessor

The Bank rents out properties under operating leases with the terms ranging between 3 and 6 years. All operating lease contracts contain market review clauses so that the lessee has an option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiration of the lease period.

As of December 31, 2016 and 2015, refundable deposits paid under operating leases were $3,653 thousand and $3,678 thousand, respectively (included in other liabilities - guarantee deposits received).

The Bank's future minimum lease payments for noncancellable operating lease commitments were as follows:

	December 31	
	2016	2015
Within 1 year	$ 10,481	$ 9,153
Over 1 year up to 5 years	20,747	6,008
	$ 31,228	$ 15,161

d. Computer equipment purchase contracts

As of December 31, 2016 and 2015, the Bank had contracts to buy computer equipment and software for $403,463 thousand and $306,581 thousand, respectively, of which $250,408 thousand and $172,597 thousand had been paid as of December 31, 2016 and 2015, respectively.

43. TRUST BUSINESS UNDER THE TRUST LAW

Balance Sheet of Trust Accounts
December 31, 2016

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 3,045,051	Management fee payable	$ -
Investments		Income tax payable	25
Mutual funds	38,199,360	Marketable securities payable	7,189,491
Common stock	269,587	Trust capital	52,866,325
Short-term bills and securities purchased under resell agreements	132,635	Reserve and deficit	(81,184)
Accounts receivable	1,825		
Stock in custody	7,189,491		
Real estate - land and building	11,136,708		
Total	$ 59,974,657	Total	$ 59,974,657

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2016.

Balance Sheet of Trust Accounts
December 31, 2015

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 2,612,302	Management fee payable	$ 1
Investments		Income tax payable	126
Mutual funds	35,968,873	Marketable securities payable	6,822,229
Common stock	242,414	Trust capital	49,957,351
Short-term bills and securities purchased under resell agreements	126,627	Reserve and deficit	(58,781)
Accounts receivable	2,802		
Stock in custody	6,822,229		
Real estate - land and building	10,945,679		
Total	$ 56,720,926	Total	$ 56,720,926

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2015.

Income Statement of Trust Accounts
Year Ended December 31, 2016

	Amount
Trust income	
Interest revenue - demand accounts	$ 593
Interest revenue - time deposits	9,206
Interest revenue - short-term bills and securities purchased under resell agreements	246
Cash dividends - common stock	13,599
Income from beneficial certificates	271
Realized capital gain - fund	149
Unrealized capital gain - common stock	10,403
Unrealized capital gain - fund	482
Total trust income	34,949
Trust expense	
Management expense	7,590
Supervisor fee	160
Lawyer fee	100
Taxation	86,014
Agency fees	1,212
Realized capital loss - fund	406
Unrealized capital loss - common stock	6,031
Unrealized capital loss - fund	663
Others	383
Total trust expense	102,559
Loss before tax	(67,610)
Income tax expense	(1,332)
Net loss	$ (68,942)

Note: The above trust income statements were not included in the Bank's income statements.

Income Statement of Trust Accounts
Year Ended December 31, 2015

	Amount
Trust income	
Interest revenue - demand accounts	$ 761
Interest revenue - time deposits	9,440
Interest revenue - short-term bills and securities purchased under resell agreements	390
Cash dividends - common stock	10,432
Income from beneficial certificates	418
Realized capital gain - fund	317
Unrealized capital gain - common stock	5,667
Unrealized capital gain - fund	218
Other	2
Total trust income	27,645
Trust expense	
Management expense	5,803
Taxation	67,848
Agency fees	1,411
Realized capital loss - fund	174
Unrealized capital loss - common stock	2,712
Unrealized capital loss - fund	840
Other	296
Total trust expense	79,084
Loss before tax	(51,439)
Income tax expense	(2,335)
Net loss	$ (53,774)

Note: The above trust income statements were not included in the Bank's income statements.

Trust Property and Equipment Accounts
December 31, 2016

Investment Portfolio	Amount
Bank deposits	$ 3,045,051
Investments	
Mutual funds	38,199,360
Common stock	269,587
Short-term bills and securities purchased under resell agreements	132,635
Accounts receivable	1,825
Stock in custody	7,189,491
Real estate - land and buildings	11,136,708
	$ 59,974,657

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2016.

Trust Property and Equipment Accounts
December 31, 2015

Investment Portfolio	Amount
Bank deposits	$ 2,612,302
Investments	
Mutual funds	35,968,873
Common stock	242,414
Short-term bills and securities purchased under resell agreements	126,627
Accounts receivable	2,802
Stock in custody	6,822,229
Real estate - land and buildings	10,945,679
	$ 56,720,926

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2015.

44. FINANCIAL INSTRUMENTS

a. Three-level fair value hierarchy

The definitions of each level of the fair value hierarchy are shown below:

1) Level 1

Level 1 financial instruments are traded in an active market in which there are quoted prices for identical assets and liabilities. An active market has the following characteristics:

a) All financial instruments in the market are homogeneous.

b) There are willing buyers and sellers in the market all the time.

c) The public can access the price information easily.

The products in this level, such as listed stocks and beneficial securities, usually have high liquidity or are traded in futures market or exchanges.

2) Level 2

The products in this level have fair values that can be inferred from either directly or indirectly observable inputs other than quoted prices in an active market. Examples of these inputs are:

a) Quoted prices from the similar products in an active market. This means the fair value can be derived from the current trading prices of similar products, and whether they are similar products should be judged on the characteristics and trading rules. The fair price valuation in this circumstance may be adjusted due to time differences, trading rule's differences, interested parties' prices, and the correlation of price between itself and the similar goods;

b) Quoted prices for identical or similar financial instruments in inactive markets;

c) For the marking-to-model method, the inputs to this model should be observable (such as interest rates, yield curves and volatilities). The observable inputs mean that they can be obtained from the market and can reflect the expectation of market participants;

d) Inputs that are derived from observable market data through correlation or other means.

The fair values of products categorized in this level are usually calculated using a valuation model generally accepted by the market. Examples are forward contracts, cross-currency swap, simple interest bearing bonds, convertible bonds and commercial paper.

3) Level 3

The fair values of the products in this level are typically based on management assumptions or expectations other than the direct market data. For example, historical volatility used in valuing options is an unobservable input because it cannot represent the entire market participants' expectation on future volatility.

The products in this level are complex derivate financial instruments or products with prices that are provided by brokers. Examples are complex foreign exchange options.

b. The fair value hierarchies of the Bank's financial instruments as of December 31, 2016 and 2015 were as follows:

(In Thousands of New Taiwan Dollars)

	December 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 68,371	$ 68,371	$ -	$ -
Debt instruments	151,223	-	151,223	-
Beneficial certificates	5,662	5,662	-	-
Commercial paper	8,300,747	-	8,300,747	-
Financial assets designated as at FVTPL on initial recognition				
Principal guaranteed notes	322,968	-	322,968	-
Available-for-sale financial assets				
Stock	5,554,776	5,554,776	-	-
Debt instruments	32,202,284	-	32,202,284	-
Beneficial certificates	1,791,542	1,791,542	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	442,642	-	434,497	8,145
Liabilities				
Financial liabilities at FVTPL	38,430	-	30,295	8,135

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 310,264	$ 310,264	$ -	$ -
Debt instruments	153,772	-	153,772	-
Beneficial certificates	85,950	85,950	-	-
Commercial paper	5,974,371	-	5,974,371	-
Financial assets designated as at FVTPL on initial recognition				
Debt instruments	1,076,321	-	1,076,321	-
Principal guaranteed notes	827,875	-	827,875	-
Available-for-sale financial assets				
Stock	6,421,745	6,421,745	-	-
Debt instruments	14,019,946	-	14,019,946	-
Beneficial certificates	2,470,286	2,470,286	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	387,257	-	363,063	24,194
Liabilities				
Financial liabilities at FVTPL	54,271	-	30,081	24,190

c. The financial instruments measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants with full understanding of the sale or transfer transaction. The fair values of financial instruments at fair value, available-for-sale financial assets and hedging derivative financial instruments with quoted price in an active market are based on their market prices; financial instruments with no quoted prices in an active market are estimated by valuation methods.

1) Marking to market

This method should be used first to determine fair value. Following are the principles to follow in marking to market:

a) Ensure the consistency and integrity of market data.

b) The source of market data should be transparent and easy to access and can be referred to by independent resources.

c) Listed securities with tradable prices should be valued at closing prices.

d) Evaluating unlisted securities that lack tradable closing prices should use quoted prices from independent brokers.

2) Marking to model

The use of marking to model is suggested if marking to market is infeasible. This valuation methodology is based upon model inputs that are used to derive the value of the trading positions. The Bank uses the same estimations and assumptions as those used by market participants to determine the fair value.

The Bank uses the forward rates provided by Reuters to estimate the fair values of forward contracts, foreign exchange swap contracts, interest rate swap and cross-currency swap contacts and the discounted cash flow method to calculate the fair values of each contract. For foreign exchange option transactions, the Bank uses the option pricing models which are generally used by other market participants (e.g., the Black-Scholes model) to calculate the fair value of the contracts.

For debt instruments with no active market, the Bank estimates fair values based on prices quoted by counterparties and adjusted in accordance with the results of the evaluation of a debtor's credit.

3) Transfer between Level 1 and Level 2

There was no material transfer between Level 1 and Level 2 for 2016 and 2015.

4) Reconciliation of Level 3 items of financial instruments

a) Reconciliation of Level 3 items of financial assets

For the year ended December 31, 2016

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss Derivative financial assets	$ 24,194	$ (13,284)	$ -	$ 28,978	$ -	$ (31,743)	$ -	$ 8,145

For the year ended December 31, 2015

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss Derivative financial assets	$ 104,410	$ (79,644)	$ -	$ 27,149	$ -	$ (27,721)	$ -	$ 24,194

b) Reconciliation of Level 3 items of financial liabilities

For the year ended December 31, 2016

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss Derivative financial liabilities	$ 24,190	$ (12,039)	$ -	$ 32,520	$ -	$ (36,536)	$ -	$ 8,135

For the year ended December 31, 2015

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss Derivative financial liabilities	$ 104,511	$ (78,325)	$ -	$ 34,709	$ -	$ (36,705)	$ -	$ 24,190

5) The quantification information of Level 3

Item	Product	Fair Value	Valuation Technique	Significant Unobservable Inputs	Interval (Weighted-average)	Relation Between Input and Fair Value
Derivative financial Instruments						
Financial assets at fair value through profit or loss	Foreign exchange options	$ 8,145	Option pricing model	Ratio	USD/JPY 12.80%-13.28% EUR/USD 10.34%-11.31% USD/TWD 7.50%-8.24% NZD/USD 12.03%-12.04% USD/ZAR 17.63% AUD/USD 11.07%-11.91%	The higher the ratio is, the higher fair value
Derivative financial instruments						
Financial liabilities at fair value through profit or loss	Foreign exchange options	8,135	Option pricing model	Ratio	USD/JPY 12.80%-13.28% EUR/USD 10.34%-11.31% USD/TWD 7.50%-8.24% NZD/USD 12.03%-12.04% USD/ZAR 17.63% AUD/USD 11.07%-11.91%	The higher the ratio is, the higher fair value

6) Sensitivity analysis of Level 3 fair value if reasonably possible alternative assumptions used

The Bank's Level 3 financial instruments are foreign exchange options. When engaging in foreign exchange option transactions, the Bank makes a match for other banks and customers. Thus, the Bank does not hold positions, and its source of profit and loss is from receiving and paying premiums. The sensitivity analysis has no effect on profit and loss since the Bank does back-to-back transactions and the assets offset the liabilities.

d. Fair value of financial instruments that are not measured at fair value

Except for the financial instruments shown in the following table, the management believes that the financial assets and financial liabilities recognized in the financial statements either have carrying amounts that approximate their fair values or have fair values that cannot be reasonably measured.

1)

	December 31			
	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Held-to-maturity financial assets	$ 7,192,115	$ 7,088,803	$ 4,191,245	$ 4,250,980
Debt instruments with no active market	51,433,548	53,015,036	51,446,515	50,826,020
Financial liabilities				
Bank debentures	11,200,000	11,445,952	9,600,000	9,805,550

2) Fair value hierarchy

Items	December 31, 2016			
	Total	Level 1	Level 2	Level 3
Financial assets				
Held-to-maturity financial assets	$ 7,088,803	$ -	$ 7,088,803	$ -
Debt instruments with no active market	53,015,036	-	53,015,036	-
Financial liabilities				
Bank debentures	11,445,952	-	11,445,952	-

Items	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Financial assets				
Held-to-maturity financial assets	$ 4,250,980	$ -	$ 4,250,980	$ -
Debt instruments with no active market	50,826,020	-	50,826,020	-
Financial liabilities				
Bank debentures	9,805,550	-	9,805,550	-

45. FINANCIAL RISK MANAGEMENT

a. Overview

To deal with any expected or unexpected business risk, the Bank has established a comprehensive risk management system to allocate resources effectively and efficiently, strengthen business competitiveness, mitigate operational risk to a tolerable or acceptable level, and maintain the capital adequacy ratio to meet the minimum requirements of the authorities and the Basel Accord framework.

b. Risk management framework

The Board of Directors, which occupies the highest level in the Bank's risk management framework, reviews risk management policies, the overall risk management framework and organization structure for carrying out responsibilities and exercising accountability. The Asset/Liability Management Committee inspects management reports or information provided by business units and the Risk Management Division. The Risk Management Division is an independent unit that is in charge of reviewing the risk management system designed by business units and the compliance with risk management requirements; this division also submits risk management reports to the authorities and develops a series of risk management tools to assess the risks identified. Business units establish risk control procedures, manage and monitor the implementation of those controls in operation units. Operation units perform daily risk management work and internal controls to ensure the accuracy and completeness of the risk management information generated.

c. Credit risk

1) Credit risk definitions and sources

Credit risk refers to the risk of losses caused by borrowers, debtors, or counterparties' failure to fulfill their contractual obligations due to deteriorating financial position or other factors. It arises principally from transactions involving discounts, loans, credit cards, due from or call loans to banks, debt investments and derivatives etc., and also from off-balance sheet products such as guarantees, acceptance, letters of credit and commitments.

2) Strategy/objectives/policies and processes

a) Credit risk management strategy: The Bank has established "Credit Risk Management Standards of Union Bank of Taiwan" as the basis of planning, implementing, and managing credit risk management system.

b) Credit risk management objective: The objectives are to establish and implement an effective credit risk management mechanism to mitigate credit risk, archive operational and management goals, and balance business development and risk control.

c) Credit risk management policy: The policies are meant to ensure that credit risk falls within an acceptable range and that adequate capital is maintained to meet credit risk management objectives and create maximum risk-adjusted returns.

d) Credit risk management process: The Bank carries out credit risk identification, credit risk measurement, credit risk mitigation, credit risk monitoring and control and credit risk reporting process as part of its credit risk management mechanism.

3) Credit risk management framework

a) The Board of Directors: The Board of Directors, the top risk supervisor of the Bank, reviews risk management policies, operational risk limits and the design and change of credit risk management framework.

b) Asset/Liability Management Committee: This committee inspects management reports or information provided by business units and the Risk Management Division.

c) Risk Management Division: The Risk Management Division is an independent unit that is in charge of the work related to three pillars of Basel and reviews the risk management system designed by business units and the compliance with risk management requirements; the division also submits risk management reports to the authorities and develops risk management tools to assess the risk identified.

d) Business units: Business units are responsible for establishing risk management regulations and risk control procedures and managing and monitoring the implementation of those controls in operation units.

e) Operation units: Under the risk management regulations and procedures set by business units, operation units perform daily risk management work and internal controls and prepares reports on these tasks.

4) Credit risk measurement, control and reporting

a) The range of credit risk reporting:

i. Each business unit will regularly report the promotion of the business and the allocation of risk assets to the Assets/Liability Management Committee (ALMC).

ii. The Bank's risk management department regularly monitors the credit limit control situations and reports to the ALMC the credit concentration and the status of each business' achieving BIS (Bank for International Settlements) goals. The department also presents the volume of business NPL situation, credit concentration and the execution of credit risk control to the Board.

b) Measurement system:

The Bank's credit risk management adopts the use of the standardized approach to calculate capital charge and regularly submits related reports to the government. The risk management division and business units implement the Bank's management system and monitors the credit exposure of the business, industry, and countries as well as the concentration of credit and collateral to effectively measure and manage investment portfolio.

5) Mitigation of risks or hedging of credit risk

The Bank is exposed to loss on each credit risk faced by its business. Thus, depending on the nature of the business and the cost considerations, the Bank will take appropriate measures to control risk. The Bank's information systems provide information that can be used in managing risk control procedures, and the risk management division reports to the board every six months the business risk management status.

6) Maximum exposure to credit risk

The maximum credit exposures of assets in the balance sheet are almost equivalent to their carrying values. These off-balance sheet maximum credit exposures (excluding collaterals and other credit enhancement instruments) are shown as follows:

Off-Balance Sheet Items	**The Maximum Credit Exposure**	
	December 31, 2016	**December 31, 2015**
Irrevocable standby loan commitment	$ 9,482,533	$ 6,569,725
Unused letters of credit	860,155	741,548
Other guarantees	10,270,804	11,605,965
Unused credit card commitments	238,271,865	192,845,887

December 31, 2016	Collateral	Netting Arrangements	Other Credit Enhancement	Total
<u>In-balance sheet items</u>				
Discount and loans	$ 228,403,708	$ -	$ -	$ 228,403,708

December 31, 2015	Collateral	Netting Arrangements	Other Credit Enhancement	Total
<u>In-balance sheet items</u>				
Discount and loans	$ 223,078,844	$ -	$ -	$ 223,078,844
<u>Off-balance sheet items</u>				
Irrevocable standby loan commitment	86,283	-	-	86,283

7) Concentrations of credit risk exposure

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

There can be credit risk concentrations in a bank's assets, liabilities, or off-balance sheet items through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. These exposures can cover credits, loans and deposits, call loans to banks, investments, receivables and derivatives. To minimize its credit risk, the Bank maintains a diversified portfolio; limits its exposure to any one geographic region, country or individual creditor; and closely monitors its exposures. The Bank's most significant concentrations of credit risk are summarized as follows:

a) By industry

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Private enterprises	$ 71,596,120	24.05	$ 70,481,556	23.87
Public enterprises	5,000,000	1.68	5,000,000	1.69
Government organizations	33,036,805	11.10	36,072,659	12.22
Nonprofit organizations	917,924	0.31	796,650	0.27
Private organizations	186,430,171	62.64	180,559,645	61.14
Foreign enterprises	663,332	0.22	2,390,793	0.81
Total	297,644,352	100.00	295,301,303	100.00

b) By geographical area

The Bank's operations are mainly in Taiwan.

c) By collaterals

	December 31, 2016		December 31, 2015	
	Amount	%	Amount	%
Unsecured	$ 63,101,890	21.20	$ 65,049,221	22.03
Secured				
Financial instruments	7,229,286	2.43	7,696,668	2.61
Stocks	9,284,626	3.12	9,477,891	3.21
Properties	194,540,140	65.36	190,828,539	64.62
Movables	15,813,134	5.31	14,523,030	4.92
Guarantees	5,520,845	1.86	5,425,905	1.84
Others	2,154,431	0.72	2,300,049	0.77
Total	297,644,352	100.00	295,301,303	100.00

8) Credit quality and impairment assessment

Some financial assets - cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit or loss, repos and debt securities, refundable deposits, guaranty bonds and clearing and settlement fund - are regarded as having very low credit risk because of the good credit ratings of counterparties. Other financial assets not regarded as having low credit risk are summarized as follows:

a) Discounts, loans and receivables

December 31, 2016	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	$ 8,705,928	$ 3,932,822	$ 40,380	$ -	$ 12,679,130	$ 200,846	$ 1,287,067	$ 14,167,043	$ 62,126	$ 34,319	$ 14,070,598
Acceptances receivable	97,552	37,979	-	-	135,531	-	-	135,531	-	476	135,055
Accounts receivable factoring without recourse	-	799,844	-	-	799,844	-	-	799,844	-	3,504	796,340
Others	2,374,863	104,684	23,120	3,819	2,506,486	1,815	525,888	3,034,189	267,780	41	2,766,368
Overdue guarantee loans	-	-	-	-	-	-	3,765	3,765	-	-	3,765
Discounts and loans											
Consumer finance	88,535,794	42,291,881	20,657,009	2,930,474	154,415,158	331,607	134,205	154,880,970	63,497	1,656,388	153,161,085
Corporate banking	76,411,238	53,177,163	806,354	219,925	130,614,680	17,379	1,724,988	132,357,047	227,124	1,250,285	130,879,638

December 31, 2015	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	$ 7,885,114	$ 3,650,648	$ 37,884	$ -	$ 11,573,646	$ 169,624	$ 1,447,951	$ 13,191,221	$ 65,329	$ 40,855	$ 13,085,037
Acceptances receivable	96,869	20,051	-	-	116,920	-	-	116,920	-	296	116,624
Others	1,810,474	96,778	22,177	3,768	1,933,197	1,950	11,519	1,946,666	4,801	2,077	1,939,788
Overdue guarantee loans	-	-	-	-	-	-	3,079	3,079	-	-	3,079
Discounts and loans											
Consumer finance	88,486,237	36,695,064	19,370,083	2,871,370	147,422,754	322,914	82,543	147,828,211	42,247	1,409,061	146,376,903
Corporate banking	79,841,996	53,357,619	846,054	-	134,045,669	30,787	1,673,751	135,750,207	204,852	1,140,700	134,404,655

b) Credit quality analysis of securities

December 31, 2016	Neither Past Due Nor Impaired Amount (Note)				Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Investment Grade	Non-investment Grade	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With Objective Evidence of Impairment	
Available-for-sale financial assets										
Investments in bonds	$ 30,660,942	$ 1,541,342	$ -	$ 32,202,284	$ -	$ -	$ 32,202,284	$ -	$ -	$ 32,202,284
Investments in stocks	5,311,930	242,846	-	5,554,776	-	-	5,554,776	-	-	5,554,776
Others	500,007	-	1,291,535	1,791,542	-	-	1,791,542	-	-	1,791,542
Held-to-maturity financial assets										
Investments in bonds	7,192,115	-	-	7,192,115	-	-	7,192,115	-	-	7,192,115
Other financial assets										
Investments in bonds	51,433,548	-	-	51,433,548	-	279,278	51,712,826	-	279,278	51,433,548
Investments in stocks	-	-	507,614	507,614	-	-	507,614	-	-	507,614

December 31, 2015	Neither Past Due Nor Impaired Amount (Note)				Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Investment Grade	Non-investment Grade	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With Objective Evidence of Impairment	
Available-for-sale financial assets										
Investments in bonds	$ 12,048,099	$ 1,971,847	$ -	$ 14,019,946	$ -	$ -	$ 14,019,946	$ -	$ -	$ 14,019,946
Investments in stocks	6,157,566	264,179	-	6,421,745	-	-	6,421,745	-	-	6,421,745
Others	486,334	-	1,983,952	2,470,286	-	-	2,470,286	-	-	2,470,286
Held-to-maturity financial assets										
Investments in bonds	4,191,245	-	-	4,191,245	-	-	4,191,245	-	-	4,191,245
Other financial assets										
Investments in bonds	51,446,515	-	-	51,446,515	-	234,871	51,681,386	-	234,871	51,446,515
Investments in stocks	-	-	511,514	511,514	-	-	511,514	-	-	511,514

Note: The definitions are as follows:

1. Investment grade: Credit rating is BBB - or higher or 1-5 TCRI corporate rating of TEJ if it is a publicly traded company.
2. Non-investment grade: Credit rating is BB + or higher or 6-9 TCRI corporate rating of TEJ if it is a publicly traded company.
3. No ratings: No external ratings.

9) Aging analysis of overdue but not yet impaired financial assets

Delays in processing payments by borrowers and other administrative reasons could result in financial assets becoming overdue but unimpaired. Based on the Bank's internal risk management policies, financial assets that are 90 days overdue are not considered impaired unless evidences show otherwise.

The aging analysis of overdue but unimpaired financial assets was as follows:

	December 31, 2016			
	Overdue Less Than One Month	**Overdue One to Three Months**	**Overdue Over Three to Six Months**	**Total**
Accounts receivable				
Credit cards	$ 157,031	$ 43,815	$ -	$ 200,846
Others	1,118	697	-	1,815
Discounts and loans				
Consumer finance	247,672	83,935	-	331,607
Corporate banking	11,270	6,109	-	17,379

	December 31, 2015			
	Overdue Less Than One Month	**Overdue One to Three Months**	**Overdue Over Three to Six Months**	**Total**
Accounts receivable				
Credit cards	$ 137,447	$ 32,177	$ -	$ 169,624
Others	1,225	725	-	1,950
Discounts and loans				
Consumer finance	243,381	79,533	-	322,914
Corporate banking	13,686	17,101	-	30,787

10) Analysis of impairment for financial assets

The Bank's assessment of loans and receivables for impairment indicated no impairment loss on due from other banks, due from the Central Bank and call loans to other banks. The assessment of the other loans and receivables was as follows:

Discounts and loans

Type of Impairment		**December 31, 2016**		**December 31, 2015**	
		Discounts and Loans	**Allowance for Doubtful Accounts**	**Discounts and Loans**	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Assessment of individual impairment	$ 1,666,013	$ 201,768	$ 1,642,625	$ 190,588
	Assessment of collective impairment	310,587	88,853	264,011	56,511
With no objective evidence of impairment	Assessment of collective impairment	285,261,417	2,906,673	281,671,782	2,549,761

Note: The loans are those originated by the Bank, and are not net of the allowance for doubtful accounts and adjustments for discount (premium).

Receivables

Type of Impairment		December 31, 2016		December 31, 2015	
		Discounts and Loans	Allowance for Doubtful Accounts	Discounts and Loans	Allowance for Doubtful Accounts
With objective evidence of impairment	Individually assessed for impairment	$ 543,382	$ 265,653	$ 7,568	$ 3,364
	Collectively assessed for impairment	1,292,073	64,253	1,451,907	66,790
With no objective evidence of impairment	Collectively assessed	16,301,152	38,340	13,795,332	43,204

Note: The receivables are those originated by the Bank, and are not net of the allowance for doubtful accounts and adjustments for discount (premium).

11) Analysis of impairment for financial assets

On the basis of the result of a credit evaluation, the Bank may require collaterals before drawings are made on the credit facilities. For minimized credit risk, appropriate collaterals are required on the basis of the borrowers' financials and debt service capabilities. All guarantees and appraisal procedures follow the authorities' relevant regulations and the Bank's internal rules. The Bank's internal rules describe the acceptable types of collaterals, appraisal methods, appraisal process, and post-approval collateral management, which require the close monitoring of the value of collaterals to ensure repayment security. The main collateral types are summarized as follows:

a) Real estate
b) Other property
c) Securities/stock
d) Deposits/certificates of deposits
e) Credit guarantee fund or government guarantee

d. Liquidity risk

1) Source and definition of liquidity risk

Liquidity risk means banks cannot provide sufficient funding for asset size growth and for meeting obligations on matured liabilities or have to make late payments to counterparties or raise emergency funding to cover funding gaps.

2) Liquidity risk management strategy and principles

a) The Board of Directors, the top risk supervisor of the Bank, regularly reviews liquidity risk management policies. The Asset/Liability Management Committee, the top liquidity risk executive of the Bank, supervises the implementation of liquidity risk monitoring and control procedures and is responsible for taking any needed remedial measures.

b) In making internal transfer pricing, performance evaluation and new product development decisions, the operation units take liquidity cost and product effectiveness and risks into consideration and align their decisions with the Bank's overall liquidity risk management policies.

c) The fund procurement department implements funding strategies in accordance with the conservatism principle to diversify the funding sources and negotiate reasonable repayment periods to ensure continuing participation in the lending market, and maintains a close relationship with fund providers to strengthen financing channels and ensure the stability and reliability of fund sources.

d) To strengthen liquidity risk management, the Bank has regulations requiring the daily execution of risk management procedures and the monitoring of implementation to maintain sufficient liquidity.

e) The risk management units report the Bank's liquidity position to the Asset/Liability Management Committee monthly and report the Bank's liquidity risk management to the Board of Directors regularly.

3) The liquidity risk analysis of the cash inflow and outflow of assets and liabilities held for liquidity risk refers to the amounts of the obligations for the remaining maturity periods, i.e., from the reporting date to the contract maturity dates. The maturity analysis of financial assets and liabilities was as follows:

a) For maintaining solvency and meeting the needs of emergency assistance arrangements, the Bank holds cash and high-quality, liquid interest-bearing assets. The assets held for liquidity risk management include cash and cash equivalents, due from Central Bank and call loans to other banks, financial assets at fair value through profit or loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets, and debt instruments with no active market, etc.

b) The Bank disclosed the analysis of cash outflows from nonderivative financial liabilities by the residual maturities as of the balance sheet dates. The amounts of cash outflows are based on contractual cash flows, so some amounts may not correspond to those that shown in the balance sheets.

i. The maturity analysis of financial liabilities

	December 31, 2016					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due after One Year	Total
Call loans and due to banks	$ 5,194,014	$ 758,665	$ 1,036,650	$ 28,300	$ -	$ 7,017,629
Securities sold under repurchase agreements	28,239,364	589,823	44,950	-	-	28,874,137
Payables	5,202,637	926,228	573,736	164,487	22,162	6,889,250
Deposits and remittance	38,197,460	46,204,095	52,523,343	108,635,052	186,502,874	432,062,824
Bank Debentures	-	-	-	-	11,200,000	11,200,000
Other liabilities	29,531	384	577	1,153	87,727	119,372

	December 31, 2015					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due after One Year	Total
Call loans and due to banks	$ 1,746,871	$ 346,540	$ 1,042,280	$ 28,300	$ -	$ 3,163,991
Securities sold under repurchase agreements	26,657,149	285,006	44,781	-	-	26,986,936
Payables	2,227,419	1,193,664	483,168	114,679	18,223	4,037,153
Deposits and remittance	33,534,421	42,911,683	68,683,111	113,340,860	163,275,951	421,746,026
Bank Debentures	-	-	-	900,000	8,700,000	9,600,000
Other liabilities	13,769	709	1,064	2,127	88,656	106,325

ii. The maturity analysis of derivatives financial liabilities - forward exchange contracts and currency swap contracts

	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at gross amounts						
Cash outflow	$ 3,058,981	$ 662,483	$ 421,300	$ 176,211	$ -	$ 4,318,975
Cash inflow	3,038,160	652,804	416,978	173,221	-	4,281,163
	20,821	9,679	4,322	2,990	-	37,812
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	$ 20,821	$ 9,679	$ 4,322	$ 2,990	$ -	$ 37,812

	December 31, 2015					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at gross amounts						
Cash outflow	$ 2,652,738	$ 1,301,374	$ 1,218,336	$ 386,256	$ -	$ 5,558,704
Cash inflow	2,640,814	1,297,048	1,196,827	377,441	-	5,512,130
	11,924	4,326	21,509	8,815	-	46,574
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	1,325	-	-	-	-	1,325
	$ 13,249	$ 4,326	$ 21,509	$ 8,815	$ -	$ 47,899

iii. The maturity analysis of derivatives financial liabilities - option contracts

	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at net amounts	$ (1,318)	$ (3,018)	$ (2,567)	$ (3,924)	$ -	$ (10,827)

	December 31, 2015					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at net amounts	$ (3,490)	$ (769)	$ (1,504)	$ 6,474	$ -	$ 711

e. Market risk

1) Source and definition of market risk

Market risk is defined as an unfavorable change in market prices (such as interest rates, exchange rates, stock prices and commodity prices), which may cause financial instruments classified in the trading book to give rise to a potential loss on or off the balance sheet.

2) Market risk management strategy and processes

The Bank implements the "Market Risk Management Standards of Union Bank of Taiwan," which had been approved by the Board of Directors, as the basis of market risk management.

The market risk management processes are risk identification, risk measurement, risk monitoring and control, risk reporting and risk mitigation.

a) Risk identification: For balance sheet and off-balance sheet items, the Bank identifies and assesses market risk factors of products and the investment business and subjects them to risk management, monitoring and control procedures.

b) Risk measurement: In principle, each investment or transaction has at least one risk measurement tool - such as sensitivity analysis, value at risk and stress testing, which can be applied to variables, such as fair market value and notional amounts, to quantify market risk.

c) Risk monitoring and control: Each operation unit observes the risk limit regulation stated in its operating manual and regularly monitors risk control. The department of risk management is responsible for summarizing and reporting the Bank's overall market risk monitoring.

d) Risk reporting: The risk management reports are classified as regular report, over-limit report and exception report. Regular reports are the management statements sent to the appropriate level in accordance with certain requirements. Over-limit reports are about situations in which risk limits are exceeded. Exception reports contain operation units' recommendations on how to meet temporary business needs.

e) Risk mitigation: An operation unit may take certain action to reduce risk, such as hedging, investment combination adjustment, position adjustment, setting a break-even point, halting new transactions, etc.

