

(English Translation of Financial Report Originally Issued In Chinese)

JIH SUN INTERNATIONAL Bank, Ltd.

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND 2015

AND

INDEPENDENT AUDITOR'S REPORT

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The independent auditor's report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language independent auditor's report and financial statements, the Chinese version shall prevail.

(English Translation)
JIH SUN INTERNATIONAL Bank, Ltd.
FINANCIAL STATEMENTS
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(English Translation)
Independent Auditor's Report

The Board of Directors
JIH SUN INTERNATIONAL Bank, Ltd.

Opinion

We have audited the accompanying balance sheets of JIH SUN INTERNATIONAL Bank, Ltd. (“the Company”) as of December 31, 2016 and 2015, and the related 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 Company as of December 31, 2016 and 2015, and the financial performance and cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Statements by Publicly Held Banks.

Basis for Opinion

We conducted our audits in accordance with the Rules Governing Auditing and Certification of Financial Statements of Financial Institutions by Certified Public Accountants and generally accepted auditing standards in the Republic of China. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the Certified Public Accountant Code of Professional Ethics in Republic of China (“the Code”) and we have fulfilled our other ethical responsibilities in accordance with the Code. 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, 2106. These matters are 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.

1. Fair value assessment of financial instruments

Please refer to Note 4(F) “Financial instruments”, Note 5(B) “Major sources of uncertainty for assumptions and estimation”, and Note 6(AM) “Disclosure of financial instruments” to the financial statements.

Description of key audit matters:

Some of the financial instruments held by the Company were without a quoted price in an active market, and the fair value of such instruments were estimated based on other valuation techniques.

Therefore, valuation of financial instruments was one of the key audit matters in our audit of the Company's financial statements.

Our principal audit procedures included:

Our main audit procedures included testing of the Company's controls over the identification, measurement and management of valuation risk. For financial instruments which used quoted market price, sampling test was conducted to confirm the adequacy and correctness of the quoted price; for financial instruments without a quoted market price, sampling test was conducted to review valuation documents from the Company to confirm whether the adequacy and correctness of the valuation method. In addition, we also assessed whether the Company's presentation and disclosure of financial instruments meets relevant accounting standard.

2. Assessments on impairment loss on loans and receivables

Please refer to 4(I) "Financial asset impairment", Note 5(B) "Major sources of uncertainty for assumptions and estimation", Note 6(E) "Receivables – net" and Note 6(F) "Discounts and loans – net" to the financial statements.

Description of key audit matters:

The management of the Company assessed the loans and receivables to determine whether there was any observable evidence of impairment. Loans and receivables that demonstrated evidence of impairment will be then individually or collectively assessed. For the collectively assessed loans and receivables, the Company used a model established by the management basing on past loss experience for loans and receivables with similar credit risk characteristics; for the individually assessed loans and receivables, the Company assessed the impairment loss based on the present value of estimated future cash flows. As the aforementioned measurement is subject to significant judgments and estimation by the management, impairment of loans and receivables was one of the key audit matters in our audit of the Company's financial statements.

Our principal audit procedures included:

Our main audit procedures included understanding the methodology used by the management to assess the impairment of loans and receivables, and performing the relevant control procedures. For the individually assessed loans and receivables, we evaluated the rationality of future recoverable cash flow and the value of collateral. For the collectively assessed loans and receivables, we evaluated the integrity of loans, the model design adopted for the relevant impairment assessment and the rationality of the relevant parameters. Simultaneously, we assessed whether the allowance amount exceeded the minimum requirement as set out in related regulations by the competent authority.

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 Statements by Publicly Held Banks and for such internal control as management determines is necessary to enable the preparation of the 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 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 members of the Audit Committee) are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objective 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 auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 decision 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 Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by managements.
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 auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusion is based on the audit evidence obtained up to the date of our auditor's 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 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 appropriate audit evidence regarding the financial information of the investment accounted for using equity method to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit.

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.

From the matters communicated with those charged with governance, we determined 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 auditor's report unless law or regulation precluded 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 auditor's report are Chun-Kuang Chen and Feng-Hui Lee.

KPMG

Taipei, Taiwan (Republic of China)
March 23, 2017

Notice to Readers

The accompanying financial statements are intended only to present the financial position, financial performance and its cash flows in accordance with the Regulations Governing the Preparation of Financial Statements by Publicly Held Banks. The standards, procedures, and practices to audit such financial statements are those generally accepted and applied in the Republic of China. The independent auditor's report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language independent auditor's report and financial statements, the Chinese version shall prevail.

(English Translation of Financial Report Originally Issued In Chinese)
JIH SUN INTERNATIONAL Bank, Ltd.
BALANCE SHEETS
AS OF DECEMBER 31, 2016 AND 2015
(Expressed In Thousands of New Taiwan Dollars)

	2016.12.31		2015.12.31			2016.12.31		2015.12.31	
	Amount	%	Amount	%		Amount	%	Amount	%
ASSETS					LIABILITIES AND EQUITY				
Cash and cash equivalents (Notes 4(D) and 6(A))	\$ 3,243,870	1	4,438,608	2	LIABILITIES:				
Due from the central bank and call loans to banks (Note 6(B))	8,723,270	4	13,295,744	6	Deposits from the central bank and other banks (Note 6(N))	\$ 16,973,456	7	7,362,922	3
Financial assets at fair value through profit or loss (Notes 4(F) and 6(C))	39,554,766	17	42,549,260	19	Financial liabilities at fair value through profit or loss (Notes 4(F) and 6(O))	1,931,878	1	3,855,530	2
Securities purchased under resell agreements (Notes 4(E) and 6(D))	19,977	-	-	-	Securities sold under repurchase agreements (Notes 4(E) and 6(P))	2,600,000	1	-	-
Receivables—net (Notes 4(F) and 6(E) and 7(B))	3,046,614	1	2,605,286	1	Payables (Notes 6(Q) and 7(B))	2,052,462	1	1,700,737	1
Current tax assets (Note 4(O))	7,492	-	-	-	Current tax liabilities (Notes 4(O) and 6(R))	-	-	31,708	-
Discounts and loans—net (Notes 4(F) and 6(F) and 7(B))	146,627,780	63	139,652,040	63	Deposits and remittances (Notes 6(S) and 7(B))	182,333,714	79	182,371,622	82
Available-for-sale financial assets—net (Notes 4(F) and 6(G))	23,211,263	10	10,680,396	5	Financial debentures (Note 6(T))	5,000,000	2	5,000,000	2
Investment accounted for using equity method—net (Note 4(G) and 6(H))	53,741	-	64,024	-	Other financial liabilities (Note 6(U))	1,398,138	1	1,738,459	1
Other financial assets—net (Notes 4(F) and 6(I))	1,571,857	1	1,778,546	1	Provisions (Notes 4(Q) and 6(V))	104,340	-	126,459	-
Property and equipment—net (Notes 4(M) and 6(J))	3,481,160	2	3,520,650	2	Deferred tax liabilities (Notes 4(O) and 6(Y))	40,804	-	39,512	-
Investment property—net (Notes 4(L) and 6(K))	400,733	-	421,396	-	Other liabilities (Note 6(W))	182,118	-	219,011	-
Intangible assets—net (Notes 4(N) and 6(L))	98,084	-	118,400	-	Total Liabilities	212,616,910	92	202,445,960	91
Deferred tax assets (Notes 4(O) and 6(Y))	32,893	-	32,822	-	EQUITY:				
Other assets—net (Notes 4(P) and 6(M))	1,517,202	1	2,554,596	1	Capital (Notes 4(S) and 6(AA))	16,655,715	7	16,237,594	7
					Retained earnings:				
					Legal reserve (Note 6(AB))	2,122,519	1	1,764,129	1
					Unappropriated earnings	802,162	-	1,194,632	1
					Other equity	(606,604)	-	69,453	-
					Total Equity	18,973,792	8	19,265,808	9
					Significant Contingent Liabilities and Unrecognized Contract Commitments				
					(Note 9)				
TOTAL ASSETS	\$ 231,590,702	100	221,711,768	100	TOTAL LIABILITIES AND EQUITY	\$ 231,590,702	100	221,711,768	100

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

(English Translation of Financial Report Originally Issued In Chinese)
JIH SUN INTERNATIONAL Bank, Ltd.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan Dollars, except for earnings per share)