3) Market risk management framework

a) The Board of Directors: The Board of Directors, the Bank's top market risk supervisor, reviews risk management policies, operational risk limits and the design and change of the credit risk management framework.

b) Asset/Liability Management Committee: The Asset/Liability Management Committee inspects management reports or information provided by business units and the Risk Management Division.

c) Risk Management Division: The Risk Management Division is an independent unit in charge of the work related to three pillars of Basel and of the development of market risk management tools to assess and control the risk identified through setting risk limits.

d) Operation units: Operation units perform daily market risk management work and report the market risk of investment positions and related information to the authorities.

4) Market risk measurement, control and reporting

a) The market risk of the trading book financial instruments is measured in accordance with the fair market value or evaluation model and the profit and loss situation is evaluated regularly.

b) The business units and the risk management division prepares management reports periodically and report to the appropriate level.

c) The market risk management system combines the evaluation of the front and middle offices to generate information that will assist management in risk monitoring. Moreover, the system supports the capital accrual method being used by the Bank through generating internal and external reports for management's decision, making.

5) Market risk measurement of trading book

The Bank assesses the market risk exposure of the trading book in conformity with an assessment model using publicly quoted market prices or other measurement methods, including interest rate sensitivity analysis (DV01 value) and stress tests. The interest rate sensitivity analysis (DV01 value) refers to changes in market interest by 1 basis point (0.01%); the abnormal stress test system deals with market volatility and involves the regular estimation of possible losses (stress loss) and of the impact of stress test scenarios on major asset portfolios and the Bank's profit and loss.

6) Banking book market risk

a) Interest rate risk

The loans and deposits and other interest rate-related items in the Bank's balance sheet, including interest rate sensitive assets and interest rate sensitive liabilities, are measured from the viewpoint of earnings because there is a risk of decrease in earnings due to adverse changes in interest rates for loans and deposits.

The earnings viewpoint mainly emphasizes the impact of interest rates on earnings, especially short-term earnings. For 2016 and 2015, assuming all market risk indicators, except interest rates, remained constant, an interest rate increase or decrease by 100bps would result in an increase or decrease in profit before tax by $(98,890) thousand and $192,597 thousand, respectively.

b) Exchange rate risk

The exchange rate risk of the banking book refers to the business operation of the International Banking Department of the Bank's Head Office and the operating funds in foreign currencies required by the ROC or local regulations; if there are adverse exchange rate changes, the income statement or cumulative translation adjustments in equity would be negatively affected.

The International Banking Department (IBD) of the Bank's Head Office is a going concern, and its operating funds are foreign currencies for business needs. However, the exchange rate risk on these funds is not significant because the percentage of the operating funds to the Bank's total assets is small, as shown by the immaterial ratio of the IBD's cumulative translation adjustment to the Banks' net worth.

7) Foreign currency rate risk information

The information on significant foreign financial assets and liabilities is as follows:

Unit: Each Foreign Currency (Thousands)/NT$(Thousands)

	December 31, 2016		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,600,794	32.279	$ 83,951,022
JPY	4,425,352	0.2757	1,220,070
GBP	2,149	39.6192	85,123
AUD	117,932	23.3087	2,748,838
HKD	125,055	4.1622	520,509
CAD	15,701	23.9281	375,698
CNY	468,192	4.6219	2,163,913
SGD	2,547	22.3075	56,808
ZAR	740,320	2.6379	1,952,854
CHF	1,229	31.5533	38,774
THB	507	0.9011	456
NZD	23,878	7.1955	171,814
EUR	26,141	33.9091	886,431

(Continued)

	December 31, 2016		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial liabilities			
USD	$ 2,179,910	32.279	$ 70,365,313
JPY	7,577,941	0.2757	2,089,238
GBP	7,184	39.6192	284,610
AUD	117,806	23.3087	2,745,893
HKD	125,660	4.1622	523,027
CAD	15,758	23.9281	377,068
CNY	471,818	4.6219	2,180,670
SGD	2,611	22.3075	58,234
ZAR	739,785	2.6379	1,951,442
CHF	1,234	31.5533	38,941
NZD	23,918	7.1955	172,103
EUR	37,181	33.9091	1,206,766

(Concluded)

	December 31, 2015		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,035,384	33.066	$ 67,302,005
JPY	4,601,991	0.2747	1,264,287
GBP	3,473	49.0501	170,371
AUD	97,214	24.1712	2,349,785
HKD	103,533	4.2664	441,715
CAD	14,106	23.8399	336,283
CNY	660,206	5.0326	3,322,531
SGD	2,114	23.4162	49,504
ZAR	671,410	2.1257	1,427,247
CHF	65	33.4304	2,172
THB	127	0.9162	116
NZD	23,922	22.6800	542,552
EUR	5,220	36.1478	188,697
Financial liabilities			
USD	1,706,941	33.066	56,441,712
JPY	8,049,966	0.2747	2,211,535
GBP	3,380	49.0501	165,784
AUD	96,993	24.1712	2,344,438
HKD	103,767	4.2664	442,714
CAD	14,101	23.8399	336,167
CNY	663,883	5.0326	3,341,036
SGD	2,194	23.4162	51,383
ZAR	670,084	2.1257	1,424,428
CHF	2,020	33.4304	67,526
NZD	23,923	22.6800	542,583
EUR	34,069	36.1478	1,231,525

f. Transfers of financial assets.

Most of the transferred financial assets of the Bank that are not derecognized in their entirety are securities sold under repurchase agreements. According to these transactions, the right on cash flow of the transferred financial assets would be transferred to other entities and the associated liabilities of the Bank's obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. As the Bank is restricted to use, sell or pledge the transferred financial assets throughout the term of transaction, and is still exposed to interest rate risks and credit risks on these instruments, the transferred financial assets are not derecognized in their entirety. The details of financial assets that are not derecognized in their entirety and the associated financial liabilities are as following:

December 31, 2016					
Category of Financial Assets	**Carrying Amount of Transferred Financial Asset**	**Carrying Amount of Associated Financial Liability**	**Fair Value of Transferred Financial Asset**	**Fair Value of Associated Financial Liability**	**Fair Value of Net Position**
Financial instruments at fair value through profit or loss Securities sold under repurchase agreements	$ 7,054,785	$ 7,073,524	$ 7,054,785	$ 7,073,524	$ (18,739)
Available-for-sale financial assets Securities sold under repurchase agreements	14,636,448	13,634,152	14,636,448	13,634,152	1,002,296
Debt instruments with no active market Securities sold under repurchase agreements	10,163,828	8,166,461	10,438,839	8,166,461	2,272,378

December 31, 2015					
Category of Financial Assets	**Carrying Amount of Transferred Financial Asset**	**Carrying Amount of Associated Financial Liability**	**Fair Value of Transferred Financial Asset**	**Fair Value of Associated Financial Liability**	**Fair Value of Net Position**
Financial instruments at fair value through profit or loss Securities sold under repurchase agreements	$ 5,080,161	$ 5,095,828	$ 5,080,161	$ 5,095,828	$ (15,667)
Available-for-sale financial assets Securities sold under repurchase agreements	3,456,421	3,704,808	3,456,421	3,704,808	(248,387)
Debt instruments with no active market Securities sold under repurchase agreements	25,051,288	18,186,300	23,710,308	18,186,300	5,524,008

g. Offsetting financial assets and financial liabilities.

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

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

December 31, 2016						
Financial Assets	**Gross Amount of Recognized Financial Asset (a)**	**Gross Amount of Recognized Financial Assets Offset in the Balance Sheet (b)**	**Net Amount of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instrument	**Cash Collateral Pledged**	
Derivatives	$ 442,642	$ -	$ 442,642	$ 6,187	$ -	$ 436,455

December 31, 2016						
Financial Liabilities	**Gross Amount of Recognized Financial Liabilities (a)**	**Gross Amount of Recognized Financial Liabilities Offset in the Balance Sheet (b)**	**Net Amount of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial instrument	**Cash Collateral Pledged**	
Derivatives	$ 38,430	$ -	$ 38,430	$ 1,639	$ -	$ 36,791

December 31, 2015						
Financial Assets	**Gross Amount of Recognized Financial Asset (a)**	**Gross Amount of Recognized Financial Assets Offset in the Balance Sheet (b)**	**Net Amount of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instrument	**Cash Collateral Pledged**	
Derivatives	$ 387,257	$ -	$ 387,257	$ 12,291	$ -	$ 374,966

December 31, 2015						
Financial Liabilities	**Gross Amount of Recognized Financial Liabilities (a)**	**Gross Amount of Recognized Financial Liabilities Offset in the Balance Sheet (b)**	**Net Amount of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial instrument	**Cash Collateral Pledged**	
Derivatives	$ 54,271	$ -	$ 54,271	$ 1,634	$ -	$ 52,637

46. CAPITAL MANAGEMENT

a. Strategies to maintain capital adequacy

Under the regulations set by the authorities, the Bank complies with the requirements set each year for the minimum consolidated capital adequacy ratios, including the common equity Tier I capital ratio; the Bank's leverage ratio is also in accordance with the requirements of the relevant authorities. These ratios are applied in accordance with the regulations announced by the authorities.

b. Capital assessment program

The capital ratios and leverage ratios are applied, analyzed, monitored and reported regularly, and are assigned to each business unit as the target capital adequacy ratios. The business units' compliance with the ratio requirements is tracked regularly, and remedial action is taken if the capital and leverage ratio requirements are not met.

(Unit: In Thousands of New Taiwan Dollars, %)

Items (Note 2) / Year			December 31, 2016 Own Capital Adequacy Ratio	December 31, 2016 Consolidated Capital Adequacy Ratio
Eligible capital	Common equity Tier 1 Ratio		$ 30,419,225	$ 29,751,735
	Other Tier 1 capital		1,664,565	2,378,925
	Tier 2 capital		6,851,336	9,629,432
	Eligible capital		38,935,126	41,760,092
Risk-weighted assets	Credit risk	Standard	248,206,553	258,443,901
		Internal rating-based approach	-	-
		Asset securitization	919,153	919,153
	Operational risk	Basic indicator approach	17,384,500	19,969,925
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	22,483,575	23,893,763
		Internal model approach	-	-
	Total risk-weighted assets		288,993,781	303,226,742
Capital adequacy rate			13.47%	13.77%
Ratio of common stockholders’ equity to risk-weighted assets			10.53%	9.81%
Ratio of Tier 1 capital to risk-weighted assets			11.10%	10.60%
Leverage ratio			5.68%	5.57%

(Unit: In Thousands of New Taiwan Dollars, %)

Items (Note 2) / Year			December 31, 2015 Own Capital Adequacy Ratio	December 31, 2015 Consolidated Capital Adequacy Ratio
Eligible capital	Common equity Tier 1 Ratio		$ 28,573,380	$ 28,573,960
	Other Tier 1 capital		-	-
	Tier 2 capital		7,817,292	10,537,483
	Eligible capital		36,390,672	39,111,443
Risk-weighted assets	Credit risk	Standard	232,385,234	240,019,853
		Internal rating-based approach	-	-
		Asset securitization	1,227,133	1,227,133
	Operational risk	Basic indicator approach	16,711,475	19,034,288
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	25,658,013	26,975,300
		Internal model approach	-	-
	Total risk-weighted assets		275,981,855	287,256,574
Capital adequacy rate			13.19%	13.62%
Ratio of common stockholders’ equity to risk-weighted assets			10.35%	9.95%
Ratio of Tier 1 capital to risk-weighted assets			10.35%	9.95%
Leverage ratio			5.28%	5.21%

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

Note 2: Formulas used were as follows:

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

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

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

4) Ratio of Common equity Tier 1 capital to risk-weighted assets = Common equity Tier 1 capital ÷ Risk-weighted assets.

5) Ratio of Tier 1 capital to risk-weighted assets = (Common equity Tier 1 capital + Other Tier 1 capital) ÷ Risk-weighted assets.

6) Leverage ratio = Tier 1 capital ÷ Exposure Measurement

The Banking Law and related regulations require that the Bank maintain its unconsolidated and consolidated CARs at a minimum of 8.625%, the Tier 1 Capital Ratio at a minimum of 6.625% and the Common Equity Tier 1 Ratio at a minimum of 5.125%. In addition, if the Bank's CAR falls below the minimum requirement, the authorities may impose certain restrictions on the amount of cash dividends that the Bank can declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.

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

Union Bank of Taiwan

a. Credit risk

1) Asset quality

See Table 5.

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

December 31, 2016			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Group U - real estate development	$ 1,728,080	4.81
2	Company B - other financial intermediation	1,623,773	4.52
3	Company V - other telecommunications market	1,499,844	4.17
4	Group D - real estate development	1,495,115	4.16
5	Group H - retail of other food and beverages	1,248,800	3.47
6	Company T - real estate development	891,380	2.48
7	Company O - financial intermediation	865,000	2.41
8	Company T - real estate development	708,000	1.97
9	Group F - manufacture of chemical material	630,185	1.75
10	Company P - renting and leasing of other transport equipment	618,000	1.72

(In Thousands of New Taiwan Dollars, %)

December 31, 2015			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Group O - financial intermediation	$ 2,290,000	6.56
2	Company K - real estate development	2,077,000	5.95
3	Company B - other financial intermediation	1,980,506	5.68
4	Group D - real estate development	1,814,177	5.20
5	Group U - real estate development	1,613,000	4.62
6	Company E - real estate development	1,035,320	2.97
7	Company H - retail of other food and beverages	858,800	2.46
8	Company Z - real estate development	820,000	2.35
9	Group Q - the telecommunications market	699,898	2.01
10	Company P - renting and leasing of other transport equipment	620,914	1.78

b. Market risk

Interest Rate Sensitivity
December 31, 2016

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 303,648,998	$ 13,621,567	$ 16,719,210	$ 65,246,623	$ 399,236,398
Interest rate-sensitive liabilities	163,766,946	148,972,674	66,453,129	20,884,794	400,077,543
Interest rate-sensitive gap	139,882,052	(135,351,107)	(49,733,919)	44,361,829	(841,145)
Net worth					36,171,130
Ratio of interest rate-sensitive assets to liabilities					99.79%
Ratio of interest rate sensitivity gap to net worth					(2.33%)

December 31, 2015

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 340,390,369	$ 6,676,016	$ 8,959,094	$ 38,623,836	$ 394,649,315
Interest rate-sensitive liabilities	171,282,700	139,934,765	67,039,401	21,213,230	399,470,096
Interest rate-sensitive gap	169,107,669	(133,258,749)	(58,080,307)	17,410,606	(4,820,781)
Net worth					28,318,921
Ratio of interest rate-sensitive assets to liabilities					98.79%
Ratio of interest rate sensitivity gap to net worth					(17.02%)

Note 1: The above amounts included only New Taiwan dollar amounts held by the Bank's Head Office and branches (i.e., excluding foreign currency).

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

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

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

Interest Rate Sensitivity
December 31, 2016

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 89,734	$ 53,035	$ 118,086	$ 2,290,955	$ 2,551,810
Interest rate-sensitive liabilities	978,992	248,275	376,550	337,223	1,941,040
Interest rate-sensitive gap	(889,258)	(195,240)	(258,464)	1,953,732	610,770
Net worth					33,054
Ratio of interest rate-sensitive assets to liabilities					131.47%
Ratio of interest rate sensitivity gap to net worth					1,847.79%

December 31, 2015

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 317,212	$ 60,169	$ 210,731	$ 1,653,907	$ 2,242,019
Interest rate-sensitive liabilities	874,159	493,844	314,260	-	1,682,263
Interest rate-sensitive gap	(556,947)	(433,675)	(103,529)	1,653,907	559,756
Net worth					243,703
Ratio of interest rate-sensitive assets to liabilities					133.27%
Ratio of interest rate sensitivity gap to net worth					229.69%

Note 1: The above amounts included only U.S. dollar amounts held by the Bank's Head Office, domestic branches, OBU and overseas branches and excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

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

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

c. Liquidity risk

1) Profitability

(%)

Items		Year Ended December 31, 2016	Year Ended December 31, 2015
Return on total assets	Before income tax	0.63	0.76
	After income tax	0.51	0.63
Return on equity	Before income tax	9.11	11.25
	After income tax	7.44	9.33
et income ratio		26.61	31.83

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

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

Note 3: Net income ratio = Income after income tax ÷ Total net revenues

Note 4: Income before (after) income tax represents income for the years ended December 31, 2016 and 2015.

2) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
December 31, 2016

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 437,112,956	$ 111,586,563	$ 28,350,870	$ 38,197,116	$ 74,328,205	$ 184,650,202
Main capital outflow on maturity	529,154,086	55,838,927	52,344,727	62,887,509	137,719,453	220,363,470
Gap	(92,041,130)	55,747,636	(23,993,857)	(24,690,393)	(63,391,248)	(35,713,268)

December 31, 2015

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 431,591,750	$ 113,386,805	$ 37,355,636	$ 34,370,648	$ 70,907,801	$ 175,570,860
Main capital outflow on maturity	518,276,838	56,588,866	53,509,719	67,062,795	138,934,077	202,181,381
Gap	(86,685,088)	56,797,939	(16,154,083)	(32,692,147)	(68,026,276)	(26,610,521)

Note: The above amounts are book value held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance sheet amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

Maturity Analysis of Assets and Liabilities
December 31, 2016

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 2,734,149	$ 126,023	$ 91,909	$ 59,878	$ 115,787	$ 2,340,552
Main capital outflow on maturity	2,346,293	1,059,256	245,393	269,163	401,994	370,487
Gap	387,856	(933,233)	(153,484)	(209,285)	(286,207)	1,970,065

December 31, 2015

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 2,525,740	$ 507,795	$ 39,251	$ 86,615	$ 208,800	$ 1,683,279
Main capital outflow on maturity	2,525,683	1,154,159	161,841	635,230	330,450	244,003
Gap	57	(646,364)	(122,590)	(548,615)	(121,650)	1,439,276

Note: The above amounts are book value of the assets and liabilities held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

48. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau for the Bank and its investees:

a. Related information of significant transactions and investees and (b) proportionate share in investees:

1) Financing provided to other parties: The Bank - not applicable; investee - Table 1 (attached)

2) Endorsement/guarantee provided: The Bank - not applicable; investee: None

3) Marketable securities held: The Bank - not applicable; investee - Table 2 (attached)

4) Marketable securities acquired and disposed of at costs or prices of at least $300 million or 10% of the paid-in capital: None

5) Acquisition of individual real estate at costs of at least $300 million or 10% of the paid-in capital: Table 3 (attached)

6) Disposal of individual real estate at costs of at least $300 million or 10% of the paid-in capital: None

7) Allowance of service fees to related parties amounting to at least $5 million: None

8) Receivables from related parties amounting to at least $300 million or 10% of the paid-in capital: Table 4 (attached)

9) Sale of nonperforming loans: None

10) Asset securitization under the "Regulations for Financial Asset Securitization": None

11) Other significant transactions which may affect the decisions of users of financial reports: Table 5 (attached)

12) Names, locations and other information of investees on which the Bank exercises significant influence: Table 6 (attached)

13) Derivative transactions: Note 8

b. Investment in Mainland China: None

49. INFORMATION SEGMENTS

The Bank has disclosed the segment information in the consolidated financial statements. Thus, no segment information is presented herein.

TABLE 1

UNION BANK OF TAIWAN

LOANS PROVIDED TO OTHER PARTIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit
												Item	Value		
1	Union Financial and Leasing International Corporation	Union Capital (Cayman) Corp.	Affiliates of receivable	$ 1,622,862 (JPY 5,866,335)	$ 1,023,836 (JPY 3,713,588)	$ 1,622,862 (JPY 5,866,335)	1.50	Business transaction	$ 1,023,836	-	$ -	-	$ -	$ 2,604,833	$ 2,604,833
			Affiliates of receivable	214,138 (US$ 6,634)	214,138 (US$ 6,634)	214,138 (US$ 6,634)	1.50	Business transaction	214,138	-	-	-	-	2,604,833	2,604,833
2	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Affiliates of receivable	741,469 (JPY 2,689,404)	741,469 (JPY 2,689,404)	741,469 (JPY 2,689,404)	1.50	Business transaction	741,469	-	-	-	-	2,604,833	2,604,833
		Uflc Capital (Singapore) Holding Pte. Ltd.	Affiliates of receivable	1,503,861 (JPY 5,454,700)	1,503,861 (JPY 5,454,700)	1,503,861 (JPY 5,454,700)	1.50	Business transaction	1,503,861	-	-	-	-	2,604,833	2,604,833
			Affiliates of receivable	646 (US$ 20)	646 (US$ 20)	646 (US$ 20)	1.50	Business transaction	646	-	-	-	-	2,604,833	2,604,833
		Kabushiki Kaisha UCJ1 (Japan)	Affiliates of receivable	404,139 (JPY 1,465,865)	404,139 (JPY 1,465,865)	404,139 (JPY 1,465,865)	2.75	Business transaction	404,139	-	-	-	-	2,604,833	2,604,833
3	Uflc Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Affiliates of receivable	907,053 (JPY 3,290,000)	609,793 (JPY 2,211,800)	907,053 (JPY 3,290,000)	2.75	Business transaction	609,793	-	-	-	-	2,604,833	2,604,833

TABLE 2

UNION BANK OF TAIWAN

MARKETABLE SECURITIES HELD
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars and Foreign Currency, Unless Stated Otherwise)

Holding Company	Type and Issuer/ Name of Marketable Security	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Union Finance and Leasing International Corporation	Stock							
	Masterlink Securities Corporation.	-	Available-for-sale financial assets	931	$ 8,361	0.06	$ 8,361	Note 4
	China Chemical Corporation	-	Available-for-sale financial assets	356	6,486	0.12	6,486	Note 4
	Hey-Song Corporation	-	Available-for-sale financial assets	4,486	144,898	1.12	144,898	Note 4
	CTBC Financial Holding Co., Ltd.	-	Available-for-sale financial assets	4,517	79,733	0.023	79,733	Note 4
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	509,596	100.00	509,596	Note 1
	New Asian Ventures Ltd.	Subsidiary	Equity investment - equity method	-	85,166	100.00	85,166	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33	7,480	Note 1
	Beneficial certificates							
	Union Advantage Global FI Portfolio Fund	-	Available-for-sale financial assets	6,610	108,366		108,366	Note 4
	Union Golden Balance Fund	-	Available-for-sale financial assets	1,386	22,942		22,942	Note 4
Union Information Technology Corporation	Stock							
	ELTA Technology Co., Ltd.	-	Unquoted equity instruments	2,646	23,411	14.70	28,981	Note 3
Union Securities Investment Trust Corporation (USITC)	Stock							
	Fundrish Securities Co., Ltd.	-	Unquoted equity instruments	330	3,300	0.94	2,673	Note 2
	Beneficial certificates							
	Union Advantage Global FI Portfolio Fund	-	Financial assets at fair value through profit or loss	1,068	17,504		17,504	Note 4
	Union Emerging Asia Bond A	-	Financial assets at fair value through profit or loss	486	5,560		5,560	Note 4
	Union Money Market	-	Financial assets at fair value through profit or loss	1,459	19,092		19,092	Note 4
	Union Golden Balance Fund	-	Financial assets at fair value through profit or loss	575	9,526		9,526	Note 4
	Union Emerg Res-rich Countries HYBd A	-	Financial assets at fair value through profit or loss	800	8,728		8,728	Note 4
	Union China	-	Financial assets at fair value through profit or loss	1,006	18,151		18,151	Note 4
	Union Technology Fund	-	Financial assets at fair value through profit or loss	1,460	12,819		12,819	Note 4
	Union APEC Balanced A	-	Financial assets at fair value through profit or loss	1,001	11,301		11,301	Note 4
	Union Global ETF Fund	-	Financial assets at fair value through profit or loss	513	5,026		5,026	Note 4
	Union Asian High Yield Bond A		Financial assets at fair value through profit or loss	1,451	15,056		15,056	Note 4
Union Finance International (HK) Limited	Bond							
	HBOS Capital Funding LP	-	Available-for-sale financial assets	900 units	US$ 909		US$ 909	Note 4

(Continued)

Holding Company	Type and Issuer/ Name of Marketable Security	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
	Stock							
	ING Group N.V.	-	Available-for-sale financial assets	33	US$ 844		US$ 844	Note 4
	Apple Computer Inc.	-	Financial assets at fair value through profit or loss	17	US$ 2,016		US$ 2,016	Note 4
	Merck & Co., Inc.	-	Financial assets at fair value through profit or loss	12	US$ 689		US$ 689	Note 4
	EBAY Inc.	-	Financial assets at fair value through profit or loss	14	US$ 406		US$ 406	Note 4
	Penn West Energy	-	Financial assets at fair value through profit or loss	119	US$ 211		US$ 211	Note 4
New Asian Ventures Ltd.	Stock							
	Grace T.H.W. Holding Limited	-	Unquoted equity instruments	1,667	$ 64,320	0.74	US$ 2,335	Note 2
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 2,705	100.00	JPY 2,705	Note 5
	Uflc Capital (Singapore) Holding Pte. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 3,767	100.00	JPY 3,767	Note 5
Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1	Subsidiary	Equity investment - equity method	9	JPY 463,212	30.55	JPY 463,212	Note 5
	Tokutei Mokuteki Kaisha SSG15	Subsidiary	Equity investment - equity method	Note 7	JPY 751,077	49.00	JPY 751,077	Note 5
Kabushiki Kaisha UCJ1	Tokutei Mokuteki Kaisha SSG15	Subsidiary	Equity investment - equity method	Preferred stock 15	JPY 781,681	51.00	JPY 781,681	Note 5
	Tokutei Mokuteki Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 9	JPY 998,201	51.00	JPY 998,201	Note 5
	Tokutei Mokuteki Kaisha SSG16	Subsidiary	Equity investment - equity method	Preferred stock 26	JPY 1,295,762	51.00	JPY 1,295,762	Note 5
Uflc Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1	Subsidiary	Equity investment - equity method	21	JPY 1,053,097	69.45	JPY 1,053,097	Note 5
	Tokutei Mokuteki Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 8	JPY 959,107	49.00	JPY 959,107	Note 5
	Tokutei Mokuteki Kaisha SSG16	Subsidiary	Equity investment - equity method	Note 6	JPY 1,244,999	49.00	JPY 1,244,999	Note 5

The Bank's investees had investments in companies with shares having no quoted market prices. The net asset values of these companies were based on the following:

Note 1: Union Finance and Leasing International Corporation:

a. ERA Communications Co., Ltd. - the audited statements of stockholders' equity as of December 31, 2015.
b. New Asian Ventures Ltd. and Union Capital (Cayman) Corp. - the audited statements of stockholders' equity as of December 31, 2016.

Note 2: Union Securities Investment Trust. Corporation (USITC):

Fundrish Securities Co., Ltd. - the audited statements of stockholders' equity as of December 31, 2016.

New Asian Ventures Ltd.:

Grace T.H.W. Holding Limited - unaudited statements of stockholders' equity as of December 31, 2016.

Note 3: Union Information Technology Corporation:

ELTA Technology Co., Ltd. - unaudited statements of stockholders' equity as of December 31, 2016.

(Continued)

Note 4: The market values of the listed and OTC stocks included in financial assets at fair value through profit or loss and available-for-sale financial assets were based on the daily closing prices as of balance sheet date. The market values of beneficial certificates were based on net asset values as of the balance sheet date.

Note 5: Union Capital (Singapore) Holding Pte. Ltd., Uflc Capital (Singapore) Holding Pte. Ltd. and Tokutei Mokuteki Kaisha SSG15 - the audited statements of stockholders' equity as of September 30, 2016.

Kabushiki Kaisha UCJ1, Tokutei Mokuteki Kaisha SSG12 and Tokutei Mokuteki Kaisha SSG16 - unaudited statements of stockholders' equity as of September 30, 2016.

Note 6: Common stock 1 shares and preferred stock 25 thousand shares.

Note 7: Common stock 1 shares and preferred stock 14 thousand shares.

Note 8: Common stock 1 shares and preferred stock 19 thousand shares.

Note 9: Preferred stock 20 thousand shares.

(Concluded)

UNION BANK OF TAIWAN

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST $300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty is a Related Party				Pricing Reference (Note 1)	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Tokutei Mokuteki Kaisha SSG12	Investment property - land and building	2016.1.29	JPY 3,753,600	JPY 3,753,600	サンフロンティア不動産株式会社	Non-related	Disapply	Disapply	Disapply	$ -	By appraisal report	Operating lease assets	Note 2
Tokutei Mokuteki Kaisha SSG16	Investment property - land and building	2016.3.30	JPY 2,402,845	JPY 2,402,845	Kasama Tekkou Kabushiki Kaisha	Non-related	Disapply	Disapply	Disapply	-	By appraisal report	Operating lease assets	Note 2
Union Bank of Taiwan	Property - land	2016.8.5	423,916	423,916	New Taipei City Government	Non-related	Disapply	Disapply	Disapply	-	Bid	Construct business office	-

Note 1: The appraisal amount of the investment property of Tokutei Mokuteki Kaisha SSG12 and Tokutei Mokuteki Kaisha SSG16 was JPY4,000,000 thousand and JPY2,790,000 thousand respectively, based on the valuations made by independent qualified professional appraisers.

Note 2: In a real estate securitized preferred stock issued by Tokutei Mokuteki Kaisha SSG12 and Tokutei Mokuteki Kaisha SSG16, Kabushiki Kaisha UCJ1 and Uflc Capital (Singapore) Holding Pte. Ltd. (both owned by Union Capital (Cayman) Corp.) invested.

TABLE 4

UNION BANK OF TAIWAN

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$300 MILLION OR 10% OF THE PAID-IN CAPITAL
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Union Finance and Leasing International Corporation	Union Capital (Cayman) Corp.	Subsidiary	$ 1,237,974 (JPY 3,713,588) (US$ 6,634)	-	$ -	-	$ -	$ -
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Subsidiary	741,469 (JPY 2,689,404)	-	-	-	-	-
	Uflc Capital (Singapore) Holding Pte. Ltd.	Subsidiary	1,504,507 (JPY 5,454,700) (US$ 20)	-	-	-	-	-
	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	404,139 (JPY 1,465,865)	-	-	-	-	-
Uflc Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	609,793 (JPY 2,211,800)	-	-	-	-	-

UNION BANK OF TAIWAN

ASSET QUALITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, %)

Period			December 31, 2016				
Items			Nonperforming Loan (Note 1)	Loan	Ratio of Nonperforming Loan (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 94,244	$ 75,045,075	0.13%	$ 1,276,561	1,056.99%
	Unsecured		26,529	57,311,972	0.05%		
Consumer banking	Housing mortgage (Note 4)		57,784	122,449,989	0.05%	1,543,728	2,671.55%
	Cash card		1,047	60,542	1.73%	2,579	246.32%
	Small scale credit loans (Note 5)		64,924	13,535,125	0.48%	167,511	258.01%
	Other (Note 6)	Secured	28,153	15,998,751	0.18%	206,915	713.04%
		Unsecured	866	2,836,563	0.03%		
Loan			273,547	287,238,017	0.10%	3,197,294	1,168.83%
			Nonperforming Receivable (Note 1)	Receivable	Ratio of Nonperforming Receivable	Allowance for Possible Losses	Coverage Ratio
Credit cards			40,754	13,959,135	0.29%	98,445	241.56%
Accounts receivable factored without recourse			-	799,844	0.00%	3,504	-

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

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

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.
Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Not reported as nonperforming loans or nonperforming receivables

Types \ Items	December 31, 2016	
	Not Reported as Nonperforming Loan	Not Reported as Nonperforming Receivable
Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	$ 56,493	$ 234,830
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	67,968	798,500
Total	124,461	1,033,330

Note 1: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: Amounts of discharged and executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).

(Continued)

Period			December 31, 2015				
Items			**Nonperforming Loan (Note 1)**	**Loan**	**Ratio of Nonperforming Loan (Note 2)**	**Allowance for Possible Losses**	**Coverage Ratio (Note 3)**
Corporate banking	Secured		$ 39,649	$ 74,565,431	0.05%	$ 1,344,263	2,641.51%
	Unsecured		11,241	61,346,112	0.02%		
Consumer banking	Housing mortgage (Note 4)		49,720	118,445,483	0.04%	1,171,511	2,356.22%
	Cash card		922	82,809	1.11%	3,498	379.39%
	Small scale credit loans (Note 5)		29,674	11,381,172	0.26%	112,568	379.35%
	Other (Note 6)	Secured	20,229	15,049,965	0.13%	165,020	793.37%
		Unsecured	571	2,707,446	0.02%		
Loan			152,006	283,578,418	0.05%	2,796,860	1,839.97%
			Nonperforming Receivable (Note 1)	**Receivable**	**Ratio of Nonperforming Receivable**	**Allowance for Possible Losses**	**Coverage Ratio**
Credit cards			39,683	12,960,796	0.31%	106,184	267.58%
Accounts receivable factored without recourse			-	-	-	-	-

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

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

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.
Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Not reported as nonperforming loans or nonperforming receivables

Items / Types	December 31, 2015	
	Not Reported as Nonperforming Loan	**Not Reported as Nonperforming Receivable**
Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	$ 77,862	$ 325,792
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	56,829	857,944
Total	134,691	1,183,736

Note 1: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: Amounts of discharged and executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).