	For the years ended December 31				Change in %
	2016		2015		
	Amount	%	Amount	%	
Interest income (Notes 6(AE) and 7(B))	\$ 3,425,459	89	3,536,884	90	(3)
Less : Interest expenses (Notes 6(AE) and 7(B))	1,225,699	32	1,462,135	37	(16)
Net interest income (Note 6(AE))	<u>2,199,760</u>	<u>57</u>	<u>2,074,749</u>	<u>53</u>	<u>6</u>
Non-interest income					
Service fee and commissions income (Note 6(AF))	881,291	23	965,799	25	(9)
Gains (losses) on financial assets or liabilities measured at fair value through profit or loss (Note 6(AG))	587,054	15	(528,002)	(14)	211
Realized gains (losses) on available-for-sale financial assets (Note 6(AH))	19,007	1	81	-	23,365
Foreign exchange gains (losses) (Note 6(AG))	80,724	2	1,293,900	33	(94)
Impairment loss on assets (Note 6(I))	(346)	-	-	-	-
Other net non-interest income (Note 6(AI))	45,751	1	78,383	2	(42)
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method (Note 6(H))	40,020	1	50,303	1	(20)
Net revenue	<u>3,853,261</u>	<u>100</u>	<u>3,935,213</u>	<u>100</u>	<u>(2)</u>
(Reversal of) provisions for bad debt expenses and guarantee reserve (Notes 4(I)(Q) and 6(E)(F)(V))	<u>376,693</u>	<u>10</u>	<u>(119,104)</u>	<u>(3)</u>	<u>416</u>
Operating expenses:					
Employee benefits expenses (Notes 4(P) and 6(AJ))	1,409,686	36	1,511,696	38	(7)
Depreciation and amortization expenses (Note 6(AK))	123,652	3	130,189	3	(5)
Other general and administrative expenses (Note 6(AL))	1,190,421	31	1,204,887	31	(1)
Total operating expenses	<u>2,723,759</u>	<u>70</u>	<u>2,846,772</u>	<u>72</u>	<u>(4)</u>
Net income before tax from continuing operations	<u>752,809</u>	<u>20</u>	<u>1,207,545</u>	<u>31</u>	<u>(38)</u>
Income tax (expenses) benefit (Notes 4(O) and 6(Y))	<u>48,157</u>	<u>1</u>	<u>7,036</u>	<u>-</u>	<u>584</u>
Net income	<u>800,966</u>	<u>21</u>	<u>1,214,581</u>	<u>31</u>	<u>(34)</u>
Other comprehensive income:					
Components of other comprehensive income that will not be reclassified to profit or loss					
Gains (losses) on remeasurements of defined benefit plans	1,441	-	(24,035)	(1)	106
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	(245)	-	4,086	-	(106)
Subtotal of other comprehensive income that will not be reclassified to profit or loss, net of tax	<u>1,196</u>	<u>-</u>	<u>(19,949)</u>	<u>(1)</u>	<u>106</u>
Components of other comprehensive income that will be reclassified to profit or loss					
Exchange differences on translation	47,080	1	(9,244)	-	609
Unrealized gains (losses) on available-for-sale financial assets	(723,137)	(19)	30,217	1	(2,493)
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	-	-	-	-	-
Subtotal of other comprehensive income that will be reclassified to profit or loss, net of tax	<u>(676,057)</u>	<u>(18)</u>	<u>20,973</u>	<u>1</u>	<u>(3,323)</u>
Other comprehensive income	<u>(674,861)</u>	<u>(18)</u>	<u>1,024</u>	<u>-</u>	<u>(66,004)</u>
Total comprehensive income	<u>\$ 126,105</u>	<u>3</u>	<u>1,215,605</u>	<u>31</u>	<u>(90)</u>
Basic earnings per share (Dollar) (Note 4(T) and 6(AC))	<u>\$ 0.48</u>		<u>0.73</u>		

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

(English Translation of Financial Report Originally Issued In Chinese)
JIH SUN INTERNATIONAL Bank, Ltd.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan Dollars)

	Capital stock	Retained earnings			Other equity interest			Total
	Common stock	Legal reserve	Unappropriated earnings	Subtotal	Exchange differences of translation of foreign financial statements	Unrealized (losses) gains on available-for-sale financial assets	Subtotal	
Balance—January 1, 2015	\$ 15,798,890	1,388,096	1,253,442	2,641,538	1,477	47,003	48,480	18,488,908
Net income	-	-	1,214,581	1,214,581	-	-	-	1,214,581
Other comprehensive income	-	-	(19,949)	(19,949)	(9,244)	30,217	20,973	1,024
Total comprehensive income	-	-	1,194,632	1,194,632	(9,244)	30,217	20,973	1,215,605
Earnings appropriation and distribution:								
Legal reserve	-	376,033	(376,033)	-	-	-	-	-
Cash dividends—common stock	-	-	(438,705)	(438,705)	-	-	-	(438,705)
Stock dividends—common stock	438,704	-	(438,704)	(438,704)	-	-	-	-
Balance—December 31, 2015	16,237,594	1,764,129	1,194,632	2,958,761	(7,767)	77,220	69,453	19,265,808
Net income	-	-	800,966	800,966	-	-	-	800,966
Other comprehensive income	-	-	1,196	1,196	47,080	(723,137)	(676,057)	(674,861)
Total comprehensive income	-	-	802,162	802,162	47,080	(723,137)	(676,057)	126,105
Earnings appropriation and distribution:								
Legal reserve	-	358,390	(358,390)	-	-	-	-	-
Cash dividends—common stock	-	-	(418,121)	(418,121)	-	-	-	(418,121)
Stock dividends—common stock	418,121	-	(418,121)	(418,121)	-	-	-	-
Balance—December 31, 2016	\$ 16,655,715	2,122,519	802,162	2,924,681	39,313	(645,917)	(606,604)	18,973,792

Note: For the years ended December 31, 2016 and 2015, the remuneration for directors are estimated to be both \$5500, the remuneration for employees are estimated to be \$5980 and \$12,245, respectively, and the remuneration for directors and employees are deducted from the statement of comprehensive income, please refer to Note 6(AD).