(Concluded)

UNION BANK OF TAIWAN

INFORMATION ON AND PROPORTIONATE SHARE IN INVESTEES
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business and Product	Percentage of Ownership (%)	Carrying Value	Investment Gain (Loss)	Proportionate Share of the Bank and Its Subsidiaries in Investees				Note
						Shares (Thousands)	Pro Forma Shares (Note 2)	Total		
								Shares (Thousands)	Percentage of Ownership (%)	
Financial-related										
Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00	$ 2,604,833	$ 143,194	105,000	-	105,000	100.00	Note 3
Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99	72,936	2,934	30,000	-	30,000	99.99	Note 3
Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00	144,920	13,593	10,500	-	10,500	35.00	Note 3
Union Information Technology Corporation	Taipei	Software and hardware product retail and distribution services	99.99	34,753	13,842	1,000	-	1,000	99.99	Note 3
Ipass Corporation	Kaohsiung	IC card	16.25	123,320	-	13,000	-	13,000	16.25	
Taiwan Gin Lian Asset Management Corporation	Taipei	Purchase, sale and management of nonperforming loans from financial institutions	0.57	75,000	-	7,500	-	7,500	0.57	
Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94	50,000	-	5,000	-	5,000	2.94	
Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53	20,055	-	2,103	-	2,103	0.53	
Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44	3,864	-	386	-	386	6.44	
Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81	2,113	-	160	-	160	0.81	
Financial Information Service Co., Ltd.	Taipei	Information service	2.39	118,782	-	12,498	-	12,498	2.39	
Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.25	13,916	-	878	-	878	0.25	
Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04	71,250	-	6,235	-	6,235	2.04	
Taiwan Mobile Payment Corporation	Taipei	International trade, data processing service	1.00	6,000	-	600	-	600	1.00	
Nonfinancial-related										
Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00	53,447	(347)	2,000	-	2,000	40.00	Note 3
Fu Hua Venture Corporation	Taipei	Investments	5.00	9,852	-	990	-	990	5.00	
Li Yu Venture Corporation	Taipei	Investment	4.76	5,837	-	607	-	607	4.76	
Lian An Service Corporation	Taipei	Security service	5.00	1,501	-	125	-	125	5.00	
Taiwan Power Corporation	Taipei	Electricity-related business	0.0012	6,124	-	395	-	395	0.0012	

Note 1: The investees' information shown above is based on audited financial reports as of December 31, 2016.

Note 2: Pro forma shares are considered if equity securities - convertible bonds, warrants, etc. - or derivative contracts such as stock options, are converted to shares.

Union Bank of Taiwan and Subsidiaries

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

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

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

Very truly yours,

UNION BANK OF TAIWAN

By:

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March 22, 2017

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Union Bank of Taiwan

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the year ended December 31, 2016. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's consolidated financial statements for the year ended December 31, 2016 are described as follows:

Accuracy of Interest Revenue Recognition of Discounts and Loans

For the year ended 2016, the amount of interest revenue of discounts and loans is $6,143,904 thousand, representing approximately 51% of total net revenue, and is considered material to the financial statements as a whole. Refer to Note 33. Therefore, we consider the accuracy of the recognition thereof to be a key audit matter for the year ended December 31, 2016.

The main audit procedures we performed in response to certain aspects of the key audit matter described above are as follows:

1. Understanding the design of the Company's computerized information system and General IT Control, test its operating effectiveness in order to determine the effectiveness of controls over the relevant application system and the information generated.

2. Understanding the design of the application system for recognition of commercial loans discount and interest revenue. Perform operating effectiveness testing of relevant automated controls in the application system.

3. Determine and verify the material classification of loans. Verify if there is any difference in the balance of loans generated by information system and carrying amount on per book.

4. Testing and assessing the accuracy of interest revenue generated by information system. Verify if there is any difference in the balance of loans generated by information system and carrying amount on per book.

Possible Impairments on Discounts and Loans

As of December 31, 2016, the net amount of discounts and loans of the Company is $282,416,950 thousand, representing approximately 53% of total consolidated assets, and is considered material to the financial statements as a whole. Refer to Note 11. The Company's management performs loan impairment assessment involving critical judgements such as accounting estimates and assumptions; therefore, we determined allowances for possible losses on discounts and loans to be a key audit matter for the year ended December 31, 2016.

The Company's management performs loan impairment assessment through reviewing portfolios of loans periodically, and makes a judgement on whether to recognize impairment losses per observable evidence indicating the probable occurrence of impairment events. The amount of impairment losses is the difference between the asset's carrying amount and the present value of the estimated future cash flows with consideration to the collaterals and guarantees, discounted at the financial asset's original effective interest rate. In addition, the allowance provision must comply with relevant regulations issued by the authorities.

For the accounting policies and relevant information on loan impairment assessment, refer to Notes 4, 5 and 12 to the financial statements.

The main audit procedures we performed in response to certain aspects of the key audit matter described above are as follows:

1. Obtain an understanding of and perform test on the relevant internal controls in respect of the Bank's loan impairment assessment.

2. Sample individually impairment assessed loans by:

   - Verifying the accuracy of the balance of loans.

   - Considering the payment of principal and interest, in order to assess that the classification of credit assets have complied with relevant regulations issued by the authorities.

   - Assessing the assumptions used to estimate future cash flows and the reasonableness of the value of collateral.

3. Sample collectively impairment assessed loans by:

   - Obtaining an understanding of the reasonableness regarding the classification of collectively assessed loans.

   - Obtaining an understanding of and performing test on the assumptions of critical factors of collectively assessed loans, including the possibility of the impairment and the recoverability of loan balances, used in the impairment assessment model to verify whether the real outcome of each loan portfolio can be reflected.

   - Recalculating the impairment to confirm its adequacy and accuracy.

4. Test the classification of credit assets in order to assess whether the provision of allowances for possible losses complies with relevant regulations issued by the authorities.

Other Matter

We have also audited the financial statements of Union Bank of Taiwan as of and for the years ended December 31, 2016 and 2015 on which we have issued an unmodified opinion.

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

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

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

Those charged with governance, including the audit committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the year ended December 31, 2016 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Shiuh-Ran Cheng and Chen-Hsiu Yang.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 22, 2017

Notice to Readers

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

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

UNION BANK OF TAIWAN AND SUBSIDIARIES

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

	2016		2015	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	$ 10,971,118	2	$ 8,346,755	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Note 7)	54,414,461	10	63,312,965	12
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 5 and 8)	9,538,090	2	9,058,815	2
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL (Notes 4 and 9)	27,855,242	5	22,072,191	4
RECEIVABLES, NET (Notes 4, 5, 10 and 12)	17,888,230	3	15,217,776	3
CURRENT TAX ASSETS (Note 4)	186,231	-	322,660	-
DISCOUNTS AND LOANS, NET (Notes 4, 5, 11, 12 and 43)	282,416,950	53	278,801,052	55
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 4, 5, 13 and 43)	39,978,425	8	23,319,718	5
HELD-TO-MATURITY FINANCIAL ASSETS (Notes 4 and 14)	7,192,115	1	4,207,436	1
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 16)	53,447	-	53,794	-
OTHER FINANCIAL ASSETS, NET (Notes 4, 17 and 44)	57,403,743	11	61,133,831	12
PROPERTY AND EQUIPMENT, NET (Notes 4 and 18)	8,156,305	2	7,723,438	2
INVESTMENT PROPERTIES, NET (Notes 4, 19 and 27)	5,415,376	1	3,703,410	1
INTANGIBLE ASSETS (Notes 4, 5 and 20)				
Goodwill	1,985,307	-	1,985,307	-
Computer software	182,423	-	158,933	-
Total intangible assets	2,167,730	-	2,144,240	-
DEFERRED TAX ASSETS (Notes 4 and 41)	1,447,039	-	1,886,538	-
OTHER ASSETS, NET (Notes 4, 21, 43 and 45)	7,622,068	2	7,184,578	1
TOTAL	$ 532,706,570	100	$ 508,489,197	100
LIABILITIES AND EQUITY				
LIABILITIES				
Due to the Central Bank and call loans to other banks (Note 22)	$ 8,389,312	2	$ 3,781,976	1
Financial liabilities at fair value through profit or loss (Notes 4, 5 and 8)	39,523	-	54,271	-
Securities sold under agreements to repurchase (Notes 4 and 23)	28,874,137	5	26,986,936	5
Accounts payable (Note 24)	6,981,464	1	4,061,998	1
Current tax liabilities (Note 4)	97,549	-	49,618	-
Deposits and remittances (Notes 25 and 43)	431,618,915	81	421,018,106	83
Bank debentures (Note 26)	11,200,000	2	9,600,000	2
Bonds payable (Note 27)	1,135,884	-	604,397	-
Other financial liabilities (Note 28)	4,235,138	1	2,679,438	1
Provisions (Notes 4, 5, 29 and 30)	189,572	-	1,044,534	-
Deferred tax liabilities (Notes 4 and 41)	834,410	-	881,731	-
Other liabilities (Notes 31 and 45)	2,892,210	1	2,575,775	-
Total liabilities	496,488,114	93	473,338,780	93
EQUITY ATTRIBUTABLE TO OWNERS OF THE BANK				
Capital stock				
Common stock	26,051,524	5	26,051,524	5
Capital surplus	32,413	-	32,413	-
Retained earnings				
Legal reserve	4,374,367	1	3,450,907	1
Special reserve	558,842	-	558,842	-
Unappropriated earnings	3,740,039	1	3,078,201	1
Total retained earnings	8,673,248	2	7,087,950	2
Other equity	1,192,131	-	1,718,277	-
Total equity attributable to owners of the Bank	35,949,316	7	34,890,164	7
NON-CONTROLLING INTERESTS	269,140	-	260,253	-
Total equity	36,218,456	7	35,150,417	7
TOTAL	$ 532,706,570	100	$ 508,489,197	100

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

UNION BANK OF TAIWAN AND SUBSIDIARIES

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

	2016		2015		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
NET INTEREST (Notes 33 and 43)					
Interest revenues	$ 10,014,337	83	$ 10,098,167	86	(1)
Interest expenses	3,709,965	31	4,013,743	34	(8)
Net interest	6,304,372	52	6,084,424	52	4
NET REVENUES OTHER THAN INTEREST					
Commissions and fee revenues, net (Notes 34 and 43)	2,423,489	20	2,279,396	19	6
Gain on financial assets and liabilities at fair value through profit or loss, net (Note 35)	382,758	3	412,352	4	(7)
Realized gain from available-for-sale financial assets, net (Note 36)	461,840	4	254,628	2	81
Foreign exchange gain (loss) , net	(16,025)	-	491,070	4	(103)
Loss from asset impairment, net (Note 37)	(49,283)	-	(104,843)	(1)	(53)
Share of loss of associates (Notes 4 and 16)	(347)	-	(389)	-	(11)
Gain on financial assets measured at cost, net	68,135	-	52,905	1	29
Securities brokerage fee revenues, net (Note 43)	198,476	2	186,851	2	6
Rental revenue	2,140,487	18	2,037,214	17	5
Other noninterest net gain	97,758	1	47,114	-	107
TOTAL NET REVENUES	12,011,660	100	11,740,722	100	2
PROVISIONS (Note 12)					
Provision (reversal) of allowance for doubtful accounts	171,542	2	(113,942)	(1)	251
OPERATING EXPENSES					
Employee benefit expenses (Notes 4, 30 and 38)	3,345,749	28	3,162,423	27	6
Depreciation and amortization (Note 39)	1,820,860	15	1,707,178	14	7
Others (Notes 40 and 43)	3,362,722	28	3,144,799	27	7
Total operating expenses	8,529,331	71	8,014,400	68	6

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

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

	2016		2015		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INCOME BEFORE INCOME TAX	3,310,787	27	3,840,264	33	(14)
INCOME TAX EXPENSE (Notes 4 and 41)	649,166	5	701,340	6	(7)
CONSOLIDATED NET INCOME	2,661,621	22	3,138,924	27	(15)
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans (Note 30)	(11,073)	-	(60,856)	(1)	(82)
Income tax relating to items that will not be reclassified subsequently to profit or loss (Note 41)	1,883	-	10,346	-	(82)
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translating foreign operations	(558,033)	(5)	115,969	1	(581)
Unrealized gain on available-for-sale financial assets	(39,870)	-	347,896	3	(111)
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 41)	71,757	1	(114,488)	(1)	163
Other comprehensive income for the year, net of income tax	(535,336)	(4)	298,867	2	(279)
TOTAL COMPREHENSIVE INCOME	$ 2,126,285	18	$ 3,437,791	29	(38)
NET INCOME ATTRIBUTABLE TO:					
Owners of the Bank	$ 2,636,375	22	$ 3,120,902	27	(16)
Non-controlling interests	25,246	-	18,022	-	40
	$ 2,661,621	22	$ 3,138,924	27	(15)

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

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

	2016		2015		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owners of the Bank	$ 2,101,213	18	$ 3,419,774	29	(39)
Non-controlling interests	25,072	-	18,017	-	39
	$ 2,126,285	18	$ 3,437,791	29	(38)
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 42)					
Basic	$1.01		$1.20		
Diluted	$1.01		$1.19		

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

UNION BANK OF TAIWAN AND SUBSIDIARIES

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

	Equity Attributable Owners of the Company											
							Other Equity					
	Capital Stock (Note 32)		Retained Earnings (Notes 4 and 32)				Unrealized Gain (Loss) on Available-for-sale Financial Assets	Exchange Differences on Translating Foreign Operations			Non-controlling Interests (Note 32)	
	Common Stock	Share Capital (Note 32)	Legal Reserve	Special Reserve	Unappropri-ated Earnings	Total			Total	Total		Total Equity
BALANCE AT JANUARY 1, 2015	$ 24,509,306	$ 33,006	$ 2,522,768	$ 558,842	$ 3,045,300	$ 6,126,910	$ 1,029,647	$ 339,253	$ 1,368,900	$ 32,038,122	$ 268,951	$ 32,307,073
Appropriation of the 2014 earnings												
Legal reserve	-	-	928,139	-	(928,139)	-	-	-	-	-	-	-
Cash dividends on common shares	-	-	-	-	(637,242)	(637,242)	-	-	-	(637,242)	-	(637,242)
Stock dividends on common shares	1,470,558	-	-	-	(1,470,558)	(1,470,558)	-	-	-	-	-	-
Net income for the for the year ended December 31, 2015	-	-	-	-	3,120,902	3,120,902	-	-	-	3,120,902	18,022	3,138,924
Other comprehensive income for the year ended December 31, 2015	-	-	-	-	(50,505)	(50,505)	272,581	76,796	349,377	298,872	(5)	298,867
Cash dividends on subsidiaries	-	-	-	-	-	-	-	-	-	-	(26,715)	(26,715)
Share-based payment	71,660	(593)	-	-	(1,557)	(1,557)	-	-	-	69,510	-	69,510
BALANCE AT DECEMBER 31, 2015	26,051,524	32,413	3,450,907	558,842	3,078,201	7,087,950	1,302,228	416,049	1,718,277	34,890,164	260,253	35,150,417
Appropriation of the 2015 earnings												
Legal reserve	-	-	923,460	-	(923,460)	-	-	-	-	-	-	-
Cash dividends on common shares	-	-	-	-	(1,042,061)	(1,042,061)	-	-	-	(1,042,061)	-	(1,042,061)
Net income for the year ended December 31, 2016	-	-	-	-	2,636,375	2,636,375	-	-	-	2,636,375	25,246	2,661,621
Other comprehensive income for the year ended December 31, 2016	-	-	-	-	(9,016)	(9,016)	(29,920)	(496,226)	(526,146)	(535,162)	(174)	(535,336)
Cash dividends on subsidiaries	-	-	-	-	-	-	-	-	-	-	(16,185)	(16,185)
BALANCE AT DECEMBER 31, 2016	$ 26,051,524	$ 32,413	$ 4,374,367	$ 558,842	$ 3,740,039	$ 8,673,248	$ 1,272,308	$ (80,177)	$ 1,192,131	$ 35,949,316	$ 269,140	$ 36,218,456

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

UNION BANK OF TAIWAN AND SUBSIDIARIES

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

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 3,310,787	$ 3,840,264
Adjustments for:		
Depreciation expenses	1,760,952	1,659,953
Amortization expenses	59,908	47,225
Provision (reversal) of allowance for doubtful accounts	171,542	(113,942)
Gain on disposal of financial assets designated as at fair value through profit or loss	(382,758)	(412,352)
Interest expenses	3,709,965	4,013,743
Interest revenues	(10,014,337)	(10,098,167)
Dividend income	(220,255)	(236,354)
Share of loss of associates	347	389
Gain on disposal of properties and equipment	(27,242)	(27,504)
Gain on disposal of investments	(299,132)	(72,681)
Impairment loss recognized on financial assets	50,000	120,000
Reversal of impairment losses on nonfinancial assets	(717)	(15,157)
Loss (gain) on disposal of collaterals	241	(6,593)
Changes in operating assets and liabilities		
Due from the Central Bank and call loans to banks	(1,496)	1,947,488
Financial assets at fair value through profit or loss	142,775	10,194,787
Accounts receivable	(2,779,464)	(134,478)
Discounts and loans	(3,746,390)	(23,070,382)
Available-for-sale financial assets	(16,399,445)	(8,929,244)
Held-to maturity financial assets	(2,957,960)	(3,660,871)
Other financial assets	3,809,276	(4,453,808)
Due to the Central Bank and other banks	4,607,336	(2,966,823)
Financial liabilities at fair value through profit or loss	(259,375)	(389,630)
Securities sold under repurchase agreements	1,887,201	(4,804,340)
Accounts payable	2,895,895	(1,563,426)
Deposits	10,600,809	25,165,702
Other financial liabilities	(843)	1,480
Provisions for employee benefits	(806,649)	(271)
Cash used in operations	(4,889,029)	(13,964,992)
Interest received	9,874,024	10,045,816
Dividends received	225,590	241,941
Interest paid	(3,686,394)	(3,992,082)
Income tax returned (paid）	1,012	(60,933)
Net cash generated from (used in) operating activities	1,525,203	(7,730,250)

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

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

	2016	2015
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments for properties and equipment	$ (735,637)	$ (147,896)
Proceeds of the disposal of properties and equipment	416	775
Payments for investment properties	(1,741,278)	(2,954)
Increase in settlement fund	(20,334)	-
Decrease in settlement fund	-	24,443
Increase in refundable deposits	-	(198,979)
Decrease in refundable deposits	225,554	-
Payments for intangible assets	(28,298)	(82,294)
Proceeds of the disposal of collaterals	476	21,750
Increase in other assets	(2,095,105)	(1,949,914)
Net cash used in investing activities	(4,394,206)	(2,335,069)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in commercial paper	1,556,543	160,782
Proceeds of the issue of bonds payable	529,344	604,397
Proceeds of the issue of bank debentures	2,500,000	2,200,000
Repayments of bank debentures	(900,000)	-
Increase in guarantee deposits received	250,255	104,727
Increase in other liabilities	59,160	34,125
Dividends paid to non-controlling interests	(16,185)	(26,715)
Cash dividends paid	(1,042,061)	(637,242)
Net cash generated from financing activities	2,937,056	2,440,074
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH HELD IN FOREIGN CURRENCIES	(560,639)	82,656
NET DECREASE IN CASH AND CASH EQUIVALENTS	(492,586)	(7,542,589)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	78,518,946	86,061,535
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 78,026,360	$ 78,518,946

(Continued)

UNION BANK OF TAIWAN AND SUBSIDIARIES

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

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

	December 31	
	2016	**2015**
Cash and cash equivalents in the consolidated balance sheets	$ 10,971,118	$ 8,346,755
Due from the Central Bank and call loans to banks that meet the definition of cash and cash equivalents in IAS 7 "Cash Flow Statements"	39,200,000	48,100,000
Securities purchased under agreements to resell that meet the definition of cash and cash equivalents in IAS 7	27,855,242	22,072,191
Cash and cash equivalents in consolidated statements of cash flows	$ 78,026,360	$ 78,518,946

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

1. GENERAL INFORMATION

The Union Bank of Taiwan (the Bank) obtained approval from the Ministry of Finance (MOF) to be established on August 1, 1991 and was incorporated on December 31, 1991. It started operations on January 21, 1992.

The Bank engages in activities allowed under the Banking Law, which cover deposits, loans, discounts, remittances, acceptances, issuance of guarantees and letters of credit, short-term bills transactions, investments, foreign exchange transactions, savings, trust, etc.

On the Bank's merger with Chung Shing Bank on March 19, 2005, the Bank took over all of the assets, liabilities and operating units of Chung Shing Bank.

The Bank merged with the Union Bills Finance Corporation on August 16, 2010, with the Bank as the survivor entity.

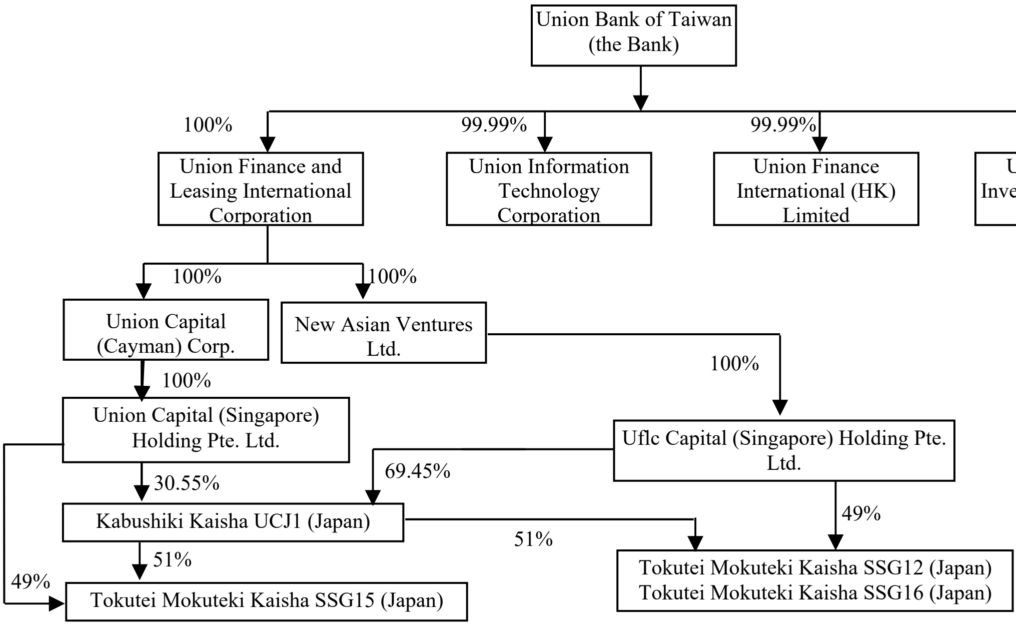
On August 26, 2016, the board of directors of the Bank resolved to merge Union Insurance Broker Company in order to integrate the resources, strengthen management and business synergy. The merger is approved by the FSC (Rule No. 10502022990). The effective date of this merger is August 1, 2016.

As of December 31, 2016, the Bank's operating units included Banking, Trust, Wealth Management, Security Finance, Bills Finance, International Banking Department of the Head Office, an Offshore Banking Unit (OBU), two overseas representative offices in Hong Kong and Vietnam, and 90 domestic branches (including Business department).

The operations of the Bank's Trust Department are (1) trust business planning, managing and operating; and (2) custody of nondiscretionary trust funds in domestic and overseas securities and mutual funds. These foregoing operations are regulated under the Banking Law and Trust Law.

The Bank's shares are traded on the Taiwan Stock Exchange.

The following chart presents the relationship between the Bank and its subsidiaries (collectively, the Company) and percentage of ownership as of December 31, 2016:



Union Finance and Leasing International Corporation (UFLIC) was established under the Company law on November 11, 1996. UFLIC trades and leases real estates, motor vehicles and machinery and equipment and does accounts receivable factoring. UFLIC holds 100% equity interests each in Union Capital (Cayman) Corp. and New Asian Ventures Ltd., which were incorporated in the British West Indies and the British Virgin Islands, respectively, in July 1997 and October 1997, respectively; these investees mainly engage in financial investment.

Union Capital (Singapore) Holding Pte. Ltd. and Uflc Capital (Singapore) Holding PTE. Ltd. were established in September, 2014 and March, 2016 by Union Capital (Cayman) Corp. It mainly engages business of investments, overseas financing, equipment leasing, installment selling, acquisition of accounts receivable, etc.

Kabushiki Kaisha UCJ1 (limited corp.) mainly buys, sells, and leases real estate.

Tokutei Mokuteki Kaisha SSG15, SSG12 and SSG16 is a special purpose entity that securitizes real estate.

Union Finance International (HK) Limited was incorporated in Hong Kong in April 23, 1996. It mainly engages in financial services and financial investments.

Union Information Technology Corporation (UIT), which was incorporated on August 10, 1998, mainly renders software services, wholesales and retails information software and telecommunications equipment, does enterprise management consulting, etc.

Union Securities Investment Trust Corporation (USITC) was incorporated on November 20, 1998. It obtained a securities investment trust enterprise license and started operations on February 26, 1999; it mainly establishes securities investment trust funds by issuing beneficial certificates.

The Company's consolidated financial statements are presented in the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors and authorized for issue on March 22, 2017.

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

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

Rule No. 1050050021 and Rule No. 1050026834 issued by the FSC stipulated that starting January 1, 2017, the Company should apply the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRS, IAS, IFRIC and SIC (collectively, the IFRSs) issued by the IASB and endorsed by the FSC for application starting from 2017.

New, Amended or Revised Standards and Interpretations (the New IFRSs)	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2010-2012 Cycle	July 1, 2014 (Note 2)
Annual Improvements to IFRSs 2011-2013 Cycle	July 1, 2014
Annual Improvements to IFRSs 2012-2014 Cycle	January 1, 2016 (Note 3)
Amendments to IFRS 10, IFRS 12 and IAS 28 "Investment Entities: Applying the Consolidation Exception"	January 1, 2016
Amendment to IFRS 11 "Accounting for Acquisitions of Interests in Joint Operations"	January 1, 2016
IFRS 14 "Regulatory Deferral Accounts"	January 1, 2016
Amendment to IAS 1 "Disclosure Initiative"	January 1, 2016
Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendments to IAS 16 and IAS 41 "Agriculture: Bearer Plants"	January 1, 2016
Amendment to IAS 19 "Defined Benefit Plans: Employee Contributions"	July 1, 2014
Amendment to IAS 27 "Equity Method in Separate Financial Statements"	January 1, 2016
Amendment to IAS 36 "Impairment of Assets: Recoverable Amount Disclosures for Non-financial Assets"	January 1, 2014
Amendment to IAS 39 "Novation of Derivatives and Continuation of Hedge Accounting"	January 1, 2014
IFRIC 21 "Levies"	January 1, 2014

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

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

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

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

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

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

2) IFRIC 21 "Levies"

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

3) Annual Improvements to IFRSs: 2010-2012 Cycle

   Several standards, including IFRS 2 "Share-based Payment", IFRS 3 "Business Combinations" and IFRS 8 "Operating Segments", were amended in this annual improvement.

   The amended IFRS 2 changes the definitions of "vesting condition" and "market condition" and adds definitions for "performance condition" and "service condition". The amendment clarifies that a performance target can be based on the operations (i.e. a non-market condition) of the Company or another entity in the same group or the market price of the equity instruments of the group or another entity in the same group (i.e. a market condition); that a performance target can relate either to the performance of the Company as a whole or to some part of it (e.g. a division); and that the period for achieving a performance condition must not extend beyond the end of the related service period. In addition, a share market index target is not a performance condition because it not only reflects the performance of the Company, but also of other entities outside the Company. The share-based payment arrangements with market conditions, non-market conditions or non-vesting conditions will be accounted for differently, and the aforementioned amendment will be applied prospectively to those share-based payments granted on or after January 1, 2017.

   IFRS 3 was amended to clarify that contingent consideration should be measured at fair value, irrespective of whether the contingent consideration is a financial instrument within the scope of IFRS 9 or IAS 39. Changes in fair value should be recognized in profit or loss. The amendment will be applied prospectively to business combination with acquisition date on or after January 1, 2017.

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

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

IAS 24 was amended to clarify that a management entity providing key management personnel services to the Company is a related party of the Company. Consequently, the Company is required to disclose as related party transactions the amounts incurred for the service paid or payable to the management entity for the provision of key management personnel services. However, disclosure of the components of such compensation is not required. When the amendment becomes effective in 2017, Company which provides key management personnel services to the Company will be treated retrospectively as a related party and disclosed accordingly.

4) Annual Improvements to IFRSs: 2011-2013 Cycle

Several standards, including IFRS 3, IFRS 13 and IAS 40 "Investment Property", were amended in this annual improvement.

IFRS 3 was amended to clarify that IFRS 3 does not apply to the accounting for the formation of all types of joint arrangements in the financial statements of the joint arrangement itself. The amendment will be applied prospectively starting from January 1, 2017.

The scope in IFRS 13 of the portfolio exception for measuring the fair value of a Company of financial assets and financial liabilities on a net basis was amended to clarify that it includes all contracts that are within the scope of, and accounted for in accordance with, IAS 39 or IFRS 9, even those contracts do not meet the definitions of financial assets or financial liabilities within IAS 32. The Company entered into (crude oil) purchase contracts that could be settled net in cash. When the amended IFRS 13 becomes effective in 2017, the Company will elect to measure the fair value of those contracts on a net basis retrospectively.

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

5) Amendments to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"

The entity should use appropriate depreciation and amortization method to reflect the pattern in which the future economic benefits of the property, plant and equipment and intangible asset are expected to be consumed by the entity.

The amended IAS 16 "Property, Plant and Equipment" stipulates that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate. The amended standard does not provide any exception from this requirement.

The amended IAS 38 “Intangible Assets” clarifies there is a rebuttable presumption that an amortization method that is based on revenue that is generated by an activity that includes the use of an intangible asset is not appropriate. This presumption can be overcome only in the following limited circumstances:

a) In which the intangible asset is expressed as a measure of revenue (for example, the contract that specifies the entity’s use of the intangible asset will expire upon achievement of a revenue threshold); or

b) When it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

6) Annual Improvements to IFRSs: 2012-2014 Cycle

Several standards including IFRS 5 “Non-current assets held for sale and discontinued operations”, IFRS 7, IAS 19 and IAS 34 were amended in this annual improvement.

IFRS 5 was amended to clarify that reclassification between non-current assets (or disposal Company) “held for sale” and non-current assets “held for distribution to owners” does not constitute a change to a plan of sale or distribution. Therefore, previous accounting treatment is not reversed. The amendment also explains that assets that no longer meet the criteria for “held for distribution to owners” and do not meet the criteria for “held for sale” should be treated in the same way as assets that cease to be classified as held for sale. The amendment will be applied prospectively to transactions that occur on or after January 1, 2017.

7) Amendments to IFRS 10, IFRS 12 and IAS 28 “'Investment Entities: Applying the Consolidation Exception”

The amendments clarified that when the Company (non-investment entity) applies the equity method to an associate or a joint venture that is an investment entity, the Company may retain the fair value measurements that the associate or joint venture used for its subsidiaries. Prior to the amendments, the associate or joint venture measures its interest in subsidiaries at fair value but the fair value is unwound, and instead, those subsidiaries are consolidated in the associate’s or joint venture’s result in order to be equity-accounted by the Company. When the amendments become effective, the Company will elect to retain the measurement applied by the associate or joint venture to its interest in subsidiaries.

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

The amendments include additions of several accounting items and requirements for disclosures of impairment of non-financial assets as a consequence of the IFRSs endorsed by the FSC for application starting from 2017. In addition, as a result of the post implementation review of IFRSs in Taiwan, the amendments also include emphasis on certain recognition and measurement considerations and add requirements for disclosures of related party transactions and goodwill.

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

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

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

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

The Company has not applied the following IFRSs issued by the IASB but not yet endorsed by the FSC.

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2014-2016 Cycle	Note 2
Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendments to IFRS 4 "Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts"	January 1, 2018
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 9 and IFRS 7 "Mandatory Effective Date of IFRS 9 and Transition Disclosures"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
Amendments to IFRS 15 "Clarifications to IFRS 15 Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendments to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendments to IAS 40 "Transfers of investment property"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018

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

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

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

1) IFRS 9 "Financial Instruments"

   Recognition and measurement of financial assets

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

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

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

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

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

   The impairment of financial assets

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

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

Transition

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

2) IFRS 15 "Revenue from Contracts with Customers" and related amendment

IFRS 15 establishes principles for recognizing revenue that apply to all contracts with customers, and will supersede IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations from January 1, 2018.

When applying IFRS 15, an entity shall recognize revenue by applying the following steps:

- Identify the contract with the customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when the entity satisfies a performance obligation.

In identifying performance obligations, IFRS 15 and related amendment require that a good or service is distinct if it is capable of being distinct (for example, the Company regularly sells it separately) and the promise to transfer it is distinct within the context of the contract (i.e. the nature of the promise in the contract is to transfer each of those goods or services individually rather than to transfer combined items).

Under IFRS 15, the Company will allocate the transaction price to each performance obligation identified in the contract on a relative stand-alone selling price basis. Under current standard, the Company applies residual value method to allocate the amount of revenue to be recognized.

Incremental costs of obtaining a contract will be recognized as an asset to the extent the Company expects to recover those costs. Such asset will be amortized on a basis that is consistent with the transfer to the customer of the goods or services to which the asset relates. This will lead to the later recognition of charges for certain customer-obtaining costs.

When IFRS 15 and related amendment are effective, an entity may elect to apply this Standard either retrospectively to each prior reporting period presented or retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application.

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

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

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

4) IFRS 16 "Leases"

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17 and a number of related interpretations.

Under IFRS 16, if the Company is a lessee, it shall recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for low-value and short-term leases. The Company may elect to apply the accounting method similar to the accounting for operating lease under IAS 17 to the low-value and short-term leases. On the consolidated statements of comprehensive income, the Company should present the depreciation expense charged on the right-of-use asset separately from interest expense accrued on the lease liability; interest is computed by using effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of the lease liability are classified within financing activities; cash payments for interest portion are classified within operating activities.

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

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

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

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

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

6) Amendment to IFRS 2 "Classification and Measurement of Share-based Payment Transactions"

The amendment requires that market condition and non-vesting condition should be taken into account and vesting conditions, other than market conditions, should not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, they should be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction. This amendment applies to share-based payment transactions that are unvested at the date the Company first applies the amendment and to share-based payment transactions with a grant date on or after the date the Company first applies the amendment.

The amendment also requires that if a cash-settled share-based payment transaction is modified with the result that it becomes an equity-settled share-based payment transaction, the Company should recognize in equity the fair value of the equity instruments granted at the modification date to the extent of the goods or services received. The difference between the carrying amount of the liability on cash-settled share-based payment transaction derecognized and the amount of equity recognized on the modification date is recognized in profit or loss. This amendment applies only to modifications that occur on or after the date the Company first applies the amendment.

The amendment states that when the Company withholds the number of equity instruments equal to the monetary value of tax obligation to fund the withholding tax, the share-based payment has a net settlement feature. Such transaction should be classified in its entirety as equity-settled share-based payment transaction if it would have been so classified in the absence of the net settlement feature. This amendment applies to share-based payment transactions that are unvested or vested but unexercised at the date the Company first applies the amendment and to share-based payment transactions with a grant date on or after the date the Company first applies the amendments.

7) Annual Improvements to IFRSs 2014-2016 Cycle

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

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

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

Furthermore, the amendment to IAS 28 clarified that when the Company (non-investment entity) applies the equity method to account for investment in an associate or a joint venture that is an investment entity, the Company may elect to retain the fair value of the investment in subsidiaries of the investment entity associate or joint venture. The election should be made separately for each investment entity associate or joint venture, at the later of the date (a) the investment entity associate or joint venture is initially recognized, (b) the associate or joint venture becomes an investment entity, or (c) the investment entity associate or joint venture first becomes a parent.

The Company shall apply the aforementioned amendments retrospectively.

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

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

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

Basis of Consolidation

a. Principles for preparing consolidated financial statements

Since the operating cycle cannot be reasonably identified in the banking industry and the Bank accounted for a significant percentage of the consolidated accounts, the accounts included in the consolidated financial statements were not classified as current or non-current. Nevertheless, accounts were properly categorized in accordance with the nature of each account and sequenced by their liquidity. Please refer to Note 46 for the maturity analysis of assets and liabilities.

The consolidated financial statements incorporate the financial statements of the Bank and the entities controlled by the Bank (i.e., its subsidiaries, including special purpose entities).

Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Bank.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

Non-controlling interests are presented in the consolidated balance sheets within equity, separately from the equity of the owners of the Company.

<u>Attribution of total comprehensive income to non-controlling interests</u>

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

<u>Changes in the Company's ownership interests in existing subsidiaries</u>

Changes in the Company's ownership interests in subsidiaries that do not result in the Company's losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non-controlling interests are adjusted to reflect the changes in their respective interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

b. The investees included in the consolidated financial statements are as follows:

   Detail of subsidiaries, percentage of ownership and operating item, please refer to the Note 15.

Business Combinations

Business combinations involving entities under common control are not accounted for by the acquisition method but are accounted for at the carrying amounts of the entities. Prior period comparative information in the financial statements is restated as if a business combination involving entities under common control had already occurred in that period.

Foreign Currencies

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

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise except for: Exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investments.

Nonmonetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of nonmonetary items are included in profit or loss for the period. If a gain or loss on a nonmonetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income.

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Bank's foreign operations (including those of the subsidiaries, associates and joint ventures operations in other countries or currencies used that are different from that of the Bank) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

Investments in Associates

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the operating and financial policy decision of an entity; it is not control over those policies.

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Company's share of the profit or loss and other comprehensive income of the associate. The Company also recognizes the changes in the Company's share of equity of associates attributable to the Company.

When the Company subscribes for additional new shares of the associate at a percentage different from its current ownership percentage, the resulting carrying amount of the investment differs from the amount of the Company's proportionate interest in the associate. The Company records this difference as an adjustment to investments, with the corresponding amount charged or credited to capital surplus. If the Company's ownership interest is reduced due to the additional subscription for the new shares of an associate, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate is reclassified to profit or loss on the same basis as would be required if the investee directly disposes of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

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

Any excess of cost of acquisition over the Company's share of the net fair value of the identifiable assets and liabilities of an associate recognized at the acquisition date is recognized as goodwill, which is included in the carrying amount of the investment and is not amortized. Any Company's share of the net fair value of the identifiable assets and liabilities in excess of the acquisition cost is recognized immediately in profit or loss.

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

The Company discontinues the use of the equity method from the date on which it ceases to have significant influence. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between (a) the sum of the proceeds received and any retained interest and (b) the carrying amount of the investment in the associate at the date significant influence is lost is recognized in profit or loss. The Company accounts for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

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

Financial Instruments

Financial assets and financial liabilities are recognized when a Company entity becomes a party to the contractual provisions of the instruments.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

a. Measurement category

   Financial assets are classified into the following categories: Financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets, and loans and receivables.

   1) Financial assets at fair value through profit or loss

      A financial asset may be designated as at fair value through profit or loss upon initial recognition if:

      a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency; or

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

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

      Financial assets at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset.

      Fair value is determined in the manner described in Note 47.

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

2) Held-to-maturity investments

Held-to-maturity investments are nonderivative financial assets with fixed or determinable payments and fixed maturity dates on which the Company has the positive intent and ability to hold to maturity. In addition, they are not designated as at fair value through profit or loss, are not classified as available for sale, and do not meet the definition of loans and receivables. Foreign corporate bonds and debenture bonds that are above certain credit ratings and on which the Company has a positive intent and ability to hold to maturity are classified as held-to-maturity investments.

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

3) Available-for-sale financial assets

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

The Company holds government bonds, corporate bonds, listed stocks, mutual funds, negotiable certificates of deposit and commercial paper in an active market that are classified as trading and available-for-sale financial assets and are stated at fair value at each balance sheet date. Fair value is determined in the manner described in Note 47.

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

Dividends on available-for-sale equity instruments are recognized in profit or loss when the Company’s right to receive the dividends is established.

Available-for-sale equity investments with no quoted prices in an active market and with fair values that cannot be reliably measured and derivatives that are linked to and must be settled by the delivery of these unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets carried at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in other comprehensive income on financial assets. Any impairment losses are recognized in profit and loss.

4) Loans and receivables

Loans and receivables (including trade loans, receivables, cash and cash equivalent, debt investments with no active market, and nonperforming loans) are subsequently measured at amortized cost using the effective interest method less any impairment, except when short-term receivables have immaterial effect of discounting.

b. Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been affected.

Certain categories of financial assets, such as loans, receivables, nonperforming loans and debt investments with no active market, are assessed for impairment collectively even if they are assessed as not impaired individually. Objective evidence of impairment of a portfolio of discounts and loans, receivables and nonperforming loans could include the significant financial difficulty of the debtor, economic or legal reasons relating to the debtor's financial difficulties, a counterparty's compromise on or breach of a contract, and an asset becoming more than three months overdue.

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

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered an objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include significant financial difficulty of the issuer or counterparty, breach of contract, such as a default or delinquency in interest or principal payments, it becoming probable that the borrower will enter bankruptcy or financial re-organization, or the disappearance of an active market for that financial asset because of financial difficulties.

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

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

For financial assets that are carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and other receivables (please specify) where the carrying amount is reduced through the use of an allowance account. When a trade receivable and other receivables are considered uncollectable, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectable trade receivables and other receivables that are written off against the allowance account.

c. Derecognition of financial assets

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

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

Equity instruments

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

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company entity are recognized at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognized and deducted directly in equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

Financial liabilities

a. Subsequent measurement

Except in the following situations, all financial liabilities are measured at amortized cost using the effective interest method, less any impairment:

1) Financial liabilities at fair value through profit or loss

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

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

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency; or

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

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

For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income, and it will not be subsequently reclassified to profit or loss. The remaining amount of changes in the fair value of that liability which incorporates any interest or dividend paid on the financial liability is presented in profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liabilities are derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss. Fair value is determined in the manner described in Note 47.

2) Financial guarantee contracts

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

b. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Derivative financial instruments

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

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

Nonperforming Loans

Under the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Nonaccrual Loans" issued by the authorities, loans and other credits (including the accrued interests) that remain unpaid on their maturity are transferred immediately to nonperforming loans if the transfer is approved by the board of directors.

Nonperforming loans transferred from loans are recognized as discounts and loans, and those transferred from other credits are recognized as other financial assets.

Allowance for Doubtful Accounts Doubtful Accounts and Reserve for Losses on Guarantees

In determining the allowance for credit losses and the reserve for losses on guarantees, the Bank assesses the balances of discounts and loans, receivables, nonperforming loans, and other financial assets as well as guarantees and acceptances for their collectability and their specific risks or general risks as of the balance sheet date.

Under the regulations issued by the Ministry of Finance (MOF), the Bank evaluates credit balances on the basis of their estimated collectability.

The MOF regulations also require the grouping of loans into these five classes: Normal, special mention, substandard, with doubtful collectability and uncollectable; the minimum allowances for doubtful accounts and for losses on guarantees for these loans should be 1%, 2%, 10%, 50% and 100%, respectively, of outstanding credits.

Later, the MOF issued a guideline stating that, within three years from January 1, 2011, the normal loans should have a minimum allowance of 1%, with the allowances for the four non-normal loans remaining the same. The Bank believes it can meet this new allowance requirement within three years from January 1, 2011.

Rule No. 10300329440 issued by FSC, stipulated the minimum the allowance for mortgage and improvement loans should be 1.5% by the end of 2016.

Credits deemed uncollectable may be written off if the write-off is approved by the board of directors. Recoveries of amounts previously written off are credited to the allowance account.

Repurchase and Resell Transactions

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

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and accumulated impairment loss. This cost should be recognized as an asset only if it is probable that future economic benefits associated with the property and equipment item will flow to the Company and if the cost of the item can be measured reliably.

Freehold land is not depreciated.

Depreciation is recognized as a systematic allocation of the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for prospectively.

For a contract where an owner of land provides land for construction of buildings by a property developer in exchange for a certain percentage of the buildings, exchange gain or loss is recognized when the exchange transaction occurs, if the buildings acquired are classified as property, plant and equipment and the exchange transaction has commercial substance.

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

Investment Properties

Investment properties are properties owned specifically to generate profit through rental income and/or capital gains. Land for which the future purpose of use has not been decided is also classified under investment properties.

Investment properties are initially recognized at cost (including transaction cost) and subsequently measured at cost less accumulated depreciation and accumulated impairment losses. The Company calculates depreciation by the straight-line method.

Gain or loss recognized on derecognition of an investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is included in profit or loss in the period in which the investment property is derecognized.

Goodwill

Goodwill (part of intangible assets) from business combination is recorded at acquisition cost and subsequently measured at cost less accumulated impairment.

For impairment test purposes, goodwill is allocated to each cash-generating unit (CGU) that is expected to benefit from the synergy of a business combination.

In testing assets for impairment, the Company compares the carrying amounts of CGUS with allocated goodwill with their recoverable amounts on a yearly basis (or when impairment indicators exist). Goodwill arising in a business combination should be tested for impairment during the year in which goodwill is acquired. When the recoverable amount of a CGU is below the carrying amount, an impairment loss should be recognized to reduce first the carrying amount of goodwill of the CGU and then the carrying amounts of other assets of the CGU proportionately. Any impairment loss should be directly recognized as loss in the current period, and subsequent reversal of impairment loss is not allowed.

On CGU disposal, the amount attributable to goodwill is included in the CGU carrying amount to determine the gain or loss on disposal.

Intangible Assets

<u>Separate acquisition</u>

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis. At year-end, the Company examines its estimates of the asset useful lives, residual values and amortization method, with the effect of any changes in estimate accounted for on a prospective basis. Unless the Company expects to dispose of an intangible asset before the end of its useful life, the residual value of an intangible asset with limited useful life is estimated to be zero.

<u>Derecognition</u>

Gains or losses recognized on derecognition of an intangible asset are the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss in the period in which the asset is derecognized.

Foreclosed Collaterals

Collaterals assumed (included in other assets) are recorded at cost, which includes the assumed prices and any necessary repairs to make the collaterals saleable, and evaluated at the lower of cost or net realizable value as of the balance sheet date.

Impairment of Tangible and Intangible Assets (Excluded Goodwill)

At the end of each reporting period, the Company reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, for any indication of impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a CGU is identified as having a carrying amount that includes assets that can be allocated on a reasonable and consistent basis to the CGU, corporate assets are also allocated to this CGU; otherwise, a portion of the carrying amounts of the corporate assets is allocated to the smallest group of cash-generating units to which a reasonable and consistent allocation of carrying amounts of the corporate assets can be made.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount.

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

Leasing

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

a. Company as lessor

   Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is more representative of the time pattern of the lessee’s benefit from the use of the leased asset. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term. Contingent rents arising under operating leases are recognized as income in the period in which they are incurred.

   Lease incentives offered in the operating lease are recognized as an asset. The aggregate cost of incentives is recognized as a reduction of rental income on a straight-line basis over the lease term.

b. Company as lessee

   Lease payments under an operating lease are expensed on a straight-line basis over the lease period. Under operating lease, contingent rentals are recognized as expenses at current period.

   Lease incentives received under operating leases are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis.

Provisions

Provisions, including those arising from contractual obligation specified in service concession arrangement to maintain or restore infrastructure before it is handed over to the grantor, are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

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

Employee Benefits

a. Short-term employee benefits

   Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

b. Retirement benefits

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

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

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

c. Other long-term employee benefits

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

d. Termination benefits

   A liability for a termination benefit is recognized at the earlier of when the Company can no longer withdraw the offer of the termination benefit and when the Company recognizes any related restructuring costs.

Income Tax

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

a. Current tax

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

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary difference and unused loss carryforwards to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

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

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

Deferred tax assets and liabilities are measured at the amounts expected to be paid to (recovered from) taxation authorities, using the rates or laws that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets should reflect the tax consequences of how the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the period

For transactions recognized in profit or loss, current and deferred taxes are also recognized in profit or loss; for transactions recognized outside profit or loss, i.e., in other comprehensive income or directly in equity, the current and deferred taxes are also recognized in other comprehensive income or directly in equity.

Interest Revenue and Service Fees

Interest revenue on loans is recorded by the accrual method. No interest revenue is recognized in the accompanying consolidated financial statements on loans and other credits extended by the Company that are classified as nonperforming loans. The interest revenue on these loans/credits is recognized upon collection. Under a Ministry of Finance regulation, the interest revenue on credits covered by agreements that extend their repayment periods is recorded as deferred revenue and recognized as revenue upon collection.

Revenue from brokerage is recognized when the earnings process has been completed.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units (CGUs) to which goodwill has been allocated. The calculation of the value in use requires management to estimate a CGU's future cash flows and a suitable discount rate in order to calculate the CGU's net present value. When the actual future cash flows are less than expected, a material impairment loss may arise.

b. Estimated impairment of loans and receivables

When there is objective evidence of impairment loss, the Company takes into consideration the estimation of future cash flows. Impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. If the actual future cash flows are less than expected, a material impairment loss may arise.

c. Fair value measurements and valuation processes

Fair values of financial instruments in an inactive market or with no quoted market prices are determined by valuation techniques. Under these circumstances, fair values are derived from observable market data of other similar financial assets. When there are no observable inputs in the market, the fair values of financial instruments are estimated by making appropriate assumptions. The Company applies appropriate valuation models to determine the fair values of financial instruments subjective to valuation techniques. All models are fine-tuned to ensure the valuation results fairly reflect actual market information and prices. The Company's management believes that the chosen valuation techniques and assumptions used are appropriate in determining the fair value of financial instruments.

For the fair value determination of financial instruments, refer to Note 47 to the financial statements.

d. Recognition and measurement of defined benefit plans

Net defined benefit liabilities (assets) and the resulting defined benefit costs under defined benefit pension plans are calculated using the projected unit credit method. Actuarial assumptions comprise the discount rate, rate of employee turnover, and future salary increase, etc. Changes in economic circumstances and market conditions will affect these assumptions and may have a material impact on the amount of the expense and the liability.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2016	2015
Cash on hand	$ 5,818,152	$ 5,840,640
Checks for clearing	3,563,014	1,335,777
Due from banks	1,589,952	1,170,338
	$ 10,971,118	$ 8,346,755

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

	December 31	
	2016	2015
Deposit reserve - checking account	$ 3,985,664	$ 4,410,194
Required deposit reserve	11,164,239	10,746,559
Deposit reserve - foreign-currency deposits	64,558	56,212
Deposit account in Central Bank	39,200,000	48,100,000
	$ 54,414,461	$ 63,312,965

Under a directive issued by the Central Bank of the ROC, the Bank determines monthly the New Taiwan dollar (NTD)-denominated deposit reserves at prescribed rates based on the average balances of customers' NTD-denominated deposits, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at rates prescribed for balances of foreign-currency deposits. These reserves may be withdrawn anytime and are noninterest earning.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2016	2015
Financial assets held for trading		
Commercial paper	$ 8,300,747	$ 5,974,371
Government bonds	151,223	153,772
Quoted stocks	192,085	434,865
Mutual funds	128,425	204,354
	8,772,480	6,767,362
Derivative instruments		
Forward exchange contracts	418,515	337,231
Currency swap contracts	15,982	25,832
Option contracts	8,145	24,194
	442,642	387,257
	9,215,122	7,154,619

(Continued)

	December 31	
	2016	2015
Financial assets designated as at fair value through profit or loss		
Corporate bonds	$ -	$ 1,076,321
Principal guaranteed notes	322,968	827,875
	322,968	1,904,196
	$ 9,538,090	$ 9,058,815
Financial liabilities held for trading		
Derivative instrument		
Option contracts	$ 8,135	$ 24,190
Forward exchange contracts	23,924	23,115
Currency swap contracts	7,464	6,966
	$ 39,523	$ 54,271

The Company engaged in derivative transactions mainly to accommodate customers' needs and manage its exposure positions. The financial risk management objective of the Company was to minimize risks due to changes in fair value or cash flows.

The contract amounts (notional amounts) of the derivative transactions for accommodating customers' needs and managing its exposure positions as of December 31, 2016 and 2015 were as follows:

	December 31	
	2016	2015
Currency swap contracts	$ 11,133,826	$ 21,330,781
Forward exchange contracts	3,090,128	3,363,668
Option contracts		
Buy	1,684,467	2,535,670
Sell	1,684,467	2,535,670

As of December 31, 2016 and 2015, financial instruments at fair value through profit and loss in the amount of $7,054,785 thousand and $5,080,161 thousand were under repurchase agreements.

9. SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL

	December 31	
	2016	2015
Commercial paper	$ 14,877,255	$ 11,370,078
Corporate bonds	12,037,280	10,258,390
Government bonds	940,707	443,723
	$ 27,855,242	$ 22,072,191
Date of the resell agreement	2017.01-2017.02	2016.01-2016.03
Amount of the resell	$ 27,862,410	$ 22,082,685

The securities purchased under resell agreements had not been sold under repurchase agreements.

10. RECEIVABLES, NET

	December 31 2016	December 31 2015
Notes and accounts receivable	$ 14,489,307	$ 13,195,271
Interest receivable	832,465	685,131
Interbank clearing fund receivable	800,493	800,426
Accounts receivable factoring without recourse	799,844	-
Redemption of convertible bond receivable	513,962	-
Investment receivable	438,998	181,140
Acceptances receivable	135,531	116,920
Collections receivable	68,197	59,444
Others	177,679	292,802
	18,256,476	15,331,134
Less: Allowance for doubtful accounts	368,246	113,358
	$ 17,888,230	$ 15,217,776

Please refer to Note 48 for the impairment loss analysis of receivables.

The Company has accrued an allowance for doubtful accounts on receivables. Please refer to Note 12 for the movements of allowance for doubtful accounts.

11. DISCOUNTS AND LOANS, NET

	December 31 2016	December 31 2015
Discounts and overdraft	$ 43,283	$ 739,306
Accounts receivable - financing	29,690	37,911
Loans		
Short-term - unsecured	48,432,945	51,296,167
- secured	53,347,371	51,265,949
Medium-term - unsecured	15,783,090	14,731,841
- secured	45,771,509	45,023,115
Long-term - unsecured	4,792,014	4,345,031
- secured	117,212,237	114,030,495
Import and export negotiations	22,985	47,331
Overdue loans	179,120	80,766
	285,614,244	281,597,912
Less: Allowance for doubtful accounts	3,197,294	2,796,860
	$ 282,416,950	$ 278,801,052

As of December 31, 2016 and 2015, the balances of nonaccrual loans were $179,120 thousand and $80,766 thousand, respectively. The unrecognized interest revenues on nonperforming loans were $5,241 thousand in 2016 and $2,752 thousand in 2015.

In 2016 and 2015, the Company wrote off certain credits after completing the required legal procedures.

Please refer to Note 48 for impairment loss analysis of discounts and loans. The Company had set up an allowance for doubtful accounts on discounts and loans. Please refer to Note 12 for the movements in the allowance for doubtful accounts.

12. ALLOWANCE FOR DOUBTFUL ACCOUNTS

The movements in the allowance for doubtful accounts and reserve for losses on guarantees liabilities for the years ended December 31, 2016 and 2015 are summarized as follows:

	For the Year Ended December 31, 2016			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Balance at January 1, 2016	$ 113,358	$ 2,796,860	$ 194,006	$ 3,104,224
Allowance (reversal) of allowance for doubtful accounts	100,436	130,467	(59,361)	171,542
Write-offs	(173,535)	(74,220)	-	(247,755)
Recovery of written-off credits	327,987	345,452	-	673,439
Effects of exchange rate changes	-	(1,265)	(24)	(1,289)
Balance at December 31, 2016	$ 368,246	$ 3,197,294	$ 134,621	$ 3,700,161

	For the Year Ended December 31, 2015			
	Receivables	Discounts and Loans	Reserve for Losses on Guarantees	Total
Balance at January 1, 2015	$ 137,418	$ 2,567,114	$ 170,000	$ 2,874,532
Allowance (reversal) of allowance for doubtful accounts	(194,458)	66,515	14,001	(113,942)
Write-offs	(161,702)	(94,800)	-	(256,502)
Recovery of written-off credits	339,100	362,168	-	701,268
Reclassification	(7,000)	(106,260)	10,000	(103,260)
Effects of exchange rate changes	-	2,123	5	2,128
Balance at December 31, 2015	$ 113,358	$ 2,796,860	$ 194,006	$ 3,104,224

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31	
	2016	2015
Overseas corporate bonds	$ 13,035,783	$ 3,449,572
Overseas financial bonds	8,473,037	6,286,527
Domestic corporate bonds	4,424,558	3,471,800
Overseas government bonds	5,377,258	-
Domestic quoted stocks	3,419,143	4,195,933
Mutual funds	1,922,850	2,595,220
Overseas quoted stocks	2,377,519	2,433,640
Domestic government bonds	948,277	887,026
	$ 39,978,425	$ 23,319,718

The available-for-sale financial assets amounting to $14,636,448 thousand and $3,456,421 thousand as of December 31, 2016 and 2015, respectively, had been sold under repurchase agreements.

14. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31	
	2016	2015
Domestic government bonds	$ 6,864,356	$ 3,862,810
Domestic corporate bonds	300,000	300,000
Asset-based securities	27,759	28,435
Overseas bonds	-	16,191
	$ 7,192,115	$ 4,207,436

The held-to-maturity investments had not been sold under repurchase agreements.

15. SUBSIDIARIES

The investees included in the consolidated financial statements are as follows:

Investor	Investee	Main Businesses	Percentage of Ownership December 31 2016	2015	
The Bank	Union Finance and Leasing International Corporation (UFLIC)	Installment, leasing and accounts receivable factoring.	100.00	100.00	-
	Union Information Technology Corporation (UIT)	Software and hardware product retail and distribution, system programming development, system development outsourcing, website design, e-commerce, etc.	99.99	99.99	-
	Union Finance International (HK) Limited	Import and export financing.	99.99	99.99	-
	Union Securities Investment Trust Corporation (USITC)	Securities investment trust.	35.00	35.00	Note 1
	Union Insurance Broker Company (UIB)	Personal insurance broker.	-	100.00	Note 2
UFLIC	Union Capital (Cayman) Corp. (Cayman)	Installment and leasing receivable factoring.	100.00	100.00	-
	New Asian Ventures Ltd. (New Asian)	Investment, overseas financing, equipment leasing, installment selling, acquisition of accounts receivable, etc.	100.00	100.00	-
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd. (Union)	Investment, overseas financing, equipment leasing, installment selling, acquisition of accounts receivable, etc.	100.00	100.00	Notes 3 and 5
	Uflc Capital (Singapore) Holding PTE. Ltd. (Uflc)	Investment, overseas financing, equipment leasing, installment selling, acquisition of accounts receivable, etc.	100.00	-	Notes 3 and 5

(Continued)

Investor	Investee	Main Businesses	Percentage of Ownership December 31 2016	2015	
Union Capital (Singapore) Holding Pte. Ltd.	Kabushiki Kaisha UCJ1 (Japan) (KK)	Sale, purchasing and leasing of real estates, etc.	30.55	100.00	Notes 4 and 5
	Tokutei Mokuteki Kaisha SSG15 (Japan) (SSG15)	A real estate securitized special purpose company.	49.00	49.00	Notes 4 and 5
Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1 (Japan) (KK)	Sale, purchasing and leasing of real estates, etc.	69.45	-	Notes 4 and 5
	Tokutei Mokuteki Kaisha SSG12 (Japan) (SSG12)	A real estate securitized special purpose company.	49.00	-	Notes 4 and 5
	Tokutei Mokuteki Kaisha SSG16 (Japan) (SSG16)	A real estate securitized special purpose company.	49.00	-	Notes 4 and 5
Kabushiki Kaisha UCJ1 (Japan)	Tokutei Mokuteki Kaisha SSG15 Japan) (SSG15)	A real estate securitized special purpose company.	51.00	51.00	Notes 4 and 5
	Tokutei Mokuteki Kaisha SSG12 (Japan) (SSG12)	A real estate securitized special purpose company.	51.00	-	Notes 4 and 5
	Tokutei Mokuteki Kaisha SSG16 (Japan) (SSG16)	A real estate securitized special purpose company.	51.00	-	Notes 4 and 5

(Concluded)

Note 1: The Bank has control over the financial, operational and personnel policies of USITC; thus, this subsidiary was included in the consolidated financial statements.

Note 2: On August 26, 2016, the board of directors of the Bank resolved to merge UIB in order to integrate the resources, strengthen management and business synergy. The merger is approved by FSC (Rule No. 10502022990). The effective date of this merger is August 1, 2016.

Note 3: Union and Uflc were established in September, 2014 and March, 2016 by Cayman. The capital were both US$1.

Note 4: KK, SSG15, SSG12 and SSG16 were established by Union and Uflc in Japan to acquire investment properties for securitization.

Note 5: The financial year-end date of Union, Uflc, KK, SSG15, SSG12 and SSG16 is not December 31. In the application of the equity method of accounting, the consolidated financial statements of these subsidiaries as of September 30, 2016 have been used as the Company considers that it is impracticable for them to prepare a separate set of financial statements as of December 31. Appropriate adjustments have been made accordingly for the effects of significant transactions made between the subsidiaries' year-end dates and December 31, 2016.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET

	December 31 2016	2015
None individually material		
Union Real-Estate Management Corporation	$ 53,447	$ 53,794

The summarized financial information in respect of the Company's associate is set out below:

	For the Year Ended December 31 2016	2015
Net loss	$ (347)	$ (389)

The Company's share of the associate's profit and other comprehensive income for 2016 and 2015 was based on the associate's audited financial statements for the same reporting periods as those of the Company.

17. OTHER FINANCIAL ASSETS, NET

	December 31 2016	December 31 2015
Debt instruments with no active markets, net	$ 51,433,548	$ 51,446,515
Pledged assets (Note 44)	4,898,176	7,820,440
Due from banks - certificate of deposit	464,500	1,261,813
Financial assets carried at cost, net	600,059	600,659
Others	7,460	4,404
	$ 57,403,743	$ 61,133,831

a. Debt instruments with no active markets

As of December 31, 2016 and 2015, debt instruments with no active markets and amounting to $10,163,828 thousand and $25,051,288 thousand, respectively, were under repurchase agreements.

b. Financial assets carried at cost, net

	December 31 2016	December 31 2015
Unquoted stocks		
I Pass Corporation	$ 123,320	$ 123,320
Financial Information Service Company	118,782	118,782
Taiwan Asset Management Corporation	75,000	75,000
Taiwan Future Exchange Corporation	71,250	71,250
Grace T.H.W. Holding Limited	64,320	64,320
Taiwan Financial Asset Service Corporation	50,000	50,000
Others	97,387	97,987
	$ 600,059	$ 600,659

Financial assets carried at cost were unlisted common stocks with no quoted market prices in an active market and with fair values that could not be reliably measured. Thus, these assets were measured at cost less accumulated impairment.

c. Due from banks - certificate of deposit

The amount of due from banks - time deposits with maturities longer than three months or certificate of deposits that cannot be cancelled or used.

18. PROPERTY AND EQUIPMENT, NET

	Land	Buildings	Machinery and Computer Equipment	Transportation Equipment	Lease Improvements	Prepayments for Equipment	Total
Cost							
Balance at January 1, 2015	$ 3,421,707	$ 5,073,535	$ 1,313,878	$ 269,906	$ 145,503	$ 127,387	$ 10,351,916
Additions	-	10,722	104,859	6,760	50,574	81,146	254,061
Disposals	-	-	(69,711)	(3,325)	-	-	(73,036)
Reclassification	-	2,970	101,911	728	9,717	(164,138)	(48,812)
Effect of foreign currency exchange differences	-	-	59	-	32	-	91
Balance at December 31, 2015	3,421,707	5,087,227	1,450,996	274,069	205,826	44,395	10,484,220
Accumulated depreciation							
Balance at January 1, 2015	-	1,174,004	1,173,330	237,157	34,549	-	2,619,040
Depreciation	-	114,315	52,536	6,962	38,832	-	212,645
Disposals	-	-	(67,739)	(3,255)	-	-	(70,994)
Effect of foreign currency exchange differences	-	-	59	-	32	-	91
Balance at December 31, 2015	-	1,288,319	1,158,186	240,864	73,413	-	2,760,782
Balance at December 31, 2015, net	$ 3,421,707	$ 3,798,908	$ 292,810	$ 33,205	$ 132,413	$ 44,395	$ 7,723,438
Cost							
Balance at January 1, 2016	$ 3,421,707	$ 5,087,227	$ 1,450,996	$ 274,069	$ 205,826	$ 44,395	$ 10,484,220
Additions	423,916	30,931	130,055	12,349	51,056	87,330	735,637
Disposals	-	-	(177,323)	(1,728)	(672)	-	(179,723)
Reclassification	-	20,900	6,951	1,394	8,404	(84,764)	(47,115)
Effect of foreign currency exchange differences	-	-	(180)	-	(95)	-	(275)
Balance at December 31, 2016	3,845,623	5,139,058	1,410,499	286,084	264,519	46,961	10,992,744
Accumulated depreciation							
Balance at January 1, 2016	-	1,288,319	1,158,186	240,864	73,413	-	2,760,782
Depreciation	-	120,473	80,397	9,700	41,105	-	251,675
Disposals	-	-	(173,387)	(1,684)	(672)	-	(175,743)
Effect of foreign currency exchange differences	-	-	(180)	-	(95)	-	(275)
Balance at December 31, 2016	-	1,408,792	1,065,016	248,880	113,751	-	2,836,439
Balance at December 31, 2016, net	$ 3,845,623	$ 3,730,266	$ 345,483	$ 37,204	$ 150,768	$ 46,961	$ 8,156,305

The above items of property and equipment are depreciated on a straight-line basis over the useful lives of the assets, estimated as follows:

Buildings	
Main buildings	50-55 years
Equipment installed in buildings	5 years
Machinery and computer equipment	3-5 years
Transportation equipment	3-5 years
Lease improvements	5 years

In August 2016, the Bank acquired a piece of land in Tucheng Dist. from New Taipei City through the public auction in order to construct business operation office for $423,916 thousand. The Bank completed the payment and obtained the ownership of the land in October, 2016. On November 9, 2016, the board of directors of the Bank and UFLIC, the property developer, resolved respectively to enter into a cooperation contract with each other to cooperatively construct a building. Upon completion of the building, the ownership thereof will be attributed to the Bank and UFLIC. Per contract, the Bank will provide its land (estimated cost amounting to $439,626 thousand) in Tucheng District, New Taipei City for constructing the building, and UFLIC will render funds and donate a piece of land originally reserved for the public facilities to the government in exchange for transfer development rights (TDR) to increase the building area. The funds and the TDR in the aggregate amount to $447,614 thousand. The building area increased due to the exercise of the TDR belongs to UFLIC.

19. INVESTMENT PROPERTIES, NET

	Land	Buildings	Total
Cost			
Balance at January 1, 2015	$ 3,215,457	$ 520,712	$ 3,736,169
Additions	1,881	1,073	2,954
Net exchange difference	23,262	10,483	33,745
Balance at December 31, 2015	$ 3,240,600	$ 532,268	$ 3,772,868
Accumulated depreciation and impairment			
Balance at January 1, 2015	$ -	$ (44,388)	$ (44,388)
Depreciation	-	(24,640)	(24,640)
Net exchange differences	-	(430)	(430)
Balance at December 31, 2015	$ -	$ (69,458)	$ (69,458)
Balance at December 31, 2015, net	$ 3,240,600	$ 462,810	$ 3,703,410
Cost			
Balance at January 1, 2016	$ 3,240,600	$ 532,268	$ 3,772,868
Additions	1,299,172	442,106	1,741,278
Net exchange difference	2,362	1,064	3,426
Balance at December 31, 2016	$ 4,542,134	$ 975,438	$ 5,517,572
Accumulated depreciation and impairment			
Balance at January 1, 2016	$ -	$ (69,458)	$ (69,458)
Depreciation	-	(34,061)	(34,061)
Net exchange differences	-	1,323	1,323
Balance at December 31, 2016	$ -	$ (102,196)	$ (102,196)
Balance at December 31, 2016, net	$ 4,542,134	$ 873,242	$ 5,415,376

The Company acquired investment properties amounting to $1,026,015 thousand and $668,984 thousand via SSG12 and SSG16 in Japan. The amount was based on the valuation by independent appraisers that were not the Company's related parties.

Investment properties are depreciated on a straight-line basis as follows:

Buildings	
Main buildings	15-50 years
Equipment installed in buildings	6-15 years

The fair values of investment properties were $6,500,254 thousand and $3,831,344 thousand as of December 31, 2016 and 2015. The fair values were based on the valuation at these dates by independent appraisers that were not the Company's related parties and estimated by the management according to the nearby transaction.

Refer to Note 27 for information relating to investment properties pledged as guarantee.

20. GOODWILL

The Bank acquired Chung Shing Bank (Chung Shing) on March 19, 2005 and recognized goodwill amounting to $3,309,000 thousand. The goodwill amortization period was five years, and the amortization expense in 2005 was $551,500 thousand. However, the amortization of goodwill became no longer required from January 1, 2006.

The Bank merged with Union Bills Finance Corporation on August 16, 2010, with the Bank as the survivor entity, and recognized goodwill amounting to $130,498 thousand.

For the impairment test on Chung Shing, the Bank treated individual business units as cash-generating units (CGUs). Goodwill resulting from the merger was allocated to the relevant CGUs. The recoverable amount was determined by the value in use of each CGU and was calculated at the present values of the cash flow forecast for the next five years based on the going-concern assumption. Future cash flows were estimated on the basis of Chung Shing's present operations and will be adjusted depending on the business outlook and economic trends.

As of December 31, 2016 and 2015, the balances of accumulated impairment both were $902,691 thousand.

21. OTHER ASSETS, NET

	December 31	
	2016	2015
Assets leased to others, net	$ 5,201,173	$ 4,866,600
Refundable deposits	1,772,777	1,977,997
Prepaid expenses	526,584	266,685
Prepaid pension (Note 30)	23,100	23,422
Others	98,434	49,874
	$ 7,622,068	$ 7,184,578

22. DUE TO THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS

	December 31	
	2016	2015
Call loans from banks	$ 6,936,890	$ 2,188,441
Due to Chunghwa Post Co., Ltd.	1,339,430	1,417,120
Overdraft	61,415	32,484
Due to the Central Bank and other banks	51,577	143,931
	$ 8,389,312	$ 3,781,976

23. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

	December 31	
	2016	2015
Asset-based securities	$ 8,166,461	$ 18,186,300
Corporate bonds	7,514,752	2,733,866
Commercial paper	6,908,529	4,929,255
Government bonds	5,459,089	1,137,515
Financial bonds	825,306	-
	$ 28,874,137	$ 26,986,936
Date of repurchase agreement	2017.01-2017.06	2016.01-2016.06
Amount of repurchase agreement	$ 28,907,147	$ 27,000,897

24. ACCOUNTS PAYABLE

	December 31	
	2016	2015
Notes and checks in clearing	$ 3,563,016	$ 1,335,779
Accrued expenses	772,010	770,705
Interest payable	656,277	632,706
Stock funds payable	284,614	3,330
Reimbursed for settlement	283,907	47,621
Investments payable	191,923	147,864
Collections payable	163,534	166,994
Bank acceptances payable	135,531	116,995
Tax payable	84,437	122,079
Payables on equipment	70,777	106,165
Provision for payment to the Bank's check	67,087	73,507
Accounts payable on wire transfers received	65,258	58,221
Dishonored accounts payable	44,243	44,233
Others	598,850	435,799
	$ 6,981,464	$ 4,061,998

25. DEPOSITS AND REMITTANCES

	December 31	
	2016	2015
Checking deposits	$ 5,467,993	$ 4,699,654
Demand deposits	67,049,529	61,178,715
Savings deposits	285,095,150	279,077,038
Time deposits	73,682,528	75,771,235
Negotiable certificates of deposit	250,700	263,300
Inward and outward remittances	73,015	28,164
	$ 431,618,915	$ 421,018,106

26. BANK DEBENTURES

	December 31	
	2016	2015
First issue of subordinated bank debentures in 2009; fixed rate at 2.95%; maturity: June 2016	$ -	$ 900,000
First issue of subordinated bank debentures in 2011; fixed rate at 2.78%; maturity: June 2018	2,000,000	2,000,000
First issue of subordinated bank debentures in 2012; fixed rate at 2.32%; maturity: March 2019	1,500,000	1,500,000
First issue of subordinated bank debentures in 2013; fixed rate at 2.10%; maturity: December 2020	3,000,000	3,000,000
First issue of subordinated bank debentures in 2015; fixed rate at 2.08%; maturity: April 2022	2,200,000	2,200,000
First issue of subordinated bank debentures in 2016; no maturity date and non-cumulative; redeemable at face value plus interest accrued under the approval of the authorities when the issue term is over 5.1 years; fixed rate at 4.20%	2,500,000	-
	$ 11,200,000	$ 9,600,000

27. BONDS PAYABLE

	December 31	
	2016	2015
Oversea corporate bonds - secured	$ 1,135,884	$ 604,397

SSG15

To comply with the Japanese law, whenever SSG15 issued secured corporate bonds, UCSH must transfer more than half of the shares of common stock of SSG15 held by UCSH to the legal entity Ippam Shadan Hojin UCJ1 (ISH UCJ1) in order to establish bankruptcy isolation mechanism.

SSG15 issued five-year period secured corporate bonds face value JPY2,200,000 thousand secured by investment property as a guarantee. The book value of the investment property is 951,682 thousand. According to the contract, the issuance can be extended by one year. The interest rates are as follows:

a. The first to fifth years: Base rate + 0.20%

   Base rate: The Tokyo Swap Rate (TSR), six-month LIBOR-based 5-year JPY/JPY-interest swap rate displayed on page 17143 of the Telerate screen at 10:00 am (JST) on the day that is two business days before the Issuance Date.

b. The sixth year: Base interest rate + 1.20%

   Base rate: The 3-month TIBOR (based on 365 days) displayed as the Japanese yen TIBOR as published by the JBA TIBOR Administration on page 17097 of the Telerate screen at 11:00 am JST on the day that is two business days before the Interest Payment Date.

SSG12

SSG12 issued secured corporate bonds, KK must transfer more than half of the shares of common stock of SSG12 held by KK to the legal entity Ippam Shadan Hojin UCJ2 (ISH UCJ2) in order to establish bankruptcy isolation mechanism.

SSG12 issued five-year period secured corporate bonds face value JPY1,920,000 thousand secured by investment property as a guarantee. The book value of the investment property is 529,344 thousand. According to the contract, the issuance can be extended by one year. The interest rates are as follows:

a. The first to fifth years: Base rate + 0.45%

   Base rate: The five-year yen-yen swap rate displayed on Reuters Screen page 17143 as the index rate as of 10 a.m. Tokyo time two Business Days prior to the Issue Date.

b. The sixth year: Base interest rate + 0.45%

   Base rate: The three-month yen TIBOR published by JBA TIBOR Administration on page 17097 of the Telerate screen as of 11 a.m., Tokyo time two Business Days prior to the first day of each Interest Calculation Period during the Tail Period.

28. OTHER FINANCIAL LIABILITIES

	December 31	
	2016	2015
Commercial paper	$ 4,215,572	$ 2,659,030
Principals of structured products	14,953	11,898
Funds obtained from the government - intended for specific types of loans	4,613	8,510
	$ 4,235,138	$ 2,679,438

29. PROVISIONS

	December 31	
	2016	2015
Reserve for losses on guarantees	$ 134,621	$ 194,006
Provisions for employee benefits	28,672	824,249
Others	26,279	26,279
	$ 189,572	$ 1,044,534

30. RETIREMENT BENEFIT PLANS

a. Defined contribution plans

   The Company (except for Union Finance International (HK) Limited) adopted a pension plan under the Labor Pension Act (LPA), a state-managed defined contribution plan. Under LPA, the Company makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The total expenses recognized in profit or loss for 2016 and 2015 of $124,925thousand and $118,005 thousand, respectively, were contributions payable to these plans by the Company at rates specified in the pension plan rules.

b. Defined benefit plans

The Company (except for Union Finance International (HK) Limited) adopted the defined benefit plan under the Labor Standards Law, pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement.

The Company contributes amounts equal to 2% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Company of Taiwan and in the Company's Business Department in the committee's name.

The fund is deposited in the Bank of Taiwan under management of Bureau of Labor Funds, Ministry of Labor. The Company has no right to influence the investment policy and strategy. Before the end of each year, the Company assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Company is required to fund the difference in one appropriation that should be made before the end of March of the next year.

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

	December 31	
	2016	**2015**
Present value of defined benefit obligation	$ (1,580,240)	$ (1,553,813)
Fair value of plan assets	1,574,668	752,986
Deficit	(5,572)	(800,827)
Net defined benefit liability	$ (5,572)	$ (800,827)
Provisions - accrued retirement liabilities	$ (28,672)	$ (824,249)
Other assets - prepaid retirement	$ 23,100	$ 23,422

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Total
Balance at January 1, 2015	$ (1,479,378)	$ 737,837	$ (741,541)
Service cost			
Current service cost	(19,361)	-	(19,361)
Net interest expense (income)	(22,869)	13,078	(9,791)
Recognized in profit or loss	(42,230)	13,078	(29,152)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(3,264)	(3,264)
Actuarial loss - changes in demographic assumption	(20,402)	-	(20,402)

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Total
Actuarial loss - changes in financial assumptions	$ (47,769)	$ -	$ (47,769)
Actuarial gain - experience adjustments	10,579	-	10,579
Recognized in other comprehensive income	(57,592)	(3,264)	(60,856)
Contributions from the employer	-	30,722	30,722
Benefits paid	25,387	(25,387)	-
Balance at December 31, 2015	$ (1,553,813)	$ 752,986	$ (800,827)
Balance at January 1, 2016	$ (1,553,813)	$ 752,986	$ (800,827)
Service cost			
Current service cost	(18,507)	-	(18,507)
Net interest expense (income)	(23,273)	11,414	(11,859)
Recognized in profit or loss	(41,780)	11,414	(30,366)
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(3,921)	(3,921)
Actuarial loss - changes in demographic assumption			
Actuarial loss - changes in financial assumptions	(20,722)	-	(20,722)
Actuarial gain - experience adjustments	13,570	-	13,570
Recognized in other comprehensive income	(7,152)	(3,921)	(11,073)
Contributions from the employer	-	836,694	836,694
Benefits paid	22,505	(22,505)	-
Balance at December 31, 2016	$ (1,580,240)	$ 1,574,668	$ (5,572)

(Concluded)

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

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

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

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

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

	December 31	
	2016	**2015**
Discount rate	1.375%	1.16%-1.50%
Expected rates of future salary increase	1.00%-3.00%	1.12%-3.00%

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

	December 31	
	2016	**2015**
Discount rate(s)		
0.25% increase	$ (49,702)	$ (48,764)
0.25% decrease	$ 51,956	$ 51,018
Expected rate(s) of salary increase		
0.25% increase	$ 50,319	$ 50,132
0.25% decrease	$ (48,405)	$ (48,184)

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

	December 31	
	2016	**2015**
The expected contributions to the plan for the next year	$ 24,566	$ 30,468
The average duration of the defined benefit obligation	13-16 years	13-17 years

c. Retirement benefits plans of Union Finance International (HK) Limited

Union Finance International (HK) Limited has a defined contribution plan under foreign standards and regulations and is thus not covered by the Labor Pension Act and the Labor Standards Law. Its pension costs were $127 thousand in 2016 and $126 thousand in 2015.

31. OTHER LIABILITIES

	December 31	
	2016	**2015**
Guarantee deposits received	$ 2,360,609	$ 2,110,354
Advance receipts	432,465	383,481
Others	99,136	81,940
	$ 2,892,210	$ 2,575,775

32. EQUITY

a. Capital stock

Common stock

	December 31	
	2016	2015
Number of shares authorized (in thousands)	3,000,000	3,000,000
Amount of shares authorized	$ 30,000,000	$ 30,000,000
Number of shares issued and fully paid (in thousands)	2,605,152	2,605,152
Amount of shares issued	$ 26,051,524	$ 26,051,524

Fully paid common shares, which have a par value of NT$10, carry one vote per share and carry a right to dividends.

b. Capital surplus

	December 31	
	2016	2015
Treasury stock transactions	$ 32,413	$ 32,413

The capital surplus from shares issued in excess of par (additional paid-in capital from issuance of common shares and treasury stock transactions) and donations may be used to offset a deficit; in addition, when the Bank has no deficit, this capital surplus may be distributed in cash or mar be capitalized within a certain percentage of the Bank's paid-in capital once a year.

The capital surplus from long-term investments, employee stock options and conversion options may not be used for any purpose.

c. Legal reserve

Legal reserve should be appropriated until it equals the Bank's paid-in-capital. Legal reserve may be used to offset deficit. If the Bank has no deficit and the legal reserve has exceeded 25% of its paid-in capital, the excess may be transferred to capital or distributed in cash. In addition, based on the Banking Act, if the legal reserve is less than the Bank's paid-in capital, the amount that may be distributed in cash should not exceed 15% of the Bank's paid-in-capital.

d. Special reserve

Items referred to under Rule No. 1010012865, Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Bank.

The above special reserve may be used to offset a deficit; if the reserve has reached at least 50% of the paid-in capital, half of this special reserve may be capitalized.

According to Order No. 10510001510 issued by the FSC, a special reserve should be appropriated between 0.5% and 1% of net income after tax when banks appropriate earnings of 2016 through 2018. Since 2017, the Bank is allowed to reverse the special reserve at the amount of the costs of employee transfer and arrangement in connection with the development of financial technology.

e. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to stockholders and do not include employees. The stockholders held their regular meeting on June 8, 2016 and, in that meeting, had resolved amendments to the Bank's Articles of Incorporation (the Articles), particularly the amendment to the policy on dividend distribution and the addition of the policy on distribution of employees' compensation. For the policies on distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, please refer to Employee benefits expense in Note 35.

The Bank's Articles of Incorporation provide that annual net income less any prior years' deficit should be appropriated in the following order:

1) 30% as legal reserve;

2) Special reserve, as deemed proper;

3) Remainder plus prior year's unappropriated earnings: Dividends;

These appropriations should be approved by the stockholders in, and given effect to in the financial statements of, the year following the year of earnings generation.

The board of directors decides the appropriation and distribution of cash and stock dividends, taking into account the Bank's overall financial and economic condition, future profitability and capital expenditure requirements. In principle, when the Bank of International Settlement ratio is lower than the ratio approved by the authorities plus 1%, primarily stock dividends will be declared. If the legal reserve has not reached the Bank's paid-in capital, cash dividends are limited to 15% of the Bank's paid-in capital. The plan on employees' bonus and remuneration to directors and supervisors is proposed by the board of directors.

Except for non-ROC resident stockholders, all stockholders receiving the dividends are allowed a tax credit equal to their proportionate share of the income tax paid by the Bank.

The appropriations from the earnings of 2015 and 2014 were approved in stockholders' meetings on June 8, 2016 and June 26, 2015, respectively. The appropriations and dividends per share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2015	2014	2015	2014
Legal reserve	$ 923,460	$ 928,139		
Stock dividends on common shares	-	1,470,558	$ -	$ 0.60
Cash dividends on common shares	1,042,061	637,242	0.40	0.26

The appropriations from the 2016 earnings were proposed by the board of directors on March 22, 2017. The appropriations, including the dividends per share, were as follows:

	Appropriation of Earnings	Dividends Per Share (NT$)
Legal reserve	$ 790,913	
Special reserve	26,364	
Cash dividends	1,172,319	$0.45

The proposed appropriations from the 2016 earnings, including the bonus to employees and remuneration to directors and supervisors, will be presented to the stockholders in their meeting on June 2017.

The board of directors of the Bank resolved to raise long-term funds in order to cope with long-term business development in the future and the expanding scale of business. The situation depends on the market condition and capital requirements. Also, the board will request stockholders to authorize the board to raise funds by issuing either common stock or preferred stock according to the Bank's Articles of Incorporation or relevant or regulations. The number of shares will not exceed 800,000 thousand shares and issuance amount will not exceed $10,000,000 thousand.

f. Special reserve

Under Rule No. 1010012865 issued by the FSC, the Bank's the special reserve appropriated following IFRSs.

If the special reserve appropriated on the first-time adoption of IFRSs relates to investment property other than land, the special reserve may be reversed continually over the period of property use. The special reserve for land may be reversed on disposal or reclassification.

g. Other equity items

1) Exchange differences on translating foreign operations

	For the Year Ended December 31	
	2016	**2015**
Balance at January 1	$ 416,049	$ 339,253
Exchange differences arising on translating the foreign operations	(558,033)	115,969
Income tax on related from translating the net assets of foreign operations	61,807	(39,173)
Balance at December 31	$ (80,177)	$ 416,049

2) Unrealized gain (loss) on available-for-sale financial assets

	For the Year Ended December 31	
	2016	**2015**
Balance, beginning of the year	$ 1,302,228	$ 1,029,647
Unrealized gain from the revaluation of available-for-sale financial assets	259,670	419,410
Income tax on unrealized gain from the revaluation of available-for-sale financial assets	9,950	(75,315)
Cumulative loss (gain) reclassified to profit or loss on sale of available-for-sale financial assets	(299,540)	(71,514)
Balance, end of the year	$ 1,272,308	$ 1,302,228

h. Non-controlling interests

	For the Year Ended December 31	
	2016	2015
Balance at January 1	$ 260,253	$ 268,951
Attributed to non-controlling interests		
Share of profit for the year	25,246	18,022
Actuarial gains (loss) on defined benefit plans	(209)	(6)
Income tax related to actuarial gains and losses	35	1
Cash dividends distributed by subsidiaries	(16,185)	(26,715)
Balance at December 31	$ 269,140	$ 260,253

33. NET INTEREST

	For the Year Ended December 31	
	2016	2015
Interest revenue		
Discounts and loans	$ 6,143,904	$ 6,382,198
Debt instruments with no active market	1,715,733	1,709,484
Credit card	706,213	803,670
Due from the Central Bank and call loans to other banks	392,912	629,089
Available-for-sale financial assets	845,680	415,129
Securities purchased under resell agreements	119,833	109,332
Held-to-maturity financial assets	63,214	26,147
Others	26,848	23,118
	10,014,337	10,098,167
Interest expense		
Deposits	3,110,201	3,508,476
Securities sold under repurchase agreements	214,377	183,609
Bank debentures	291,833	209,162
Due to Chunghwa Post Co., Ltd.	14,366	34,727
Others	79,188	77,769
	3,709,965	4,013,743
	$ 6,304,372	$ 6,084,424

34. COMMISSIONS AND FEE REVENUES, NET

	For the Year Ended December 31	
	2016	2015
Commission and fee revenues		
Insurance commission	$ 1,220,848	$ 1,048,454
Credit cards and cash cards	1,029,294	808,306
Trust business	255,903	351,418
Loan business	207,199	191,591
Interbank service fee	143,489	129,293

(Continued)

	For the Year Ended December 31	
	2016	2015
Underwriting business	$ 105,940	$ 123,231
Guarantee business	82,908	84,113
Remittances	37,062	36,359
Custody	17,226	16,313
Postage/cable charge	22,752	22,534
Agency	16,456	18,800
Import and export business	10,787	8,630
Others	90,118	93,332
	3,239,982	2,932,374
Commission and fee expense		
Credit card	663,369	514,112
Verification of credit	30,588	25,441
Interbank service fee	17,687	15,581
Acquiring liquidation deal	14,341	13,721
Others	90,508	84,123
	816,493	652,978
	$ 2,423,489	$ 2,279,396

(Concluded)

35. GAINS ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	For the Year Ended December 31	
	2016	2015
Realized gain or loss on financial assets at fair value through profit or loss		
Currency swap contracts	$ 188,186	$ 212,133
Forward exchange contracts	6,434	(25,398)
Commercial papers	22,037	45,772
Convertible corporate bonds	19,160	35,809
Beneficial securities and stocks	(27,527)	(96,545)
Option contracts	1,534	6,896
Government bonds and corporate bonds	(734)	(2,179)
Dividend revenue	5,335	5,587
Interest revenue	163,896	174,282
	378,321	356,357
Unrealized gain or loss on financial assets at fair value through profit or loss		
Derivative financial assets and liabilities	63,013	84,827
Beneficial securities and stocks	31,560	(33,529)
Commercial paper	(1,410)	308
Government bonds and corporate bonds	(88,726)	4,389
	4,437	55,995
	$ 382,758	$ 412,352

36. REALIZED GAIN FROM AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET

	For the Year Ended December 31	
	2016	2015
Net income (loss) on disposal - beneficial securities	$ (1,999)	$ 50,752
Net income on disposal - stocks	213,461	9,797
Net income on disposal - corporate bonds	42,678	10,965
Net income on disposal - Financial bonds	45,400	-
Dividend revenue	162,300	183,114
	$ 461,840	$ 254,628

37. LOSS FROM ASSET IMPAIRMENT, NET

	For the Year Ended December 31	
	2016	2015
Other financial assets	$ (50,000)	$ (120,000)
Foreclosed collaterals	717	15,157
	$ (49,283)	$ (104,843)

38. EMPLOYEE BENEFIT EXPENSES

	For the Year Ended December 31	
	2016	2015
Salaries and wages	$ 2,115,272	$ 2,066,732
Bonus	759,421	641,519
Pension		
Defined contribution plans	125,052	118,131
Defined benefit plans	30,366	29,152
Labor insurance and national health insurance	259,234	249,014
Others	56,404	57,875
	$ 3,345,749	$ 3,162,423

As of December 31, 2016 and 2015, the Company had 3,893 and 3,835 employees, respectively.

In compliance with the Company Act as amended in May 2015 and the amended Articles of Incorporation of the Company approved by the stockholders in their meeting on June 8, 2016, the Bank accrued employees' compensation and remuneration of directors at the rates of between 1% to 5% and no higher than 0.1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the years ended December 31, 2016 and 2015 which have been approved by the Bank's board of directors on March 22, 2017 and March 16, 2016, respectively, were as follows:

Accrual rate

	For the Year Ended December 31	
	2016	2015
Employees' compensation	1.84%	1.84%
Remuneration of directors	0.09%	0.09%

Amount

	For the Year Ended December 31			
	2016		2015	
	Cash	Share	Cash	Share
Employees' compensation	$ 60,602	$ -	$ 70,497	$ -
Remuneration of directors and supervisors	2,964	-	3,448	-

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

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

Information on the employees' compensation and remuneration of directors resolved by the Bank's board of directors in 2017 and 2016 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

The bonus to employees and remuneration of directors for 2014 which have been approved in the stockholders' meeting on June 26, 2015 were as follows:

	For the Year Ended December 31, 2014	
	Cash	Share
Bonus to employees	$ -	$ 69,510
Remuneration of directors	3,475	-

The stock bonus to employees was $7,166 thousand and $6,103 thousand, determined by dividing the amount of the share bonus by the closing price (after considering the effect of cash and stock dividends) of the shares of the day immediately preceding the stockholders' meeting in 2016 and 2015.

There was no difference between the amounts of the bonus to employees and the remuneration to directors and supervisors approved in the stockholders' meetings in 2015 and the amounts recognized in the financial statements for the year ended December 31, 2014.

Information on the bonus to employees and remuneration of directors resolved by the stockholders in their meeting in 2015 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

39. DEPRECIATION AND AMORTIZATION

	For the Year Ended December 31	
	2016	2015
Property and equipment	$ 251,675	$ 212,645
Investment properties	34,061	24,640
Assets leased	1,475,216	1,422,668
Intangible assets	51,923	37,867
Other assets	7,985	9,358
	$ 1,820,860	$ 1,707,178

40. OTHER OPERATING EXPENSES

	For the Year Ended December 31	
	2016	2015
Rental	$ 616,379	$ 600,315
Outsourcing service	314,283	278,591
Taxation and government fee	627,762	666,581
Postage/cable charge	235,551	227,615
Computer operating	161,181	159,186
Advertisement	419,055	358,091
Deposit insurance	127,965	123,393
Maintenance charge	120,407	123,230
Marketing	71,431	63,869
Printing and binding	43,313	43,160
Donation	32,869	27,937
Others	592,526	472,831
	$ 3,362,722	$ 3,144,799

41. INCOME TAX

a. Income tax recognized in profit or loss

The main components of income tax expense were as follows:

	For the Year Ended December 31	
	2016	2015
Current tax		
Current year	$ 80,334	$ 72,111
Additional 10% income tax on unappropriated earnings	110,493	-
Prior year's adjustments	(7,564)	38,199
	183,263	110,310
Deferred tax		
Current year	465,903	591,030
Income tax expense recognized in profit or loss	$ 649,166	$ 701,340

A reconciliation of accounting profit and current income tax expenses for the years ended December 31, 2016 and 2015 is as follows:

	For the Year Ended December 31	
	2016	2015
Income before tax	$ 3,310,787	$ 3,840,264
Income tax expense at the 17% statutory rate	$ 567,925	$ 652,900
Nondeductible expenses in determining taxable income	26,109	21,876
Additional income tax under the Alternative Minimum Tax Act	21,432	34,667
Unrecognized deductible temporary differences	42,751	39,332

(Continued)

	For the Year Ended December 31	
	2016	2015
Additional 10% income tax on unappropriated earnings	$ 110,493	$ -
Tax-exempt income	(146,361)	(114,502)
Other permanent differences	34,381	28,868
Adjustments for prior year's tax	(7,564)	38,199
Income tax expense recognized in profit or loss	$ 649,166	$ 701,340

(Concluded)

The applicable tax rate used by the Company (except for Union Finance International (HK) Limited) was 17%, the applicable tax rate used by a subsidiary in Hong Kong was 16.5% and the applicable tax rate used by subsidiaries in Japan was 30%.

As the manner of the 2017 appropriation of the 2016 earnings is uncertain, the income tax consequences on the 2016 unappropriated earnings cannot be reliably determined.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2016	2015
Deferred tax		
Recognized in other comprehensive income:		
Exchange differences on the translation of financial statements of foreign operations	$ (61,807)	$ 39,173
Unrealized gains on available-for-sale financial assets	(9,950)	75,315
Actuarial gains and losses on defined benefit plans	(1,883)	(10,346)
Total income tax expenses recognized in other comprehensive income	$ (73,640)	$ 104,142

c. Deferred tax assets and liabilities

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

For the year ended December 31, 2016

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Impairment loss of financial instruments	$ 37,954	$ 8,500	$ -	$ -	$ 46,454
Exchange difference on translation of foreign operations	3,796	-	3,143	-	6,939
Employee benefit plan	138,564	4,502	1,806	-	144,872
Payable for annual leave	5,750	(3,201)	-	-	2,549
Allowance for possible losses and reserve for losses on guarantees	13,175	36,405	-	-	49,580

(Continued)

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Investment properties	$ 123,272	$ (1,638)	$ -	$ -	$ 121,634
Others	21,260	2,373	-	-	23,633
	343,771	46,941	4,949	-	395,661
Loss carryforwards	1,542,767	(491,389)	-	-	1,051,378
	$ 1,886,538	$ (444,448)	$ 4,949	$ -	$ 1,447,039
Deferred tax liabilities					
Temporary differences					
Available-for-sale financial assets	$ (357,391)	$ -	$ 9,950	$ -	$ (347,441)
Exchange difference on foreign operations	(62,629)	-	58,664	-	(3,965)
Amortization of goodwill impairment loss	(337,502)	-	-	-	(337,502)
Others	(124,209)	(21,455)	77	85	(145,502)
	$ (881,731)	$ (21,455)	$ 68,691	$ 85	$ (834,410)

(Concluded)

For the year ended December 31, 2015

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Exchange Differences	Closing Balance
Deferred tax assets					
Temporary differences					
Impairment loss of financial instruments	$ -	$ 37,954	$ -	$ -	$ 37,954
Exchange difference on translation of foreign operations	9,853	-	(6,057)	-	3,796
Employee benefit plan	128,264	(222)	10,522	-	138,564
Payable for annual leave	18,850	(13,100)	-	-	5,750
Allowance for possible losses and reserve for losses on guarantees	17,281	(4,106)	-	-	13,175
Property and equipment	16,855	(16,856)	-	1	-
Investment properties	124,910	(1,638)	-	-	123,272
Others	22,723	(1,463)	-	-	21,260
	338,736	569	4,465	1	343,771
Loss carryforwards	2,068,968	(526,206)	-	5	1,542,767
	$ 2,407,704	$ (525,637)	$ 4,465	$ 6	$ 1,886,538
Deferred tax liabilities					
Temporary differences					
Available-for-sale financial assets	$ (282,076)	$ -	$ (75,315)	$ -	$ (357,391)
Exchange difference on foreign operations	(29,513)	-	(33,116)	-	(62,629)
Amortization of goodwill impairment loss	(334,729)	(2,773)	-	-	(337,502)
Others	(61,413)	(62,620)	(176)	-	(124,209)
	$ (707,731)	$ (65,393)	$ (108,607)	$ -	$ (881,731)

d. Information on loss carryforwards

The Company's loss carryforwards as of December 31, 2016 were as follows:

Expiry Year	Unused Amount
2018	$ 2,489,453
2019	3,654,948
2020	40,176
2022	396
2023	67,883
	$ 6,252,856

The loss carryforward of Union Finance International (HK) Limited as of December 31, 2016 was $76,073 thousand.

e. Information on the Bank's integrated income tax

	December 31	
	2016	2015
Imputation credits accounts	$ 114,475	$ 79,165

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

The creditable ratios for the distribution of the earnings of 2016 and 2015 were 3.06% and 3.49%, respectively.

Under the Income Tax Law, for the distribution of earnings generated from January 1, 1998, the imputation credits allocable to ROC resident stockholders of the Bank are calculated on the basis of the creditable ratio as of the date of dividend distribution. The actual imputation credits allocable to stockholders of the Bank are based on the balance of the imputation credit accounts as of the date of dividend distribution. Thus, the expected creditable ratio for the 2016 earnings may differ from the actual creditable ratio to be used in allocating imputation credits to the stockholders.

f. As of December 31, 2016, the Company's income tax returns have been examined and cleared by the tax authorities as follows:

	Examined and Cleared
Union Bank of Taiwan	Through 2014
Union Finance and Leasing International	Through 2014
Union Information Technology	Through 2014
Union Insurance Broker	Through 2014
Union Securities Investment Trust	Through 2014

The Bank's income tax returns through 2014 were examined and cleared by the tax authorities. The Bank disagreed with the tax authorities' assessment of the ending balance of imputation credit accounts (ICA) for 2012 and applied for a re-examination. The tax authorities replied on August 24, 2016 that the balance shall be reexamined. The bank expects that there is no major difference between the applied amount and the approved amount.

42. EARNINGS PER SHARE

The numerators and denominators used in computing earnings per share (EPS) are summarized as follows:

	Numerator (Amounts)		Denominator (Shares in Thousands)	Earnings Per Share (NT$)	
	Pretax	After Tax		Pretax	After Tax
2016					
Basic EPS					
Income for the year attributable to common stockholders	$ 3,226,478	$ 2,636,375	2,605,152	$ 1.24	$ 1.01
Bonus to employees	-	-	8,328		
Diluted EPS	$ 3,226,478	$ 2,636,375	2,613,480	$ 1.23	$ 1.01
2015					
Basic EPS					
Income for the year attributable to common stockholders	$ 3,763,143	$ 3,120,902	2,601,697	$ 1.45	$ 1.20
Bonus to employees	-	-	11,011		
Diluted EPS	$ 3,763,143	$ 3,120,902	2,612,708	$ 1.44	$ 1.19

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

43. RELATED-PARTY TRANSACTIONS

In addition to those disclosed in other footnotes, significant transactions between the Company and related parties are summarized as follows:

a. Related parties and their relationships with the Company

Related Party	Relationship with the Company
Union Real-Estate Management Corporation	Equity-method investee of the Bank
Hung-Kou Construction Inc., Ltd. (Hung-Kou)	Its chairman is a relative of the Bank's director/ general manager
The Liberty Times Co., Ltd. (Liberty Times)	The Bank's director/general manager and the chairman of the board of directors are the director, respectively, of Liberty Times
Long Shan Lin Corporation	Its chairman is a close relative of the Bank's director/general manager
Yong-Xuan Co., Ltd. (Yong-Xuan)	Its chairman is a close relative of the Bank's director/general manager

(Continued)

Related Party	Relationship with the Company
Union Enterprise Construction Co., Ltd. (UECC)	Director of the Bank
Yu-Pang Co., Ltd. (Yu-Pang)	Director of the Bank
Union Recreation Enterprise Corporation	Related party in substance
Securities Investment Trust Funds	Issued by Union Securities Investment Trust
Others	Directors, managers, and their relatives and affiliates

(Concluded)

b. Significant transactions with related parties:

1) Loans

December 31, 2016

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2016	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonper-forming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	7	$ 9,602	$ 4,353	$ 4,353	$ -	Land and building	None
Self-used housing mortgage loans	17	129,901	96,949	96,949	-	Real estate	None
Others	4	1,102,950	1,096,150	1,096,150	-	Land, plant, buildings, quoted stocks and time deposits	None

December 31, 2015

Type	Account Volume or Name	Highest Balance in the Year Ended December 31, 2015	Ending Balance	Loan Classification: Normal Loans	Loan Classification: Nonper-forming Loans	Collaterals	Differences in Terms of Transaction with Those for Unrelated Parties
Consumer loans	6	$ 8,006	$ 6,122	$ 6,122	$ -	Land and building	None
Self-used housing mortgage loans	17	120,365	108,854	108,854	-	Real estate	None
Others	3	1,091,750	1,087,000	1,087,000	-	Land, plant, buildings and time deposits	None

	December 31		Interest Revenue		
	Amount	%	Rate	Amount	%
2016	$ 1,197,452	0.42	1.06%-3.00%	$ 17,663	0.18
2015	1,201,976	0.43	1.12%-2.94%	12,975	0.13

2) Deposits

	December 31		Interest Expense		
	Amount	%	Rate	Amount	%
2016	$ 5,006,844	1.16	0%-4.8%	$ 29,984	0.81
2015	4,482,477	1.06	0%-3.8%	38,748	0.97

3) Guarantees and letters of credit

December 31, 2016

Name	Highest Balance in the Year Ended December 31, 2016	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 39,874	$ 19,316	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	11,484	-	-	0.05%	Time deposits
Long Shan Lin Corporation	71,040	71,040	-	0.5%	Time deposits

December 31, 2015

Name	Highest Balance in the Year Ended December 31, 2015	Ending Balance	Balance of Guarantees and Letters of Credit (Note)	Rate	Collateral
Union Recreation Enterprise Corporation	$ 39,874	$ 39,874	$ -	0.3%-0.5%	Time deposits
The Liberty Times Co., Ltd.	18,721	11,387	-	0.05%	Land and buildings
Long Shan Lin Corporation	71,040	71,040	-	0.3%	Time deposits

4) Securities brokerage fees

	Year Ended December 31	
	Amount	%
2016	$ 4,193	2.11
2015	4,381	2.34

5) Leases

Under operating lease agreements with terms of one year to five years, the Company rents office spaces from related parties for use by the Bank's Head Office, Trust, International Banking Department, Wealth Management, Information Technology Department, Consumer Banking Department, Insurance Agency Department, Credit Card Department, Northern Collaterals Appraisal Center, five branches, USITC, UFLIC and UIT. Rentals are paid quarterly or are taken from lease deposits. Rental expenses and lease deposits were as follows:

	Lease Deposit (Part of Other Assets)		Rental Expense (Part of Other Operating Expense)	
	Amount	%	Amount	%
2016				
Yu-Pang	$ 459,983	25.95	$ 25,954	4.21
Hung-Kuo	218,768	12.34	101,476	16.46
Yong-Xuan	15,975	0.90	65,682	10.66
UECC	5,067	0.29	10,882	1.77
2015				
Yu-Pang	460,000	23.26	27,590	4.60
Hung-Kuo	218,768	11.06	101,275	16.87
Yong-Xuan	15,975	0.81	61,452	10.24
UECC	5,067	0.26	10,685	1.78

6) Available-for-sale financial assets

As of December 31, 2016 and 2015, the Bank and UFLIC had purchased 93,605 thousand units and 110,561 thousand units, respectively, of beneficial certificates issued by USITC, which amounted to $1,149,336 thousand and $1,364,318 thousand, respectively.

Under the Banking Law, except for consumer and government loans, credits extended by the Bank to any related party should be fully secured, and the credit terms for related parties should be similar to those for unrelated parties.

For transactions between the Bank and related parties, the terms are similar to those transacted with third parties, except for the preferential interest rates offered to Bank employees for savings and loans within prescribed amounts.

c. Compensation of directors, supervisors and management personnel:

	For the Year Ended December 31	
	2016	**2015**
Short-term employment benefits		
Salaries	$ 47,709	$ 47,935
Transportation expenses	1,200	1,726
Other	33	28
	48,942	49,689
Post-employment benefits	2,555	2,596
	$ 51,497	$ 52,285

Compensation of directors and management personnel is determined by the remuneration committee on the basis of individual performance and market trends.

44. PLEDGED ASSETS

a. As of December 31, 2016 and 2015, government bonds and bank debentures, which amounted to $154,405 thousand and $92,100 thousand (all amounts included in other financial assets), respectively, had been provided to the courts and the Bank of Taiwan as guarantee deposits on provisional seizures against the debtors' properties, as reserve for credit card receivables, as guarantee deposits on bills finance operations, brokering life insurance, property and casualty insurance, and as trust reserve. In addition, as of December 31, 2016 and 2015, negotiable certificates of deposit, which amounted to $3,800,000 thousand and $7,400,000 thousand, respectively (all amounts included in other financial assets), had been provided to the Central Bank as collateral for day-term overdraft.

b. As of December 31, 2016 and 2015, the Bank pledged a time deposit of $300,000 thousand and $300,000 thousand (part of other financial assets) to Mega International Commercial Bank to be part of the latter's online bank-to-bank payment system.

c. The following assets of the Company had been used as collaterals to apply for loans, issue commercial papers and apply for provisional seizure of certain assets:

	December 31	
	2016	**2015**
Other financial assets		
Pledge assets	$ 690,392	$ 78,435
Investment property	$ 1,974,113	$ 954,820

d. As of December 31, 2016 and 2015, Notes receivable(not expired) amounting to $1,035,993 thousand and $721,846 thousand had been used as collaterals to apply for loans and issue commercial papers.

45. CONTINGENCIES AND COMMITMENTS

a. As of December 31, 2016 and 2015, the Company's commitments consisted of the following:

	December 31	
	2016	**2015**
Irrevocable standby loan commitment	$ 109,697,387	$ 95,989,931
Unused credit card commitment	238,271,865	192,845,887
Unused letters of credit	860,155	741,548
Other guarantees	10,270,804	11,605,965
Collections for customers	30,941,654	27,068,197
Travelers' checks consigned-in	115,788	130,409
Guarantee notes payable	4,265,400	7,816,100
Trust assets	59,974,657	56,720,926
Marketable securities under custody	4,262,547	3,005,248

b. The Company as a lessee

The Company rents several office premises for its branches under operating leases with terms ranging between 2 and 20 years. All operating lease contracts over 5 years contain clauses for market rental reviews for every five years. The Company does not have a bargain purchase option to acquire the leased premises at the expiration of the lease period.

As of December 31, 2016 and 2015, refundable deposits paid under operating leases were $805,681 thousand and $803,724 thousand, respectively (included in other assets - refundable deposits).

The Company's future minimum lease payments for noncancellable operating lease commitments were as follows:

	December 31	
	2016	**2015**
Within 1 year	$ 444,548	$ 418,842
Over 1 year up to 5 years	1,135,301	1,155,570
Over 5 years	386,690	375,861
	$ 1,966,539	$ 1,950,273

c. The Company as lessor

The Company rents out properties under operating leases with terms ranging between 3 and 20 years. All operating lease contracts contain market review clauses so that the lessee has an option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiration of the lease period.

As of December 31, 2016 and 2015, refundable deposits paid under operating leases were $94,357 thousand and $45,913 thousand, respectively (included in other liabilities - guarantee deposits received).

The Company's future minimum lease payments for noncancellable operating lease commitments were as follows:

	December 31	
	2016	**2015**
Within 1 year	$ 179,260	$ 102,663
Over 1 year and up to 5 years	385,250	379,532
Over 5 years	84,556	440,934
	$ 649,066	$ 923,129

The duration of leasing cars(included in other assets) is about 1 to 3 years.

Minimum future annual rentals are as follows:

	December 31	
	2016	**2015**
Within 1 year	$ 1,828,030	$ 1,678,419
Over 1 year to 5 years	1,581,947	1,485,802
	$ 3,409,977	$ 3,164,221

d. Computer equipment purchase contracts

As of December 31, 2016 and 2015, the Company had contracts to buy computer equipment and software for $409,463 thousand and $312,581 thousand, respectively, of which $256,408 thousand and $178,448 thousand had been paid as of December 31, 2016 and 2015, respectively.

e. Union Securities Investment Trust

The private equity funds managed by USITC, a subsidiary of the Bank, were mainly invested in the Fairfield Sentry Funds (F Funds) of the Madoff Investment Securities's (Madoff Company) Fairfield Company (Fairfield). On January 10, 2011, the liquidator of the F Funds sued USITC, the private equity funds managed by USITC and the beneficiaries who bought USITC's private equity funds to demand the return of the redemption proceeds of US$17,206 thousand received by USITC's private equity funds from the F Funds. This case remained pending before the Bankruptcy Court for the Southern District of New York.

Madoff Company's liquidation trustee claimed that F Funds' redemption proceeds from Madoff Company constituted unjust enrichment and thus sued USITC and F Funds on March 23, 2012 to demand the return of the redemption proceeds of US$17,206 thousand received by USITC's private equity funds from F Funds. This case remained pending before the Bankruptcy Court for the Southern District of New York.

USITC received the notification sent by the Taiwan Taipei District Court on the lawsuit filed against USITC by Madoff Company's liquidation trustee on January 17, 2013; thus, USITC appointed American lawyers to deal with the litigation. The US Bankruptcy Court opened a court session to hear how to apply the District Court's insights on the extra-territorial effects and the plaintiff's request for limited disclosure of evidence, and presented the revised complaint to the defendant who was affected by the "good faith opinion". The United States attorney wrote a letter to report the progress of the case on April 25, 2016. The US Bankruptcy Court rejected the plaintiff's request mentioned above. On December 7, 2016, the Bankruptcy Court of the Southern District of New York rejected the claim of Madoff Company's liquidation trustee.

USITC received the liquidation report on the F Funds, which contained an update on the litigation and the status of profit and loss on August 31, 2014. The case whether the liquidators of F Funds may demand the distribution of the Funds was pending before the British Virgin Islands Court.

The private equity funds managed by USITC and mainly invested in the F Funds of Fairfield had become a loss for USITC. Thus, on June 26, 2013, USITC joined Fairfield Greenwich, Citco and PwC in a class action litigation on this investment loss. Regarding the class action suit against Fairfield Greenwich, United States District Court of the Southern District of New York approved the settlement of the two parties on December 19, 2014. The settlement fee was distributed among the settling parties in February 2015. Regarding the class action suit against Citco, the two parties had already come to a settlement on August 12, 2015; the court also approved the settlement of Citco on November 20, 2015. The settlement fee is going to be distributed among the settling parties. Regarding the class action suit against PwC, the court gave a preliminary verdict of settlement to the two parties and opened a court session on May 6, 2016, for a hearing on the fairness of the settlement and the granting of permission; there has been no further appeals since then. The settlement fee of PwC was distributed to the settling parties in February 2017 after deducting the approved amount of counselor fees and disbursement fees.

46. TRUST BUSINESS UNDER THE TRUST LAW

Balance Sheet of Trust Accounts
December 31, 2016

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 3,045,051	Management fee payable	$ -
Investments		Income tax payable	25
Mutual funds	38,199,360	Marketable securities payable	7,189,491
Common stock	269,587	Trust capital	52,866,325
Short-term bills and securities purchased under resell agreements	132,635	Reserve and deficit	(81,184)
Accounts receivable	1,825		
Stock in custody	7,189,491		
Real estate - land and building	11,136,708		
Total	$ 59,974,657	Total	$ 59,974,657

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2016.

Balance Sheet of Trust Accounts
December 31, 2015

Trust Assets	Amount	Trust Liabilities and Capital	Amount
Bank deposits	$ 2,612,302	Management fee payable	$ 1
Investments		Income tax payable	126
Mutual funds	35,968,873	Marketable securities payable	6,822,229
Common stock	242,414	Trust capital	49,957,351
Short-term bills and securities purchased under resell agreements	126,627	Reserve and deficit	(58,781)
Accounts receivable	2,802		
Stock in custody	6,822,229		
Real estate - land and building	10,945,679		
Total	$ 56,720,926	Total	$ 56,720,926

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2015.

Income Statement of Trust Accounts
Year Ended December 31, 2016

	Amount
Trust income	
Interest revenue - demand accounts	$ 593
Interest revenue - time deposits	9,206
Interest revenue - short-term bills and securities purchased under resell agreements	246
Cash dividends - common stock	13,599
Income from beneficial certificates	271
Realized capital gain - fund	149
Unrealized capital gain - common stock	10,403
Unrealized capital gain - fund	482
Total trust income	34,949
Trust expense	
Management expense	7,590
Supervisor fee	160
Lawyer fee	100
Taxation	86,014
Agency fees	1,212
Realized capital loss - fund	406
Unrealized capital loss - common stock	6,031
Unrealized capital loss - fund	663
Others	383
Total trust expense	102,559
Loss before tax	(67,610)
Income tax expense	(1,332)
Net loss	$ (68,942)

Note: The above trust income statements were not included in the Bank's income statements.

Income Statement of Trust Accounts
Year Ended December 31, 2015

	Amount
Trust income	
Interest revenue - demand accounts	$ 761
Interest revenue - time deposits	9,440
Interest revenue - short-term bills and securities purchased under resell agreements	390
Cash dividends - common stock	10,432
Income from beneficial certificates	418
Realized capital gain - fund	317
Unrealized capital gain - common stock	5,667
Unrealized capital gain - fund	218
Other	2
Total trust income	27,645
Trust expense	
Management expense	5,803
Taxation	67,848
Agency fees	1,411
Realized capital loss - fund	174
Unrealized capital loss - common stock	2,712
Unrealized capital loss - fund	840
Other	296
Total trust expense	79,084
Loss before tax	(51,439)
Income tax expense	(2,335)
Net loss	$ (53,774)

Note: The above trust income statements were not included in the Bank's income statements.

Trust Property and Equipment Accounts
December 31, 2016

Investment Portfolio	Amount
Bank deposits	$ 3,045,051
Investments	
Mutual funds	38,199,360
Common stock	269,587
Short-term bills and securities purchased under resell agreements	132,635
Accounts receivable	1,825
Stock in custody	7,189,491
Real estate - land and buildings	11,136,708
	$ 59,974,657

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2016.

Trust Property and Equipment Accounts
December 31, 2015

Investment Portfolio	Amount
Bank deposits	$ 2,612,302
Investments	
Mutual funds	35,968,873
Common stock	242,414
Short-term bills and securities purchased under resell agreements	126,627
Accounts receivable	2,802
Stock in custody	6,822,229
Real estate - land and buildings	10,945,679
	$ 56,720,926

Note: The foreign currency amount of mutual funds was included in OBU on December 31, 2015.

47. FINANCIAL INSTRUMENTS

a. Three-level fair value hierarchy

The definitions of each level of the fair value hierarchy are shown below:

1) Level 1

Level 1 financial instruments are traded in an active market in which there are quoted prices for identical assets and liabilities. An active market has the following characteristics:

a) All financial instruments in the market are homogeneous.

b) There are willing buyers and sellers in the market all the time.

c) The public can access the price information easily.

The products in this level, such as listed stocks and beneficial securities, usually have high liquidity or are traded in futures market or exchanges.

2) Level 2

The products in this level have fair values that can be inferred from either directly or indirectly observable inputs other than quoted prices in an active market. Examples of these inputs are:

a) Quoted prices from the similar products in an active market. This means the fair value can be derived from the current trading prices of similar products, and whether they are similar products should be judged on the characteristics and trading rules. The fair price valuation in this circumstance may be adjusted due to time differences, trading rule's differences, interested parties' prices, and the correlation of price between itself and the similar goods;

b) Quoted prices for identical or similar financial instruments in inactive markets;

c) For the marking-to-model method, the inputs to this model should be observable (such as interest rates, yield curves and volatilities). The observable inputs mean that they can be obtained from the market and can reflect the expectation of market participants;

d) Inputs that are derived from observable market data through correlation or other means.

The fair values of products categorized in this level are usually calculated using a valuation model generally accepted by the market. Examples are forward contracts, cross-currency swap, simple interest bearing bonds, convertible bonds and commercial paper.

3) Level 3

The fair values of the products in this level are typically based on management assumptions or expectations other than the direct market data. For example, historical volatility used in valuing options is an unobservable input because it cannot represent the entire market participants' expectation on future volatility.

The products in this level are complex derivate financial instruments or products with prices that are provided by brokers. Examples are complex foreign exchange options.

b. The fair value hierarchies of the Company's financial instruments as of December 31, 2016 and 2015 were as follows:

(In Thousands of New Taiwan Dollars)

	December 31, 2016			
	Total	**Level 1**	**Level 2**	**Level 3**
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 192,085	$ 192,085	$ -	$ -
Debt instruments	151,223	-	151,223	-
Beneficial certificates	128,425	128,425	-	-
Commercial paper	8,300,747	-	8,300,747	-
Financial assets designated as at FVTPL on initial recognition				
Principal guaranteed notes	322,968	-	322,968	-
Available-for-sale financial assets				
Stock	5,796,662	5,796,662		
Debt instruments	32,258,913	-	32,258,913	-
Beneficial certificates	1,922,850	1,922,850	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	442,642	-	434,497	8,145
Liabilities				
Financial liabilities at FVTPL	39,523	-	31,388	8,135

	December 31, 2015			
	Total	Level 1	Level 2	Level 3
Measured at fair value on a recurring basis				
Nonderivative financial instruments				
Assets				
Financial assets at fair value through profit or loss (FVTPL)				
Held-for-trading financial assets				
Stock	$ 434,865	$ 434,865	$ -	$ -
Debt instruments	153,772	-	153,772	-
Beneficial certificates	204,354	204,354	-	-
Commercial paper	5,974,371	-	5,974,371	-
Financial assets designated as at FVTPL on initial recognition				
Debt instruments	1,076,321	-	1,076,321	-
Principal guaranteed notes	827,875	-	827,875	-
Available-for-sale financial assets				
Stock	6,629,573	6,629,573	-	-
Debt instruments	14,094,925	-	14,094,925	-
Beneficial certificates	2,595,220	2,595,220	-	-
Derivative financial instruments				
Assets				
Financial assets at FVTPL	387,257	-	363,063	24,194
Liabilities				
Financial liabilities at FVTPL	54,271	-	30,081	24,190

c. The financial instruments measured at fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants with full understanding of the sale or transfer transaction. The fair values of financial instruments at fair value, available-for-sale financial assets and hedging derivative financial instruments with quoted price in an active market are based on their market prices; financial instruments with no quoted prices in an active market are estimated by valuation methods.

1) Marking to market

This method should be used first to determine fair value. Following are the principles to follow in marking to market:

a) Ensure the consistency and integrity of market data.

b) The source of market data should be transparent and easy to access and can be referred to by independent resources.

c) Listed securities with tradable prices should be valued at closing prices.

d) Evaluating unlisted securities that lack tradable closing prices should use quoted prices from independent brokers.

2) Marking to model

The use of marking to model is suggested if marking to market is infeasible. This valuation methodology is based upon model inputs that are used to derive the value of the trading positions. The Company uses the same estimations and assumptions as those used by market participants to determine the fair value.

The Company uses the forward rates provided by Reuters to estimate the fair values of forward contracts, foreign exchange swap contracts, interest rate swap and cross-currency swap contacts and the discounted cash flow method to calculate the fair values of each contract. For foreign exchange option transactions, the Company uses the option pricing models which are generally used by other market participants (e.g., the Black-Scholes model) to calculate the fair value of the contracts.

For debt instruments with no active market, the Company estimates fair values based on prices quoted by counterparties and adjusted in accordance with the results of the evaluation of a debtor's credit.

3) Transfer between Level 1 and Level 2

There was no material transfer between Level 1 and Level 2 for 2016 and 2015.

4) Reconciliation of Level 3 items of financial instruments

a) Reconciliation of Level 3 items of financial assets

For the year ended December 31, 2016

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehen-sive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss Derivative financial assets	$ 24,194	$(13,284)	$ -	$ 28,978	$ -	$(31,743)	$ -	$ 8,145

For the year ended December 31, 2015

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehen-sive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial assets at fair value through profit or loss Derivative financial assets	$ 104,410	$ (79,644)	$ -	$ 27,149	$ -	$ (27,721)	$ -	$ 24,194

b) Reconciliation of Level 3 items of financial liabilities

For the year ended December 31, 2016

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss								
Derivative financial liabilities	$ 24,190	$(12,039)	$ -	$ 32,520	$ -	$(36,536)	$ -	$ 8,135

For the year ended December 31, 2015

(In Thousands of New Taiwan Dollars)

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		In Net Income	In Other Comprehensive Income	Purchase or Change in Fair Value	Transfer to Level 3	Sale or Change in Fair Value	Transfer from Level 3	
Financial liabilities at fair value through profit or loss								
Derivative financial liabilities	$ 104,511	$ (78,325)	$ -	$ 34,709	$ -	$ (36,705)	$ -	$ 24,190

5) The quantification information of Level 3

Item	Product	Fair Value	Valuation Technique	Significant Unobservable Inputs	Interval (Weighted-average)	Relation Between Input and Fair Value
Derivative financial Instruments						
Financial assets at fair value through profit or loss	Foreign exchange options	$ 8,145	Option pricing model	Ratio	USD/JPY 12.80%-13.28% EUR/USD 10.34%-11.31% USD/NTD 7.50%-8.24% NZD/USD 12.03%-12.04% USD/ZAR 17.63% AUD/USD 11.07%-11.91%	The higher the ratio is, the higher fair value
Financial liabilities at fair value through profit or loss	Foreign exchange options	8,135	Option pricing model	Ratio	USD/JPY 12.80%-13.28% EUR/USD 10.34%-11.31% USD/NTD 7.50%-8.24% NZD/USD 12.03%-12.04% USD/ZAR 17.63% AUD/USD 11.07%-11.91%	The higher the ratio is, the higher fair value

6) Sensitivity analysis of Level 3 fair value if reasonably possible alternative assumptions used

The Company's Level 3 financial instruments are foreign exchange options. When engaging in foreign exchange option transactions, the Company makes a match for other banks and customers. Thus, the Company does not hold positions, and its source of profit and loss is from receiving and paying premiums. The sensitivity analysis has no effect on profit and loss since the Company does back-to-back transactions and the assets offset the liabilities.

d. Fair value of financial instruments that are not measured at fair value

Except for the financial instruments shown in the following table, the management believes that the financial assets and financial liabilities recognized in the financial statements either have carrying amounts that approximate their fair values or have fair values that cannot be reasonably measured.

1)

	December 31			
	2016		2015	
	Carrying Amount	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Financial assets				
Held-to-maturity financial assets	$ 7,192,115	$ 7,088,803	$ 4,207,436	$ 4,267,159
Debt instruments with no active market	51,433,548	53,015,036	51,446,515	50,826,020
Financial liabilities				
Bank debentures	11,200,000	11,445,952	9,600,000	9,805,550

2) Fair value hierarchy

Items	**December 31, 2016**			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Held-to-maturity financial assets	$ 7,088,803	$ -	$ 7,088,803	$ -
Debt instruments with no active market	53,015,036	-	53,015,036	-
Financial liabilities				
Bank debentures	11,445,952	-	11,445,952	-

Items	**December 31, 2015**			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets				
Held-to-maturity financial assets	$ 4,267,159	$ -	$ 4,267,159	$ -
Debt instruments with no active market	50,826,020	-	50,826,020	-
Financial liabilities				
Bank debentures	9,805,550	-	9,805,550	-

48. FINANCIAL RISK MANAGEMENT

a. Overview

To deal with any expected or unexpected business risk, the Company has established a comprehensive risk management system to allocate resources effectively and efficiently, strengthen business competitiveness, mitigate operational risk to a tolerable or acceptable level, and maintain the capital adequacy ratio to meet the minimum requirements of the authorities and the Basel Accord framework.

b. Risk management framework

The board of directors, which occupies the highest level in the Company's risk management framework, reviews risk management policies, the overall risk management framework and organization structure for carrying out responsibilities and exercising accountability. The Asset/Liability Management Committee inspects management reports or information provided by business units and the Risk Management Division. The Risk Management Division is an independent unit that is in charge of reviewing the risk management system designed by business units and the compliance with risk management requirements; this division also submits risk management reports to the authorities and develops a series of risk management tools to assess the risks identified. Business units establish risk control procedures, manage and monitor the implementation of those controls in operation units. Operation units perform daily risk management work and internal controls to ensure the accuracy and completeness of the risk management information generated.

c. Credit risk

1) Credit risk definitions and sources

Credit risk refers to the risk of losses caused by borrowers, debtors, or counterparties' failure to fulfill their contractual obligations due to deteriorating financial position or other factors. It arises principally from transactions involving discounts, loans, credit cards, due from or call loans to banks, debt investments and derivatives etc., and also from off-balance sheet products such as guarantees, acceptance, letters of credit and commitments.

2) Strategy/objectives/policies and processes

a) Credit risk management strategy: The Company has established the "Credit Risk Management Standards of Union Bank of Taiwan" as the basis of planning, implementing, and managing credit risk management system.

b) Credit risk management objective: The objectives are to establish and implement an effective credit risk management mechanism to mitigate credit risk, archive operational and management goals, and balance business development and risk control.

c) Credit risk management policy: The policies are meant to ensure that credit risk falls within an acceptable range and that adequate capital is maintained to meet credit risk management objectives and create maximum risk-adjusted returns.

d) Credit risk management process: The Company carries out credit risk identification, credit risk measurement, credit risk mitigation, credit risk monitoring and control and credit risk reporting process as part of its credit risk management mechanism.

3) Credit risk management framework

a) The board of directors: The board of directors, the top risk supervisor of the Company, reviews risk management policies, operational risk limits and the design and change of credit risk management framework.

b) Asset/Liability Management Committee: This committee inspects management reports or information provided by business units and the Risk Management Division.

c) Risk Management Division: The Risk Management Division is an independent unit that is in charge of the work related to three pillars of Basel and reviews the risk management system designed by business units and the compliance with risk management requirements; the division also submits risk management reports to the authorities and develops risk management tools to assess the risk identified.

d) Business units: Business units are responsible for establishing risk management regulations and risk control procedures and managing and monitoring the implementation of those controls in operation units.

e) Operation units: Under the risk management regulations and procedures set by business units, operation units perform daily risk management work and internal controls and prepares reports on these tasks.

4) Credit risk measurement, control and reporting

a) The range of credit risk reporting:

i. Each business unit will regularly report the promotion of the business and the allocation of risk assets to the Assets/Liability Management Committee (ALMC).

ii. The Company's risk management department regularly monitors the credit limit control situations and reports to the ALMC the credit concentration and the status of each business' achieving BIS (Bank for International Settlements) goals. The department also presents the volume of business NPL situation, credit concentration and the execution of credit risk control to the Board.

b) Measurement system:

The Company's credit risk management adopts the use of the standardized approach to calculate capital charge and regularly submits related reports to the government. The risk management division and business units implement the Company's management system and monitors the credit exposure of the business, industry, and countries as well as the concentration of credit and collateral to effectively measure and manage investment portfolio.

5) Mitigation of risks or hedging of credit risk

The Company is exposed to loss on each credit risk faced by its business. Thus, depending on the nature of the business and the cost considerations, the Company will take appropriate remeasures to control risk. The Company's information systems provide information that can be used in managing risk control procedures, and the risk management division reports to the board every six months the business risk management status.

6) Maximum exposure to credit risk

The maximum credit exposures of assets in the consolidated balance sheet are almost equivalent to their carrying values. These off-balance sheet maximum credit exposures (excluding collaterals and other credit enhancement instruments) are shown as follows:

Off-Balance Sheet Items	The Maximum Credit Exposure	
	December 31, 2016	December 31, 2015
Irrevocable standby loan commitment	$ 9,482,533	$ 6,569,725
Unused letters of credit	860,155	741,548
Other guarantees	10,270,804	11,605,965
Unused credit card commitments	238,271,865	192,845,887

December 31, 2016	Collateral	Netting Arrangements	Other Credit Enhancement	Total
In-balance sheet items				
Discount and loans	$ 226,779,935	$ -	$ -	$ 226,779,935
Off-balance sheet items				
Irrevocable standby loan commitment	-	-	-	-

December 31, 2015	Collateral	Netting Arrangements	Other Credit Enhancement	Total
In-balance sheet items				
Discount and loans	$ 221,098,338	$ -	$ -	$ 221,098,338
Off-balance sheet items				
Irrevocable standby loan commitment	86,283	-	-	86,283

7) Concentrations of credit risk exposure

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

There can be credit risk concentrations in a bank's assets, liabilities, or off-balance sheet items through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. These exposures can cover credits, loans and deposits, call loans to banks, investments, receivables and derivatives. To minimize its credit risk, the Company maintains a diversified portfolio; limits its exposure to any one geographic region, country or individual creditor; and closely monitors its exposures. The Company's most significant concentrations of credit risk are summarized as follows:

a) By industry

	December 31, 2016		December 31, 2015	
	Amount	**%**	**Amount**	**%**
Private enterprises	$ 71,596,120	24.05	$ 70,481,556	23.87
Public enterprises	5,000,000	1.68	5,000,000	1.69
Government organizations	33,036,805	11.10	36,072,659	12.22
Nonprofit organizations	917,924	0.31	796,650	0.27
Private organizations	186,430,171	62.64	180,559,645	61.14
Foreign enterprises	663,332	0.22	2,390,793	0.81
Total	297,644,352	100.00	295,301,303	100.00

b) By geographical area

The Company's operations are mainly in Taiwan.

c) By collaterals

	December 31, 2016		December 31, 2015	
	Amount	**%**	**Amount**	**%**
Unsecured	$ 63,101,890	21.20	$ 65,049,221	22.03
Secured				
Financial instruments	7,229,286	2.43	7,696,668	2.61
Stocks	9,284,626	3.12	9,477,891	3.21
Properties	194,540,140	65.36	190,828,539	64.62
Movables	15,813,134	5.31	14,523,030	4.92
Guarantees	5,520,845	1.86	5,425,905	1.84
Others	2,154,431	0.72	2,300,049	0.77
Total	297,644,352	100.00	295,301,303	100.00

8) Credit quality and impairment assessment

Some financial assets - cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit or loss, repos and debt securities, refundable deposits, guaranty bonds and clearing and settlement fund - are regarded as having very low credit risk because of the good credit ratings of counterparties. Other financial assets not regarded as having low credit risk are summarized as follows:

a) Discounts, loans and receivables

December 31, 2016	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	$ 8,705,928	$ 3,932,822	$ 40,380	$ -	$ 12,679,130	$ 200,846	$ 1,287,067	$ 14,167,043	$ 62,126	$ 34,319	$ 14,070,598
Acceptances receivable	97,552	37,979	-	-	135,531	-	-	135,531	-	476	135,055
Accounts receivable factoring without recourse	-	799,844	-	-	799,844	-	-	799,844	-	3,504	796,340
Others	2,491,905	106,932	23,617	3,901	2,626,355	1,815	525,888	3,154,058	267,780	41	2,886,237
Overdue guaranty deposits	-	-	-	-	-	-	3,765	3,765	-	-	3,765
Discounts and loans											
Consumer finance	88,535,794	42,291,881	20,657,009	2,930,474	154,415,158	331,607	134,205	154,880,970	63,497	1,656,388	153,161,085
Corporate banking	74,787,465	53,177,163	806,354	219,925	128,990,907	17,379	1,724,988	130,733,274	227,124	1,250,285	129,255,865

December 31, 2015	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Excellent	Good	Acceptable	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables											
Credit card business	$ 7,885,114	$ 3,650,648	$ 37,884	$ -	$ 11,573,646	$ 169,624	$ 1,447,951	$ 13,191,221	$ 65,329	$ 40,855	$ 13,085,037
Acceptances receivable	96,869	20,051	-	-	116,920	-	-	116,920	-	296	116,624
Others	1,880,495	101,751	23,316	3,962	2,009,524	1,950	11,519	2,022,993	4,801	2,077	2,016,115
Overdue guaranty deposits	-	-	-	-	-	-	3,079	3,079	-	-	3,079
Discounts and loans											
Consumer finance	88,486,237	36,695,064	19,370,083	2,871,370	147,422,754	322,914	82,543	147,828,211	42,247	1,409,061	146,376,903
Corporate banking	77,861,490	53,357,619	846,054	-	132,065,163	30,787	1,673,751	133,769,701	204,852	1,140,700	132,424,149

b) Credit quality analysis of securities

December 31, 2016	Neither Past Due Nor Impaired Amount (Note)				Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Investment Grade	Non-investment Grade	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With Objective Evidence of Impairment	
Available-for-sale financial assets										
Investments in bonds	$ 30,717,571	$ 1,541,342	$ -	$ 32,258,913	$ -	$ -	$ 32,258,913	$ -	$ -	$ 32,258,913
Investments in stocks	5,553,816	242,846	-	5,796,662	-	-	5,796,662	-	-	5,796,662
Others	631,315	-	1,291,535	1,922,850	-	-	1,922,850	-	-	1,922,850
Held-to-maturity financial assets										
Investments in bonds	7,192,115	-	-	7,192,115	-	-	7,192,115	-	-	7,192,115
Other financial assets										
Investments in bonds	51,433,548	-	-	51,433,548	-	279,278	51,712,826	-	279,278	51,433,548
Investments in stocks	-	-	600,059	600,059	-	-	600,059	-	-	600,509

December 31, 2015	Neither Past Due Nor Impaired Amount (Note)				Past Due But Not Impaired (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
	Investment Grade	Non-investment Grade	No Ratings	Subtotal (A)				With Objective Evidence of Impairment	With Objective Evidence of Impairment	
Available-for-sale financial assets										
Investments in bonds	$ 12,123,078	$ 1,971,847	$ -	$ 14,094,925	$ -	$ -	$ 14,094,925	$ -	$ -	$ 14,094,925
Investments in stocks	6,365,394	264,179	-	6,629,573	-	-	6,629,573	-	-	6,629,573
Others	611,269	-	1,983,951	2,595,220	-	-	2,595,220	-	-	2,595,220
Held-to-maturity financial assets										
Investments in bonds	4,207,436	-	-	4,207,436	-	-	4,207,436	-	-	4,207,436
Other financial assets										
Investments in bonds	51,446,515	-	-	51,446,515	-	234,871	51,681,386	-	234,871	51,446,515
Investments in stocks	-	-	600,659	600,659	-	-	600,659	-	-	600,659

Note: The definitions are as follows:

1. Investment Grade: Credit rating is BBB - or higher or 1-5 TCRI corporate rating of TEJ if it is a publicly traded company.
2. Non-investment Grade: Credit rating is BB + or higher or 6-9 TCRI corporate rating of TEJ if it is a publicly traded company.
3. No Ratings: No external ratings.

9) Aging analysis of overdue but not yet impaired financial assets

Delays in processing payments by borrowers and other administrative reasons could result in financial assets becoming overdue but unimpaired. Based on the Company's internal risk management policies, financial assets that are 90 days overdue are not considered impaired unless evidences show otherwise.

The aging analysis of overdue but unimpaired financial assets was as follows:

	December 31, 2016			
	Overdue Less Than One Month	**Overdue One to Three Months**	**Overdue Over Three to Six Months**	**Total**
Accounts receivable				
Credit cards	$ 157,031	$ 43,815	$ -	$ 200,846
Others	1,118	697	-	1,815
Discounts and loans				
Consumer finance	247,672	83,935	-	331,607
Corporate banking	11,270	6,109	-	17,379

	December 31, 2015			
	Overdue Less Than One Month	**Overdue One to Three Months**	**Overdue Over Three to Six Months**	**Total**
Accounts receivable				
Credit cards	$ 137,447	$ 32,177	$ -	$ 169,624
Others	1,225	725	-	1,950
Discounts and loans				
Consumer finance	243,381	79,533	-	322,914
Corporate banking	13,686	17,101	-	30,787

10) Analysis of impairment for financial assets

The Company's assessment of loans and receivables for impairment indicated no impairment loss on due from other banks, due from the Central Bank and call loans to other banks. The assessment of the other loans and receivables was as follows:

Discounts and loans

		December 31, 2016		December 31, 2015	
		Discounts and Loans	**Allowance for Doubtful Accounts**	**Discounts and Loans**	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Individually assessed for impairment	$ 1,666,013	$ 201,768	$ 1,642,625	$ 190,588
	Collectively assessed for impairment	310,587	88,853	264,011	56,511
With no objective evidence of impairment	Collectively assessed	283,637,644	2,906,673	279,691,276	2,549,761

Note: The loans are those originated by the Company and are not net of the allowance for credit losses and adjustments for discount (premium).

Receivables

		December 31, 2016		December 31, 2015	
		Receivables	**Allowance for Doubtful Accounts**	**Receivables**	**Allowance for Doubtful Accounts**
With objective evidence of impairment	Individually assessed for impairment	$ 543,382	$ 265,653	$ 7,568	$ 3,364
	Collectively assessed for impairment	1,292,073	64,253	1,451,907	66,790
With no objective evidence of impairment	Collectively assessed	16,421,021	38,340	13,871,659	43,204

Note: The receivables are those originated by the Company and are not net of the allowance for credit losses and adjustments for discount (premium).

11) Analysis of impairment for financial assets

On the basis of the result of a credit evaluation, the Company may require collaterals before drawings are made on the credit facilities. For minimized credit risk, appropriate collaterals are required on the basis of the borrowers' financials and debt service capabilities. All guarantees and appraisal procedures follow the authorities' relevant regulations and the Company's internal rules. The Company's internal rules describe the acceptable types of collaterals, appraisal methods, appraisal process, and post-approval collateral management, which require the close monitoring of the value of collaterals to ensure repayment security. The main collateral types are summarized as follows:

a) Real estate
b) Other property
c) Securities/stock
d) Deposits/certificates of deposits
e) Credit guarantee fund or government guarantee

d. Liquidity risk

1) Source and definition of liquidity risk

Liquidity risk means banks cannot provide sufficient funding for asset size growth and for meeting obligations on matured liabilities or have to make late payments to counterparties or raise emergency funding to cover funding gaps.

2) Liquidity risk management strategy and principles

a) The board of directors, the top risk supervisor of the Company, regularly reviews liquidity risk management policies. The Asset/Liability Management Committee, the top liquidity risk executive of the Company, supervises the implementation of liquidity risk monitoring and control procedures and is responsible for taking any needed remedial measures.

b) In making internal transfer pricing, performance evaluation and new product development decisions, the operation units take liquidity cost and product effectiveness and risks into consideration and align their decisions with the Company's overall liquidity risk management policies.

c) The fund procurement department implements funding strategies in accordance with the conservatism principle to diversify the funding sources and negotiate reasonable repayment periods to ensure continuing participation in the lending market, and maintains a close relationship with fund providers to strengthen financing channels and ensure the stability and reliability of fund sources.

d) To strengthen liquidity risk management, the Company has regulations requiring the daily execution of risk management procedures and the monitoring of implementation to maintain sufficient liquidity.

e) The risk management units report the Company's liquidity position to the Asset/Liability Management Committee monthly and report the Company's liquidity risk management to the board of directors regularly.

3) The liquidity risk analysis of the cash inflow and outflow of assets and liabilities held for liquidity risk refers to the amounts of the obligations for the remaining maturity periods, i.e., from the reporting date to the contract maturity dates. The maturity analysis of financial assets and financial liabilities:

a) For maintaining solvency and meeting the needs of emergency assistance arrangements, the Company holds cash and high-quality, liquid interest-bearing assets. The assets held for liquidity risk management include cash and cash equivalents, due from Central Bank and call loans to other banks, financial assets at fair value through profit or loss, discounts and loans, available-for-sale financial assets, held-to-maturity financial assets, and debt instruments with no active market, etc.

b) The Company disclosed the analysis of cash outflows from nonderivative financial liabilities by the residual maturities as of the balance sheet dates. The amounts of cash outflows are based on contractual cash flows, so some amounts may not correspond to those that shown in the consolidated balance sheets.

i. The maturity analysis of financial liabilities

	December 31, 2016					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due after One Year	Total
Due to the Central Bank and call loans to other banks	$ 4,732,107	$ 1,678,665	$ 1,123,745	$ 28,300	$ 826,495	$ 8,389,312
Securities sold under agreements to repurchase	28,239,364	589,823	44,950	-	-	28,874,137
Accounts payables	5,294,808	926,272	573,736	164,487	22,161	6,981,464
Deposits and remittance	37,753,552	46,204,095	52,523,343	108,635,052	186,502,873	431,618,915
Bank debentures	-	-	-	-	11,200,000	11,200,000
Bonds payable	-	-	-	-	1,135,884	1,135,884
Other liabilities	2,781,545	1,553,994	148,216	304,287	1,807,705	6,595,747

	December 31, 2015					
	Due in One Month	Due Between after One Month and Three Months	Due Between after Three Months and Six Months	Due Between after Six Months and One Year	Due after One Year	Total
Due to the Central Bank and call loans to other banks	$ 106,164	$ 1,263,273	$ 1,285,345	$ 226,688	$ 900,506	$ 3,781,976
Securities sold under agreements to repurchase	26,657,149	285,006	44,781	-	-	26,986,936
Accounts payables	2,235,191	1,210,736	483,168	114,679	18,224	4,061,998
Deposits and remittance	32,806,499	42,911,683	68,683,111	113,340,860	163,275,953	421,018,106
Bank debentures	-	-	-	900,000	8,700,000	9,600,000
Bonds payable	-	-	-	-	604,397	604,397
Other liabilities	2,570,840	207,660	194,655	226,025	1,590,612	4,789,792

ii. The maturity analysis of derivatives financial liabilities - forward exchange contracts and currency swap contracts

	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at gross amounts						
Cash outflow	$ 3,058,981	$ 662,483	$ 421,300	$ 176,211	$ -	$ 4,318,975
Cash inflow	3,038,160	652,804	416,978	173,221	-	4,281,163
Subtotal	20,821	9,679	4,322	2,990	-	37,812
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	-	-	-	-	-	-
	$ 20,821	$ 9,679	$ 4,322	$ 2,990	$ -	$ 37,812

	December 31, 2015					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at gross amounts						
Cash outflow	$ 2,652,738	$ 1,301,374	$ 1,218,336	$ 386,256	$ -	$ 5,558,704
Cash inflow	2,640,814	1,297,048	1,196,827	377,441	-	5,512,130
Subtotal	11,924	4,326	21,509	8,815	-	46,574
Derivative financial liabilities to be settled at net amounts						
Forward exchange contracts	1,325	-	-	-	-	1,325
	$ 13,249	$ 4,326	$ 21,509	$ 8,815	$ -	$ 47,899

iii. The maturity analysis of derivatives financial liabilities-option contracts

	December 31, 2016					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at net amounts	$ (1,318)	$ (3,018)	$ (2,567)	$ (3,924)	$ -	$ (10,827)

	December 31, 2015					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial liabilities to be settled at net amounts	$ (3,490)	$ (769)	$ (1,504)	$ 6,474	$ -	$ 711

e. Market risk

1) Source and definition of market risk

Market risk is defined as an unfavorable change in market prices (such as interest rates, exchange rates, stock prices and commodity prices), which may cause financial instruments classified in the trading book to give rise to a potential loss on or off the balance sheet.

2) Market risk management strategy and processes

The Bank implements the “Market Risk Management Standards of Union Bank of Taiwan”, which had been approved by the board of directors, as the basis of market risk management.

The market risk management processes are risk identification, risk measurement, risk monitoring and control, risk reporting and risk mitigation.

a) Risk identification: For balance sheet and off-balance sheet items, the Company identifies and assesses market risk factors of products and the investment business and subjects them to risk management, monitoring and control procedures.

b) Risk measurement: In principle, each investment or transaction has at least one risk measurement tool - such as sensitivity analysis, value at risk and stress testing, which can be applied to variables, such as fair market value and notional amounts, to quantify market risk.

c) Risk monitoring and control: Each operation unit observes the risk limit regulation stated in its operating manual and regularly monitors risk control. The department of risk management is responsible for summarizing and reporting the Bank's overall market risk monitoring.

d) Risk reporting: The risk management reports are classified as regular report, over-limit report and exception report. Regular reports are the management statements sent to the appropriate level in accordance with certain requirements. Over-limit reports are about situations in which risk limits are exceeded. Exception reports contain operation units' recommendations on how to meet temporary business needs.

e) Risk mitigation: An operation unit may take certain action to reduce risk, such as hedging, investment combination adjustment, position adjustment, setting a break-even point, halting new transactions, etc.

3) Market risk management framework

a) The board of directors: The board of directors, the Company's top market risk supervisor, reviews risk management policies, operational risk limits and the design and change of the credit risk management framework.

b) Asset/Liability Management Committee: The Asset/Liability Management Committee inspects management reports or information provided by business units and the Risk Management Division.

c) Risk Management Division: The Risk Management Division is an independent unit in charge of the work related to three pillars of Basel and of the development of market risk management tools to assess and control the risk identified through setting risk limits.

d) Operation units: Operation units perform daily market risk management work and report the market risk of investment positions and related information to the authorities.

4) Market risk measurement, control and reporting

a) The market risk of the trading book financial instruments is measured in accordance with the fair market value or evaluation model and the profit and loss situation is evaluated regularly.

b) The business units and the risk management division prepares management reports periodically and report to the appropriate level.

c) The market risk management system combines the evaluation of the front and middle offices to generate information that will assist management in risk monitoring. Moreover, the system supports the capital accrual method being used by the Bank through generating internal and external reports for management's decision, making.

5) Market risk measurement of trading book

The Company assesses the market risk exposure of the trading book in conformity with an assessment model using publicly quoted market prices or other measurement methods, including interest rate sensitivity analysis (DV01 value) and stress tests. The interest rate sensitivity analysis (DV01 value) refers to changes in market interest by 1 basis point (0.01%); the abnormal stress test system deals with market volatility and involves the regular estimation of possible losses (stress loss) and of the impact of stress test scenarios on major asset portfolios and the Company's profit and loss.

6) Banking book market risk

a) Interest rate risk

The loans and deposits and other interest rate-related items in the Bank's balance sheet, including interest rate sensitive assets and interest rate sensitive liabilities, are measured from the viewpoint of earnings because there is a risk of decrease in earnings due to adverse changes in interest rates for loans and deposits.

The earnings viewpoint mainly emphasizes the impact of interest rates on earnings, especially short-term earnings. For 2016 and 2015, assuming all market risk indicators, except interest rates, remained constant, an interest rate increase or decrease by 100bps would result in an increase or decrease in profit before tax by $(98,890) thousand and $192,597 thousand, respectively.

b) Exchange rate risk

The exchange rate risk of the banking book refers to the business operation of the International Banking Department of the Bank's Head Office and the operating funds in foreign currencies required by the ROC or local regulations; if there are adverse exchange rate changes, the income statement or cumulative translation adjustments in equity would be negatively affected.

The International Banking Department (IBD) of the Bank's Head Office is a going concern, and its operating funds are foreign currencies for business needs. However, the exchange rate risk on these funds is not significant because the percentage of the operating funds to the Bank's total assets is small, as shown by the immaterial ratio of the IBD's cumulative translation adjustment to the Banks' net worth.

7) Foreign currency rate risk information

The information of significant foreign financial assets and liabilities is as follows:

Unit: Each Foreign Currency (Thousands)/NT$ (Thousands)

	December 31, 2016		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,602,786	32.279	$ 84,015,342
JPY	19,737,491	0.2757	5,441,626
GBP	2,149	39.6192	85,123
AUD	117,932	23.3087	2,748,838
HKD	195,029	4.1622	811,757
CAD	15,701	23.9281	375,698
CNY	468,192	4.6219	2,163,913
SGD	2,547	22.3075	56,808
ZAR	740,320	2.6379	1,952,854
CHF	1,229	31.5533	38,774
THB	507	0.9011	456
NZD	23,878	7.1955	171,814
EUR	26,141	33.9091	886,431
Financial liabilities			
USD	2,179,910	32.279	70,365,333
JPY	14,405,613	0.2757	3,971,627
GBP	7,184	39.6192	284,610
AUD	117,806	23.3087	2,745,893
HKD	178,256	4.1622	741,944
CAD	15,758	23.9281	377,068
CNY	471,818	4.6219	2,180,670
SGD	2,611	22.3075	58,234
ZAR	739,785	2.6379	1,951,442
CHF	1,234	31.5533	38,941
NZD	23,918	7.1955	172,103
EUR	37,181	33.9091	1,206,766

	December 31, 2015		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
USD	$ 2,035,288	33.0660	$ 67,298,830
JPY	10,580,505	0.2747	2,906,740
GBP	3,473	49.0501	170,371
AUD	97,214	24.1712	2,349,785
HKD	179,075	4.2664	764,008
CAD	14,106	23.8399	336,283
CNY	660,206	5.0326	3,322,531

(Continued)

	December 31, 2015		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
SGD	$ 2,114	23.4162	$ 49,504
ZAR	671,410	2.1257	1,427,247
CHF	65	33.4304	2,172
THB	127	0.9162	116
NZD	23,922	22.6800	542,552
EUR	5,220	36.1478	188,697
Financial liabilities			
USD	1,706,942	33.0660	56,441,732
JPY	10,476,163	0.2747	2,878,074
GBP	3,380	49.0501	165,784
AUD	96,993	24.1712	2,344,438
HKD	146,953	4.2664	626,964
CAD	14,101	23.8399	336,167
CNY	663,883	5.0326	3,341,036
SGD	2,194	23.4162	51,383
ZAR	670,084	2.1257	1,424,428
CHF	2,020	33.4304	67,526
NZD	23,923	22.6800	542,583
EUR	34,069	36.1478	1,231,525

(Concluded)

f. Transfers of financial assets.

Most of the transferred financial assets of the Bank that are not derecognized in their entirety are securities sold under repurchase agreements. According to these transactions, the right on cash flow of the transferred financial assets would be transferred to other entities and the associated liabilities of the Bank's obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. As the Bank is restricted to use, sell or pledge the transferred financial assets throughout the term of transaction, and is still exposed to interest rate risks and credit risks on these instruments, the transferred financial assets are not derecognized in their entirety. The details of financial assets that are not derecognized in their entirety and the associated financial liabilities are as following:

December 31, 2016					
Category of Financial Assets	Carrying Amount of Transferred Financial Asset	Carrying Amount of Associated Financial Liability	Fair Value of Transferred Financial Asset	Fair Value of Associated Financial Liability	Fair Value of Net Position
Financial instruments at fair value through profit or loss Securities sold under repurchase agreements	$ 7,054,785	$ 7,073,524	$ 7,054,785	$ 7,073,524	$ (18,739)
Available-for-sale financial assets Securities sold under repurchase agreements	14,636,448	13,634,152	14,636,448	13,634,152	1,002,296
Debt instruments with no active market Securities sold under repurchase agreements	10,163,828	8,166,461	10,438,839	8,166,461	2,272,378

December 31, 2015					
Category of Financial Assets	**Carrying Amount of Transferred Financial Asset**	**Carrying Amount of Associated Financial Liability**	**Fair Value of Transferred Financial Asset**	**Fair Value of Associated Financial Liability**	**Fair Value of Net Position**
Financial instruments at fair value through profit or loss Securities sold under repurchase agreements	$ 5,080,161	$ 5,095,828	$ 5,080,161	$ 5,095,828	$ (15,667)
Available-for-sale financial assets Securities sold under repurchase agreements	3,456,421	3,704,808	3,456,421	3,704,808	(248,387)
Debt instruments with no active market Securities sold under repurchase agreements	25,051,288	18,186,300	23,710,308	18,186,300	5,524,008

g. Offsetting financial assets and financial liabilities.

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

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

December 31, 2016						
Financial Assets	**Gross Amount of Recognized Financial Asset (a)**	**Gross Amount of Recognized Financial Liabilities Offset in the Balance Sheet (b)**	**Net Amount of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instrument	**Cash Collateral Pledged**	
Derivatives	$ 442,642	$ -	$ 442,642	$ 6,187	$ -	$ 436,455

December 31, 2016						
Financial Liabilities	**Gross Amount of Recognized Financial Liabilities (a)**	**Gross Amount of Recognized Financial Assets Offset in the Balance Sheet (b)**	**Net Amount of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial instrument	**Cash Collateral Pledged**	
Derivatives	$ 39,523	$ -	$ 39,523	$ 1,639	$ -	$ 37,884

December 31, 2015						
Financial Assets	**Gross Amount of Recognized Financial Asset (a)**	**Gross Amount of Recognized Financial Liabilities Offset in the Balance Sheet (b)**	**Net Amount of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instrument	**Cash Collateral Pledged**	
Derivatives	$ 387,257	$ -	$ 387,257	$ 12,291	$ -	$ 374,966

December 31, 2015						
Financial Liabilities	Gross Amount of Recognized Financial Liabilities (a)	Gross Amount of Recognized Financial Assets Offset in the Balance Sheet (b)	Net Amount of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)	Related Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial instrument	Cash Collateral Pledged	
Derivatives	$ 54,271	$ -	$ 54,271	$ 1,634	$ -	$ 52,637

49. CAPITAL MANAGEMENT

a. Strategies to maintain capital adequacy

Under the regulations set by the authorities, the Company complies with the requirements set each year for the minimum consolidated capital adequacy ratios, including the common equity Tier I capital ratio; the Company's leverage ratio is also in accordance with the requirements of the relevant authorities. These ratios are applied in accordance with the regulations announced by the authorities.

b. Capital assessment program

The capital ratios and leverage ratios are applied, analyzed, monitored and reported regularly, and are assigned to each business unit as the target capital adequacy ratios. The business units' compliance with the ratio requirements is tracked regularly, and remedial action is taken if the capital and leverage ratio requirements are not met.

(Unit: In Thousands of New Taiwan Dollars, %)

Items (Note 2) / Year			December 31, 2016	
			Own Capital Adequacy Ratio	Consolidated Capital Adequacy Ratio
Eligible capital	Common equity Tier 1 Ratio		$ 30,419,225	$ 29,751,735
	Other Tier 1 capital		1,664,565	2,378,925
	Tier 2 capital		6,851,336	9,629,432
	Eligible capital		38,935,126	41,760,092
Risk-weighted assets	Credit risk	Standard	248,206,553	258,443,901
		Internal rating-based approach	-	-
		Asset securitization	919,153	919,153
	Operational risk	Basic indicator approach	17,384,500	19,969,925
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	22,483,575	23,893,763
		Internal model approach	-	-
	Total risk-weighted assets		288,993,781	303,226,742
Capital adequacy rate			13.47%	13.77%
Ratio of common stockholders' equity to risk-weighted assets			10.53%	9.81%
Ratio of Tier 1 capital to risk-weighted assets			11.10%	10.60%
Leverage ratio			5.68%	5.57%

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

Note 2: Formulas used were as follows:

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

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

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

4) Ratio of Common equity Tier 1 capital to risk-weighted assets = Common equity Tier 1 capital ÷ Risk-weighted assets.

5) Ratio of Tier 1 capital to risk-weighted assets = (Common equity Tier 1 capital + Other Tier 1 capital) ÷ Risk-weighted assets.

6) Leverage ratio = Tier 1 capital ÷ Exposure Measurement

(Unit: In Thousands of New Taiwan Dollars, %)

Items (Note 2) / Year			December 31, 2015	
			Own Capital Adequacy Ratio	**Consolidated Capital Adequacy Ratio**
Eligible capital	Common equity Tier 1 Ratio		$ 28,573,380	$ 28,573,960
	Other Tier 1 capital		-	-
	Tier 2 capital		7,817,292	10,537,483
	Eligible capital		36,390,672	39,111,443
Risk-weighted assets	Credit risk	Standard	232,385,234	240,019,853
		Internal rating-based approach	-	-
		Asset securitization	1,227,133	1,227,133
	Operational risk	Basic indicator approach	16,711,475	19,034,288
		Standard/alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standard	25,658,013	26,975,300
		Internal model approach	-	-
	Total risk-weighted assets		275,981,855	287,256,574
Capital adequacy rate			13.19%	13.62%
Ratio of common stockholders' equity to risk-weighted assets			10.35%	9.95%
Ratio of Tier 1 capital to risk-weighted assets			10.35%	9.95%
Leverage ratio			5.28%	5.21%

The Banking Law and related regulations require that the Bank maintain its unconsolidated and consolidated CARs at a minimum of 8.625%, the Tier 1 Capital Ratio at a minimum of 6.625% and the Common Equity Tier 1 Ratio at a minimum of 5.125%. In addition, if the Bank's CAR falls below the minimum requirement, the authorities may impose certain restrictions on the amount of cash dividends that the Bank can declare or, in certain conditions, totally prohibit the Bank from declaring cash dividends.

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

Union Bank of Taiwan

a. Credit risk

1) Asset quality

See Table 5.

2) Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

December 31, 2016			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Group U - real estate development	$ 1,728,080	4.81
2	Company B - other financial intermediation	1,623,773	4.52
3	Company V - other telecommunications market	1,499,844	4.17
4	Group D - real estate development	1,495,115	4.16
5	Group H - retail of other food and beverages	1,248,800	3.47
6	Company T - real estate development	891,380	2.48
7	Company O - financial intermediation	865,000	2.41
8	Company T - real estate development	708,000	1.97
9	Group F - manufacture of chemical material	630,185	1.75
10	Company P - renting and leasing of other transport equipment	618,000	1.72

(In Thousands of New Taiwan Dollars, %)

December 31, 2015			
Rank (Note 1)	**Company Name**	**Credit Extension Balance**	**% to Net Asset Value**
1	Group O - financial intermediation	$ 2,290,000	6.56
2	Company K - real estate development	2,077,000	5.95
3	Company B - other financial intermediation	1,980,506	5.68
4	Group D - real estate development	1,814,177	5.20
5	Group U - real estate development	1,613,000	4.62
6	Company E - real estate development	1,035,320	2.97
7	Company H - retail of other food and beverages	858,800	2.46
8	Company Z - real estate development	820,000	2.35
9	Group Q - the telecommunications market	699,898	2.01
10	Company P - renting and leasing of other transport equipment	620,914	1.78

b. Market risk

Interest Rate Sensitivity
December 31, 2016

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 303,648,998	$ 13,621,567	$ 16,719,210	$ 65,246,623	$ 399,236,398
Interest rate-sensitive liabilities	163,766,946	148,972,674	66,453,129	20,884,794	400,077,543
Interest rate-sensitive gap	139,882,052	(135,351,107)	(49,733,919)	44,361,829	(841,145)
Net worth					36,171,130
Ratio of interest rate-sensitive assets to liabilities					99.79%
Ratio of interest rate sensitivity gap to net worth					(2.33%)

December 31, 2015

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 340,390,369	$ 6,676,016	$ 8,959,094	$ 38,623,836	$ 394,649,315
Interest rate-sensitive liabilities	171,282,700	139,934,765	67,039,401	21,213,230	399,470,096
Interest rate-sensitive gap	169,107,669	(133,258,749)	(58,080,307)	17,410,606	(4,820,781)
Net worth					28,318,921
Ratio of interest rate-sensitive assets to liabilities					98.79%
Ratio of interest rate sensitivity gap to net worth					(17.02%)

Note 1: The above amounts included only New Taiwan dollar amounts held by the Bank's Head Office and branches (i.e., excluding foreign currency).

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

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

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

Interest Rate Sensitivity
December 31, 2016

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 89,734	$ 53,035	$ 118,086	$ 2,290,955	$ 2,551,810
Interest rate-sensitive liabilities	978,992	248,275	376,550	337,223	1,941,040
Interest rate-sensitive gap	(889,258)	(195,240)	(258,464)	1,953,732	610,770
Net worth					33,054
Ratio of interest rate-sensitive assets to liabilities					131.47%
Ratio of interest rate sensitivity gap to net worth					1,847.79%

December 31, 2015

(In Thousands of U.S. Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest rate-sensitive assets	$ 317,212	$ 60,169	$ 210,731	$ 1,653,907	$ 2,242,019
Interest rate-sensitive liabilities	874,159	493,844	314,260	-	1,682,263
Interest rate-sensitive gap	(556,947)	(433,675)	(103,529)	1,653,907	559,756
Net worth					243,703
Ratio of interest rate-sensitive assets to liabilities					133.27%
Ratio of interest rate sensitivity gap to net worth					229.69%

Note 1: The above amounts included only U.S. dollar amounts held by the Bank's Head Office, domestic branches, OBU and overseas branches and excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities are affected by interest rate changes.

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

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

c. Liquidity risk

1) Profitability

(%)

Items		Year Ended December 31, 2016	Year Ended December 31, 2015
Return on total assets	Before income tax	0.63	0.76
	After income tax	0.51	0.63
Return on equity	Before income tax	9.11	11.25
	After income tax	7.44	9.33
Net income ratio		26.61	31.83

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

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

Note 3: Net income ratio = Income after income tax ÷ Total net revenues

Note 4: Income before (after) income tax represents income for the years ended December 31, 2016 and 2015.

2) Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities
December 31, 2016

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 437,112,956	$ 111,586,563	$ 28,350,870	$ 38,197,116	$ 74,328,205	$ 184,650,202
Main capital outflow on maturity	529,154,086	55,838,927	52,344,727	62,887,509	137,719,453	220,363,470
Gap	(92,041,130)	55,747,636	(23,993,857)	(24,690,393)	(63,391,248)	(35,713,268)

December 31, 2015

(In Thousands of New Taiwan Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 431,591,750	$ 113,386,805	$ 37,355,636	$ 34,370,648	$ 70,907,801	$ 175,570,860
Main capital outflow on maturity	518,276,838	56,588,866	53,509,719	67,062,795	138,934,077	202,181,381
Gap	(86,685,088)	56,797,939	(16,154,083)	(32,692,147)	(68,026,276)	(26,610,521)

Note: The above amounts are book value held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance sheet amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

Maturity Analysis of Assets and Liabilities
December 31, 2016

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 2,734,149	$ 126,023	$ 91,909	$ 59,878	$ 115,787	$ 2,340,552
Main capital outflow on maturity	2,346,293	1,059,256	245,393	269,163	401,994	370,487
Gap	387,856	(933,233)	(153,484)	(209,285)	(286,207)	1,970,065

December 31, 2015

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year
Main capital inflow on maturity	$ 2,525,740	$ 507,795	$ 39,251	$ 86,615	$ 208,800	$ 1,683,279
Main capital outflow on maturity	2,525,683	1,154,159	161,841	635,230	330,450	244,003
Gap	57	(646,364)	(122,590)	(548,615)	(121,650)	1,439,276

Note: The above amounts are book value of the assets and liabilities held by the onshore branches and offshore banking unit of the Bank in U.S. dollars, without off-balance amounts (for example, the issuance of negotiable certificate of deposits, bonds or stocks).

51. ADDITIONAL DISCLOSURES

Following are the additional disclosures required by the Securities and Futures Bureau for the Bank and its investees:

a. Related information of significant transactions and investees and (b) proportionate share in investees:

1) Financing provided: The Company - not applicable; investee - Table 1 (attached)

2) Endorsement/guarantee provided: None

3) Marketable securities held: The Company - not applicable; investee - Table 2 (attached)

4) Marketable securities acquired and disposed of at costs or prices of at least $300 million or 10% of the paid-in capital: None

5) Acquisition of individual real estate at costs of at least $300 million or 10% of the paid-in capital: Table 3 (attached)

6) Disposal of individual real estate at costs of at least $300 million or 10% of the paid-in capital: None

7) Allowance of service fees to related parties amounting to at least $5 million: None

8) Receivables from related parties amounting to at least $300 million or 10% of the paid-in capital: Table 4 (attached)

9) Sale of nonperforming loans: None

10) Asset securitization under the "Regulations for Financial Asset Securitization": None

11) Other significant transactions which may affect the decisions of users of financial reports: Table 5 (attached)

12) Names, locations and other information of investees on which the Bank exercises significant influence: Table 6 (attached)

13) Derivative transactions: Note 8

b. Investment in Mainland China: None

c. Intercompany relationships and significant intercompany transactions.

The detailed information of intercompany relationships and significant intercompany transactions are referred to Table 7 (attached).

52. OPERATING SEGMENTS

The information reported to the Company's chief operating decision makers for the assessment of segment performance focuses mainly on operation and profitability. The Company's reportable segments are as follows:

a. Corporate banking unit: Corporate banking, foreign exchange business, debt management and public treasury business, etc.

b. Consumer banking unit: Consumer banking, financial management and loan business, credit card business and car-loan business, etc.

c. Wealth management and trust unit: Wealth management and trust business, etc.

d. Investing unit: Investing business in the financial market, etc.

e. Leasing unit: Leasing of vehicles, buildings, etc.

The analysis of the Bank's operating revenue and results by reportable segment was as follows:

	For the Year Ended December 31, 2016						
	Corporate Banking	Consumer Banking	Wealth Management	Investing	Leasing	Others	Total
Net interest (Note)	$ 1,169,036	$ 2,508,959	$ (286)	$ 1,452,931	$ (98,413)	$ 1,436,041	$ 6,468,268
Net commissions and fees revenues	107,952	636,668	1,094,059	160,161	(1,015)	425,664	2,423,489
Net revenues other than interest	531,466	(6,102)	3,553	416,710	2,251,983	(77,707)	3,119,903
Total net revenues	1,808,454	3,139,525	1,097,326	2,029,802	2,152,555	1,783,998	12,011,660
Provisions (reversal)	(18,109)	(12,182)	-	(32,240)	-	234,073	171,542
Operating expenses	771,806	2,331,776	544,057	198,413	1,950,717	2,732,562	8,529,331
Income before income tax	$ 1,054,757	$ 819,931	$ 553,269	$ 1,863,629	$ 201,838	$ (1,182,637)	$ 3,310,787

	For the Year Ended December 31, 2015						
	Corporate Banking	Consumer Banking	Wealth Management	Investing	Leasing	Others	Total
Net interest (Note)	$ 959,272	$ 2,168,588	$ 229	$ 1,345,426	$ (92,164)	$ 1,877,355	$ 6,258,706
Net commissions and fees revenues	95,070	637,171	972,753	187,058	(844)	388,188	2,279,396
Net revenues other than interest	550,238	(2,555)	7,525	(84,546)	2,108,170	623,788	3,202,620
Total net revenues	1,604,580	2,803,204	980,507	1,447,938	2,015,162	2,889,331	11,740,722
Provisions (reversal)	(105,479)	(128,232)	-	113,141	-	6,628	(113,942)
Operating expenses	761,960	2,155,895	473,312	188,881	1,824,537	2,609,815	8,014,400
Income before income tax	$ 948,099	$ 775,541	$ 507,195	$ 1,145,916	$ 190,625	$ 272,888	$ 3,840,264

Note: Include interest revenue of financial assets at fair value through profit or loss.

TABLE 1

UNION BANK OF TAIWAN AND SUBSIDIARIES

LOANS PROVIDED TO OTHER PARTIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Lender	Borrower	Financial Statement Account	Highest Balance for the Period	Ending Balance	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing	Business Transaction Amount	Reason for Short-term Financing	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower	Aggregate Financing Limit
												Item	Value		
1	Union Financial and Leasing International Corporation	Union Capital (Cayman) Corp.	Affiliates of receivable	$ 1,622,862 (JPY 5,866,335)	$ 1,023,836 (JPY 3,713,588)	$ 1,622,862 (JPY 5,866,335)	1.50	Business transaction	$ 1,023,836	-	$ -	-	$ -	$ 2,604,833	$ 2,604,833
			Affiliates of receivable	214,138 (US$ 6,634)	214,138 (US$ 6,634)	214,138 (US$ 6,634)	1.50	Business transaction	214,138	-	-	-	-	2,604,833	2,604,833
2	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	Affiliates of receivable	741,469 (JPY 2,689,404)	741,469 (JPY 2,689,404)	741,469 (JPY 2,689,404)	1.50	Business transaction	741,469	-	-	-	-	2,604,833	2,604,833
		Uflc Capital (Singapore) Holding Pte. Ltd.	Affiliates of receivable	1,503,861 (JPY 5,454,700)	1,503,861 (JPY 5,454,700)	1,503,861 (JPY 5,454,700)	1.50	Business transaction	1,503,861	-	-	-	-	2,604,833	2,604,833
			Affiliates of receivable	646 (US$ 20)	646 (US$ 20)	646 (US$ 20)	1.50	Business transaction	646	-	-	-	-	2,604,833	2,604,833
		Kabushiki Kaisha UCJ1 (Japan)	Affiliates of receivable	404,139 (JPY 1,465,865)	404,139 (JPY 1,465,865)	404,139 (JPY 1,465,865)	2.75	Business transaction	404,139	-	-	-	-	2,604,833	2,604,833
3	Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1 (Japan)	Affiliates of receivable	907,053 (JPY 3,290,000)	609,793 (JPY 2,211,800)	907,053 (JPY 3,290,000)	2.75	Business transaction	609,793	-	-	-	-	2,604,833	2,604,833

UNION BANK OF TAIWAN AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars and Foreign Currency, Unless Stated Otherwise)

Holding Company	Type and Issuer/ Name of Marketable Security	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2016				Note
				Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	
Union Finance and Leasing International Corporation	Stock							
	Masterlink Securities Corporation.	-	Available-for-sale financial assets	931	$ 8,361	0.06	$ 8,361	Note 4
	China Chemical Corporation	-	Available-for-sale financial assets	356	6,486	0.12	6,486	Note 4
	Hey-Song Corporation	-	Available-for-sale financial assets	4,486	144,898	1.12	144,898	Note 4
	CTBC Financial Holding Co., Ltd.	-	Available-for-sale financial assets	4,517	79,733	0.023	79,733	Note 4
	Union Capital (Cayman) Corp.	Subsidiary	Equity investment - equity method	50	509,596	100.00	509,596	Note 1
	New Asian Ventures Ltd.	Subsidiary	Equity investment - equity method	-	85,166	100.00	85,166	Note 1
	ERA Communications Co., Ltd.	-	Unquoted equity instruments	425	1,415	0.33	7,480	Note 1
	Beneficial certificates							
	Union Advantage Global FI Portfolio Fund	-	Available-for-sale financial assets	6,610	108,366		108,366	Note 4
	Union Golden Balance Fund	-	Available-for-sale financial assets	1,386	22,942		22,942	Note 4
Union Information Technology Corporation	Stock							
	ELTA Technology Co., Ltd.	-	Unquoted equity instruments	2,646	23,411	14.70	28,981	Note 3
Union Securities Investment Trust Corporation (USITC)	Stock							
	Fundrish Securities Co., Ltd.	-	Unquoted equity instruments	330	3,300	0.94	2,673	Note 2
	Beneficial certificates							
	Union Advantage Global FI Portfolio Fund	-	Financial assets at fair value through profit or loss	1,068	17,504		17,504	Note 4
	Union Emerging Asia Bond A	-	Financial assets at fair value through profit or loss	486	5,560		5,560	Note 4
	Union Money Market	-	Financial assets at fair value through profit or loss	1,459	19,092		19,092	Note 4
	Union Golden Balance Fund	-	Financial assets at fair value through profit or loss	575	9,526		9,526	Note 4
	Union Emerg Res-rich Countries HYBd A	-	Financial assets at fair value through profit or loss	800	8,728		8,728	Note 4
	Union China	-	Financial assets at fair value through profit or loss	1,006	18,151		18,151	Note 4
	Union Technology Fund	-	Financial assets at fair value through profit or loss	1,460	12,819		12,819	Note 4
	Union APEC Balanced A	-	Financial assets at fair value through profit or loss	1,001	11,301		11,301	Note 4
	Union Global ETF Fund	-	Financial assets at fair value through profit or loss	513	5,026		5,026	Note 4
	Union Asian High Yield Bond A		Financial assets at fair value through profit or loss	1,451	15,056		15,056	Note 4
Union Finance International (HK) Limited	Bond							
	HBOS Capital Funding LP	-	Available-for-sale financial assets	900 units	US$ 909		US$ 909	Note 4

(Continued)

Holding Company	Type and Issuer/ Name of Marketable Security	Issuer's Relationship with Holding Company	Financial Statement Account	December 31, 2016 Shares/Piece/ Units (In Thousands)	Carrying Value	Percentage of Ownership (%)	Market Value or Net Asset Value	Note
	Stock							
	ING Group N.V.	-	Available-for-sale financial assets	33	US$ 844		US$ 844	Note 4
	Apple Computer Inc.	-	Financial assets at fair value through profit or loss	17	US$ 2,016		US$ 2,016	Note 4
	Merck & Co., Inc.	-	Financial assets at fair value through profit or loss	12	US$ 689		US$ 689	Note 4
	EBAY Inc.	-	Financial assets at fair value through profit or loss	14	US$ 406		US$ 406	Note 4
	Penn West Energy	-	Financial assets at fair value through profit or loss	119	US$ 211		US$ 211	Note 4
	Stock							
New Asian Ventures Ltd.	Grace T.H.W. Holding Limited	-	Unquoted equity instruments	1,667	$ 64,320	0.74	US$ 2,335	Note 2
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding PTE. LTD.	Subsidiary	Equity investment - equity method	-	JPY 2,705	100.00	JPY 2,705	Note 5
	Uflc Capital (Singapore) Holding PTE. Ltd.	Subsidiary	Equity investment - equity method	-	JPY 3,767	100.00	JPY 3,767	Note 5
Union Capital (Singapore) Holding PTE. LTD.	Kabushiki Kaisha UCJ1	Subsidiary	Equity investment - equity method	9	JPY 463,212	30.55	JPY 463,212	Note 5
	Tokutei Mokuteki Kaisha SSG15	Subsidiary	Equity investment - equity method	Note 7	JPY 751,077	49.00	JPY 751,077	Note 5
Kabushiki Kaisha UCJ1	Tokutei Mokuteki Kaisha SSG15	Subsidiary	Equity investment - equity method	Preferred stock 15	JPY 781,681	51.00	JPY 781,681	Note 5
	Tokutei Mokuteki Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 9	JPY 998,201	51.00	JPY 998,201	Note 5
	Tokutei Mokuteki Kaisha SSG16	Subsidiary	Equity investment - equity method	Preferred stock 26	JPY 1,295,762	51.00	JPY 1,295,762	Note 5
Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	Subsidiary	Equity investment - equity method	21	JPY 1,053,097	69.45	JPY 1,053,097	Note 5
	Tokutei Mokuteki Kaisha SSG12	Subsidiary	Equity investment - equity method	Note 8	JPY 959,107	49.00	JPY 959,107	Note 5
	Tokutei Mokuteki Kaisha SSG16	Subsidiary	Equity investment - equity method	Note 6	JPY 1,244,999	49.00	JPY 1,244,999	Note 5

The Bank's investees had investments in companies with shares having no quoted market prices. The net asset values of these companies were based on the following:

Note 1: Union Finance and Leasing International Corporation:

a. ERA Communications Co., Ltd. - the audited statements of stockholders' equity as of December 31, 2015.
b. New Asian Ventures Ltd. and Union Capital (Cayman) Corp. - the audited statements of stockholders' equity as of December 31, 2016.

Note 2: Union Securities Investment Trust. Corporation (USITC):

Fundrish Securities Co., Ltd.- the audited statements of stockholders' equity as of December 31, 2016.

New Asian Ventures Ltd.:

Grace T.H.W. Holding Limited - unaudited statements of stockholders' equity as of December 31, 2016.

Note 3: Union Information Technology Corporation:

ELTA Technology Co., Ltd. - unaudited statements of stockholders' equity as of December 31, 2016.

Note 4: The market values of the listed and OTC stocks included in financial assets at fair value through profit or loss and available-for-sale financial assets were based on the daily closing prices as of balance sheet date. The market values of beneficial certificates were based on net asset values as of the balance sheet date.

(Continued)

Note 5: Union Capital (Singapore) Holding PTE. LTD, Uflc Capital (Singapore) Holding PTE. Ltd. and Tokutei Mokuteki Kaisha SSG15 - the audited statements of stockholders' equity as of September 30, 2016.

Kabushiki Kaisha UCJ1, Tokutei Mokuteki Kaisha SSG12 and Tokutei Mokuteki Kaisha SSG16 - unaudited statements of stockholders' equity as of September 30, 2016.

Note 6: Common stock 1 shares and preferred stock 25 thousand shares.

Note 7: Common stock 1 shares and preferred stock 14 thousand shares.

Note 8: Common stock 1 shares and preferred stock 19 thousand shares.

Note 9: Preferred stock 20 thousand shares.

(Concluded)

TABLE 3

UNION BANK OF TAIWAN AND SUBSIDIARIES

ACQUISITION OF INDIVIDUAL REAL ESTATE AT COSTS OF AT LEAST $300 MILLION OR 20% OF THE PAID-IN CAPITAL
FOR THE YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Buyer	Property	Event Date	Transaction Amount	Payment Status	Counterparty	Relationship	Information on Previous Title Transfer If Counterparty is a Related Party				Pricing Reference (Note 1)	Purpose of Acquisition	Other Terms
							Property Owner	Relationship	Transaction Date	Amount			
Tokutei Mokuteki Kaisha SSG12	Investment property - land and building	2016.1.29	JPY 3,753,600	JPY 3,753,600	サンフロンティア不動産株式会社	Non-related	Display	Display	Display	$ -	By appraisal report	Operating lease assets	Note 2
Tokutei Mokuteki Kaisha SSG16	Investment property - land and building	2016.3.30	JPY 2,402,845	JPY 2,402,845	Kasama Tekkou Kabushiki Kaisha	Non-related	Display	Display	Display	-	By appraisal report	Operating lease assets	Note 2
Union Bank of Taiwan	Property - land	2016.8.5	423,916	423,916	New Taipei City Government	Non-related	Display	Display	Display	-	Bid	Construct business office	-

Note 1: The appraisal amount of the investment property of Tokutei Mokuteki Kaisha SSG12 and Tokutei Mokuteki Kaisha SSG16 was JPY4,000,000 thousand and JPY2,790,000 thousand respectively, based on the valuations made by independent qualified professional appraisers.

Note 2: In a real estate securitized preferred stock issued by Tokutei Mokuteki Kaisha SSG12 and Tokutei Mokuteki Kaisha SSG16, Kabushiki Kaisha UCJ1and Uflc Capital (Singapore) Holding PTE. Ltd (both owned by Union Capital (Cayman) Corp.) invested.

UNION BANK OF TAIWAN AND SUBSIDIARIES

RECEIVABLES FROM RELATED PARTIES AMOUNTING TO AT LEAST NT$100 MILLION OR 20% OF THE PAID-IN CAPITAL
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Company Name	Related Party	Relationship	Ending Balance	Turnover Rate	Overdue		Amounts Received in Subsequent Period	Allowance for Impairment Loss
					Amount	Actions Taken		
Union Finance and Leasing International Corporation	Union Capital (Cayman) Corp.	Subsidiary	$ 1,237,974 (JPY 3,713,588) (US$ 6,634)	-	$ -	-	$ -	$ -
Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding PTE. LTD.	Subsidiary	741,469 (JPY 2,689,404)	-	-	-	-	-
	Uflc Capital (Singapore) Holding PTE. Ltd.	Subsidiary	1,504,507 (JPY 5,454,700) (US$ 20)	-	-	-	-	-
	Kabushiki Kaisha UCJ1 (Japan)	Subsidiary	404,139 (JPY 1,465,865)	-	-	-	-	-
Uflc Capital (Singapore) Holding PTE. LTD.	Kabushiki Kaisha UCJ1(Japan)	Subsidiary	609,793 (JPY 2,211,800)	-	-	-	-	-

UNION BANK OF TAIWAN AND SUBSIDIARIES

ASSET QUALITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(In Thousands of New Taiwan Dollars, %)

Period			December 31, 2016				
Items			Nonperforming Loan (Note 1)	Loan	Ratio of Nonperforming Loan (Note 2)	Allowance for Possible Losses	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 94,244	$ 75,045,075	0.13%	$ 1,276,561	1,056.99%
	Unsecured		26,529	57,311,972	0.05%		
Consumer banking	Housing mortgage (Note 4)		57,784	122,449,989	0.05%	1,543,728	2,671.55%
	Cash card		1,047	60,542	1.73%	2,579	246.32%
	Small scale credit loans (Note 5)		64,924	13,535,125	0.48%	167,511	258.01%
	Other (Note 6)	Secured	28,153	15,998,751	0.18%	206,915	713.04%
		Unsecured	866	2,836,563	0.03%		
Loan			273,547	287,238,017	0.10%	3,197,294	1,168.83%
			Nonperforming Receivable (Note 1)	Receivable	Ratio of Nonperforming Receivable	Allowance for Possible Losses	Coverage Ratio
Credit cards			40,754	13,959,135	0.29%	98,445	241.56%
Accounts receivable factored without recourse (Note 7)			-	799,844	0.00%	3,504	-

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

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

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.
Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Not reported as nonperforming loans or nonperforming receivables

Items / Types	December 31, 2016	
	Not Reported as Nonperforming Loan	Not Reported as Nonperforming Receivable
Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	$ 56,493	$ 234,830
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	67,968	798,500
Total	124,461	1,033,330

Note 1: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: Amounts of discharged and executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).

(Continued)

Period			December 31, 2015				
Items			**Nonperforming Loan (Note 1)**	**Loan**	**Ratio of Nonperforming Loan (Note 2)**	**Allowance for Possible Losses**	**Coverage Ratio (Note 3)**
Corporate banking	Secured		$ 39,649	$ 74,565,431	0.05%	$ 1,344,263	2,641.51%
	Unsecured		11,241	61,346,112	0.02%		
Consumer banking	Housing mortgage (Note 4)		49,720	118,445,483	0.04%	1,171,511	2,356.22%
	Cash card		922	82,809	1.11%	3,498	379.39%
	Small scale credit loans (Note 5)		29,674	11,381,172	0.26%	112,568	379.35%
	Other (Note 6)	Secured	20,229	15,049,965	0.13%	165,020	793.37%
		Unsecured	571	2,707,446	0.02%		
Loan			152,006	283,578,418	0.05%	2,796,860	1,839.97%
			Nonperforming Receivable (Note 1)	**Receivable**	**Ratio of Nonperforming Receivable**	**Allowance for Possible Losses**	**Coverage Ratio**
Credit cards			39,683	12,960,796	0.31%	106,184	267.58%
Accounts receivable factored without recourse (Note 7)			-	-	-	-	-

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

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

Note 3: Coverage ratio of loans: Allowance for possible losses for loans ÷ Nonperforming loans.
Coverage ratio of credit card receivables: Allowance for possible losses for credit card receivables ÷ Nonperforming credit card receivables.

Note 4: The mortgage loan is for house purchase or renovation and is fully secured by housing that is purchased (owned) by the borrower, the spouse or the minor children of the borrowers.

Note 5: Based on the Banking Bureau's letter dated December 19, 2005 (Ref. No. 09440010950), small-scale credit loans are unsecured, involve small amounts and exclude credit cards and cash cards.

Note 6: Other consumer banking loans refer to secured or unsecured loans that exclude housing mortgage, cash cards, credit cards and small-scale credit loans.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Ref. No. 094000494), accounts receivable factored without recourse are reported as nonperforming receivables within three months after the factors or insurance companies refuse to indemnify banks for any liabilities on these accounts.

Not reported as nonperforming loans or nonperforming receivables

Items / Types	December 31, 2015	
	Not Reported as Nonperforming Loan	**Not Reported as Nonperforming Receivable**
Amounts of executed contracts on negotiated debts not reported as nonperforming loans and receivables (Note 1)	$ 77,862	$ 325,792
Amounts of discharged and executed contracts on clearance of consumer debts not reported as nonperforming loans and receivables (Note 2)	56,829	857,944
Total	134,691	1,183,736

Note 1: Amounts of executed contracts on negotiated debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated April 25, 2006 (Ref. No. 09510001270).

Note 2: Amounts of discharged and executed contracts on clearance of consumer debts that are not reported as nonperforming loans or receivables are reported in accordance with the Banking Bureau's letter dated September 15, 2008 (Ref. No. 09700318940).

(Concluded)

UNION BANK OF TAIWAN AND SUBSIDIARIES

INFORMATION ON AND PROPORTIONATE SHARE IN INVESTEES
DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business and Product	Percentage of Ownership (%)	Carrying Value	Investment Gain (Loss)	Proportionate Share of the Bank and Its Subsidiaries in Investees				Note
						Shares (Thousands)	Pro Forma Shares (Note 2)	Total		
								Shares (Thousands)	Percentage of Ownership (%)	
Financial-related										
Union Finance and Leasing International Corporation	Taipei	Installment, leasing and accounts receivable factoring	100.00	$ 2,604,833	$ 143,194	105,000	-	105,000	100.00	Note 3
Union Finance International (HK) Limited	Hong Kong	Import and export accommodation	99.99	72,936	2,934	30,000	-	30,000	99.99	Note 3
Union Securities Investment Trust Corporation	Taipei	Securities investment trust	35.00	144,920	13,593	10,500	-	10,500	35.00	Note 3
Union Information Technology Corporation	Taipei	Software and hardware product retail and distribution services	99.99	34,753	13,842	1,000	-	1,000	99.99	Note 3
Ipass Corporation	Kaohsiung	IC card	16.25	123,320	-	13,000	-	13,000	16.25	
Taiwan Gin Lian Asset Management Corporation	Taipei	Purchase, sale and management of nonperforming loans from financial institutions	0.57	75,000	-	7,500	-	7,500	0.57	
Taiwan Financial Asset Service Corporation	Taipei	Property auction	2.94	50,000	-	5,000	-	5,000	2.94	
Huan Hua Securities Finance Co.	Taipei	Securities finance	0.53	20,055	-	2,103	-	2,103	0.53	
Sunny Asset Management Co.	Taipei	Purchase, sell and manage nonperforming loans from financial institution	6.44	3,864	-	386	-	386	6.44	
Taipei Forex Inc.	Taipei	Foreign exchange brokering	0.81	2,113	-	160	-	160	0.81	
Financial Information Service Co., Ltd.	Taipei	Information service	2.39	118,782	-	12,498	-	12,498	2.39	
Taiwan Depository & Clearing Corporation	Taipei	Financial service	0.25	13,916	-	878	-	878	0.25	
Taiwan Futures Exchange Co., Ltd.	Taipei	Futures clearing	2.04	71,250	-	6,235	-	6,235	2.04	
Taiwan Mobile Payment Corporation	Taipei	International trade, data processing service	1.00	6,000	-	600	-	600	1.00	
Nonfinancial-related										
Union Real-Estate Management Corporation	Taipei	Construction plan review and consulting	40.00	53,447	(347)	2,000	-	2,000	40.00	Note 3
Fu Hua Venture Corporation	Taipei	Investments	5.00	9,852	-	990	-	990	5.00	
Li Yu Venture Corporation	Taipei	Investment	4.76	5,837	-	607	-	607	4.76	
Lian An Service Corporation	Taipei	Security service	5.00	1,501	-	125	-	125	5.00	
Taiwan Power Corporation	Taipei	Electricity-related business	0.0012	6,124	-	395	-	395	0.0012	

Note 1: The investees' information shown above is based on audited financial reports as of December 31, 2016.

Note 2: Pro forma shares are considered if equity securities - convertible bonds, warrants, etc. - or derivative contracts such as stock options, are converted to shares.

UNION BANK OF TAIWAN AND SUBSIDIARIES

BUSINESS RELATIONSHIP AND SIGNIFICANT TRANSACTIONS AMONG THE BANK AND SUBSIDIARIES
YEAR ENDED DECEMBER 31, 2016
(In Thousands of New Taiwan Dollars)

2016

No. (Note 1)	Transacting Corporation	Counterparty	Flow of Transaction (Note 2)	Description of Transaction			
				Financial Statement Account	Amount	Trading Terms	Percentage of Total Revenue or Total Assets (Note 3)
0	The Bank	UFLIC and its subsidiaries	a	Deposits and remittances - demand deposits	$ 107,524	Note 4	0.02
0	The Bank	UFLIC and its subsidiaries	a	Deposits and remittances - checking deposits	21,114	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Deposits and remittances - time deposits	16,063	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Due from banks	144,701	Note 4	0.03
0	The Bank	UFLIC and its subsidiaries	a	Payables - accrued expenses	48	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Receivables - notes and accounts receivable	48	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Payables - interest payable	7	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Receivables - interest receivable	7	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Other liabilities	285	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Other assets	285	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Deposits and remittances - time deposits	10,743	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Other assets	10,743	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Receivables - interest receivable	773	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Payables - interest payable	773	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Discounts and loans - short-term, secured	1,623,773	Note 4	0.30
1	UFLIC and its subsidiaries	The Bank	b	Call loans and due to other banks - call loans from banks	1,623,773	Note 4	0.30
0	The Bank	UFLIC and its subsidiaries	a	Interest expense	346	Note 4	-
1	UFLIC and its subsidiaries	The Bank	b	Interest revenue	346	Note 4	-
0	The Bank	UFLIC and its subsidiaries	a	Other operating expenses	11,674	Note 4	0.10
1	UFLIC and its subsidiaries	The Bank	b	Rental revenue	11,674	Note 4	0.10
0	The Bank	UFLIC and its subsidiaries	a	Interest revenue	45,206	Note 4	0.38
1	UFLIC and its subsidiaries	The Bank	b	Interest expense	45,206	Note 4	0.38
0	The Bank	UFLIC and its subsidiaries	a	Rental revenue	1,545	Note 4	0.01
1	UFLIC and its subsidiaries	The Bank	b	Other operating expenses	1,545	Note 4	0.01
0	The Bank	UFLIC and its subsidiaries	a	Loss on financial assets and liabilities at fair value through profit or loss	48,950	Note 4	0.41
1	UFLIC and its subsidiaries	The Bank	b	Exchange gain	48,950	Note 4	0.41
1	UFLIC and its subsidiaries	The Bank	b	Other operating expenses			
0	The Bank	Union Finance International (HK) Limited	a	Deposits and remittances - demand deposits	605	Note 4	-
2	Union Finance International (HK) Limited	The Bank	b	Due from banks	605	Note 4	-
0	The Bank	Union Finance International (HK) Limited	a	Interest expense	8	Note 4	-
2	Union Finance International (HK) Limited	The Bank	b	Interest revenue	8	Note 4	-
0	The Bank	Union Finance International (HK) Limited	a	Other operating expenses	801	Note 4	-
2	Union Finance International (HK) Limited	The Bank	b	Net revenues other than interest	801	Note 4	-
0	The Bank	UIT	a	Deposits and remittances - demand deposits	36,843	Note 4	0.01
0	The Bank	UIT	a	Deposits and remittances - checking deposits	3	Note 4	-

(Continued)

No. (Note 1)	Transacting Corporation	Counterparty	Flow of Transaction (Note 2)	Description of Transaction			
				Financial Statement Account	Amount	Trading Terms	Percentage of Total Revenue or Total Assets (Note 3)
3	UIT	The Bank	b	Due from banks	$ 36,846	Note 4	0.01
0	The Bank	UIT	a	Deposits and remittances - time deposits	1,073	Note 4	-
3	UIT	The Bank	b	Other financial assets	1,073	Note 4	-
0	The Bank	UIT	a	Payables - interest payable	14	Note 4	-
3	UIT	The Bank	b	Receivables - interest receivable	14	Note 4	-
0	The Bank	UIT	a	Receivables - notes and accounts receivable	1,638	Note 4	-
3	UIT	The Bank	b	Payables - collection payable	1,638	Note 4	-
0	The Bank	UIT	a	Payables - accrued expenses	240	Note 4	-
3	UIT	The Bank	b	Receivables - accounts receivable	240	Note 4	-
0	The Bank	UIT	a	Receivables - accounts receivable	79	Note 4	-
3	UIT	The Bank	b	Payables - accrued expenses	79	Note 4	-
0	The Bank	UIT	a	Other liabilities	8	Note 4	-
3	UIT	The Bank	b	Other assets	8	Note 4	-
0	The Bank	UIT	a	Other assets	29,298	Note 4	0.01
3	UIT	The Bank	b	Other liabilities	29,298	Note 4	0.01
0	The Bank	UIT	a	Interest expense	43	Note 4	-
3	UIT	The Bank	b	Interest revenue	43	Note 4	-
0	The Bank	UIT	a	Commissions and fee revenues	121	Note 4	-
3	UIT	The Bank	b	Commissions and fee expenses	121	Note 4	-
0	The Bank	UIT	a	Net revenues other than interest	89	Note 4	-
3	UIT	The Bank	b	Other operating expenses	89	Note 4	-
0	The Bank	UIT	a	Other operating expenses	107,152	Note 4	0.89
3	UIT	The Bank	b	Net revenues other than interest	107,152	Note 4	0.89
0	The Bank	UIT	a	Payables - others	1,167	Note 4	-
3	UIT	The Bank	b	Receivables - accounts receivables	1,167	Note 4	-
0	The Bank	USITC	a	Deposits and remittances - demand deposits	1,041	Note 4	-
0	The Bank	USITC	a	Deposits and remittances - time deposits	29,700	Note 4	0.01
5	USITC	The Bank	b	Due from banks	30,741	Note 4	0.01
0	The Bank	USITC	a	Deposits and remittances - time deposits	219,200	Note 4	0.04
5	USITC	The Bank	b	Other financial assets	219,200	Note 4	0.04
0	The Bank	USITC	a	Payables - interest payable	145	Note 4	-
5	USITC	The Bank	b	Receivables - interest receivable	145	Note 4	-
0	The Bank	USITC	a	Receivables - accounts receivable	2	Note 4	-
5	USITC	The Bank	b	Payables - accrued expenses	2	Note 4	-
0	The Bank	USITC	a	Interest expense	2,872	Note 4	0.02
5	USITC	The Bank	b	Interest revenue	2,872	Note 4	0.02
0	The Bank	USITC	a	Commissions and fee revenues	22,616	Note 4	0.19
5	USITC	The Bank	b	Commissions and fee expenses	22,616	Note 4	0.19
1	UFLIC and its subsidiaries	USITC	c	Rental revenue	207	Note 4	-
5	USITC	UFLIC and its subsidiaries	c	Other operating expenses	207	Note 4	-
3	UIT	UFLIC and its subsidiaries	c	Net revenues other than interest	3,461	Note 4	0.03
1	UFLIC and its subsidiaries	UIT	c	Amortization expenses	2,990	Note 4	0.02
1	UFLIC and its subsidiaries	UIT	c	Other operating expenses	471	Note 4	-
2	Union Finance International (HK) Limited	Union Capital (Singapore) Holding Pte. Ltd.	c	Interest expense	1,319	Note 4	0.01
8	Union Capital (Singapore) Holding Pte. Ltd.	Union Finance International (HK) Limited	c	Interest revenue	1,319	Note 4	0.01

(Continued)

No. (Note 1)	Transacting Corporation	Counterparty	Flow of Transaction (Note 2)	Description of Transaction			
				Financial Statement Account	Amount	Trading Terms	Percentage of Total Revenue or Total Assets (Note 3)
3	UIT	USITC	c	Net revenues other than interest	$ 112	Note 4	-
5	USITC	UIT	c	Other operating expenses	112	Note 4	-
6	UFLIC	Union Capital (Cayman) Corp.	c	Receivables - receivables from related parties	1,244,553	Note 4	0.23
7	Union Capital (Cayman) Corp.	UFLIC	c	Payables - payables to related parties	1,244,553	Note 4	0.23
6	UFLIC	Union Capital (Cayman) Corp.	c	Interest revenue	24,941	Note 4	0.21
7	Union Capital (Cayman) Corp.	UFLIC	c	Interest expense	24,941	Note 4	0.21
7	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	c	Receivables - receivables from related parties	743,223	Note 4	0.14
8	Union Capital (Singapore) Holding Pte. Ltd.	Union Capital (Cayman) Corp.	c	Payables - payables to related parties	743,223	Note 4	0.14
7	Union Capital (Cayman) Corp.	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Receivables - receivables from related parties	1,516,560	Note 4	0.28
10	Uflc Capital (Singapore) Holding PTE. Ltd.	Union Capital (Cayman) Corp.	c	Payables - payables to related parties	1,516,560	Note 4	0.28
7	Union Capital (Cayman) Corp.	Union Capital (Singapore) Holding Pte. Ltd.	c	Interest revenue	27,330	Note 4	0.23
8	Union Capital (Singapore) Holding Pte. Ltd.	Union Capital (Cayman) Corp.	c	Interest expense	14,276	Note 4	0.12
7	Union Capital (Cayman) Corp.	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Interest expense	13,054	Note 4	0.11
8	Union Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Receivables - receivables from related parties	405,273	Note 4	0.08
9	Kabushiki Kaisha UCJ1	Union Capital (Singapore) Holding PTE. Ltd.	c	Payables - payables to related parties	405,273	Note 4	0.08
10	Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Receivables - receivables from related parties	618,106	Note 4	0.12
9	Kabushiki Kaisha UCJ1	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Payables - payables to related parties	618,106	Note 4	0.12
8	Union Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Interest revenue	12,475	Note 4	0.10
9	Kabushiki Kaisha UCJ1	Union Capital (Singapore) Holding PTE. Ltd.	c	Interest expense	12,475	Note 4	0.10
10	Uflc Capital (Singapore) Holding PTE. Ltd.	Kabushiki Kaisha UCJ1	c	Interest revenue	8,936	Note 4	0.07
9	Kabushiki Kaisha UCJ1	Uflc Capital (Singapore) Holding PTE. Ltd.	c	Interest expense	8,936	Note 4	0.07

Note 1: The transacting corporation is identified in the No. column as follows:

a. 0 for parent company.
b. Sequentially from 1 for subsidiaries.

Note 2: The flow of transactions is as follows:

a. From parent company to subsidiary.
b. From subsidiary to parent company.
c. Between subsidiaries.

Note 3: The percentage is calculated as follows:

a. Assets and liabilities: Ending balance divided by total consolidated assets.
b. Income and expenses: The amount for the year ended divided by consolidated net income.

Note 4: The terms of the transactions between the Bank and related parties were similar to those for unrelated parties.

(Concluded)