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

(English Translation of Financial Report Originally Issued In Chinese)
JIH SUN INTERNATIONAL Bank, Ltd.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015
(Expressed in thousands of New Taiwan Dollars)

	For the years ended December 31	
	2016	2015
Cash flows from operating activities:		
Net income before tax	\$ 752,809	1,207,545
Adjustments:		
Adjustments to reconcile profit (loss)		
Depreciation expenses	94,686	102,822
Amortization expenses	28,966	27,367
Provisions for bad debt expense and guarantee reserve	754,366	192,091
Net (gains) losses on financial assets or liabilities at fair value through profit or loss	(403,952)	712,736
Interest expenses	1,225,699	1,462,135
Interest incomes	(3,425,459)	(3,536,884)
Dividends earned	(28,870)	(34,095)
Share of profit of subsidiaries, associates and joint ventures accounted for using equity method	(40,020)	(50,303)
Losses (gains) on disposal and retirement of property and equipment	80	761
(Reversal of) impairment loss on financial assets	346	-
Subtotal of income and expense items with no effect on cash flows	(1,794,158)	(1,123,370)
Changes in operating assets and liabilities:		
Net changes in operating assets:		
(Increase) decrease in due from the central bank and call loans to banks	(113,755)	(317,037)
(Increase) decrease in financial assets at fair value through profit or loss	1,846,021	(7,096,215)
(Increase) decrease in Securities purchased under resell agreements	(19,977)	-
(Increase) decrease in receivables	(1,373,954)	226,791
(Increase) decrease in discounts and loans	(7,262,557)	4,154,927
(Increase) decrease in available-for-sale financial assets	(13,254,004)	(2,170,764)
(Increase) decrease in held-to-maturity financial assets	-	300,000
Net changes in operating assets	(20,178,226)	(4,902,298)
Net changes in operating liabilities:		
Increase (decrease) in deposits from the central bank and other banks	9,610,534	717,669
Increase (decrease) in financial liabilities at fair value through profit or loss	(371,227)	38,528
Increase (decrease) in securities sold under repurchase agreements	2,600,000	(500,000)
Increase (decrease) in payables	373,959	(339,514)
Increase (decrease) in deposits and remittances	(37,908)	2,099,221
Increase (decrease) in provisions	(581)	(6,264)
Net changes in operating liabilities	12,174,777	2,009,640
Net changes in operating assets and liabilities	(8,003,449)	(2,892,658)
Sum of adjustments	(9,797,607)	(4,016,028)
Cash used in operating activities	(9,044,798)	(2,808,483)
Interest received	3,360,572	3,536,494
Dividends received	28,870	34,095
Interest paid	(1,247,933)	(1,465,476)
Income tax paid	(52,371)	(56,594)
Income tax refund	579,584	397,499
Net cash used in operating activities	(6,376,076)	(362,465)
Cash flows from investing activities:		
Acquisition of financial assets at cost	-	(6,000)
Purchase of property and equipment	(37,623)	(45,431)
Disposal of property and equipment	-	45
Purchase of intangible assets	(5,640)	(10,493)
(Increase) decrease in other financial assets	206,343	(996,589)
(Increase) decrease in other assets	1,038,835	(1,146,536)
Dividends received	50,303	49,425
Net cash provided by (used in) investing activities	1,252,218	(2,155,579)
Cash flows from financing activities:		
Proceeds from issuing financial debentures	-	2,500,000
Increase (decrease) in other financial liabilities	(340,321)	(625,043)
Increase (decrease) in other liabilities	(45,747)	(4,122)
Cash dividends paid	(418,121)	(438,705)
Net cash (used in) provided by financing activities	(804,189)	1,432,130
Effect of exchange rate changes on cash and cash equivalents	47,080	(9,244)
Net increase (decrease) in cash and cash equivalents	(5,880,967)	(1,095,158)
Cash and cash equivalents, at the beginning of the period	12,888,263	13,983,421
Cash and cash equivalents, at the end of the period	\$ 7,007,296	12,888,263
Components of cash and cash equivalents:		
Cash and cash equivalents reported in balance sheet	3,243,870	4,438,608
Due from the central bank and call loans to banks which meet IAS 7 definition of cash and cash equivalents	3,763,426	8,449,655
Cash and cash equivalents, at the end of the period	\$ 7,007,296	12,888,263

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

(English Translation of Financial Report Originally Issued In Chinese)

JIH SUN INTERNATIONAL Bank, Ltd.

NOTES TO FINANCIAL STATEMENTS

December 31, 2016 And 2015

(All amounts expressed in thousands of New Taiwan dollars, unless otherwise indicated)

1. Basis of Presentation

JIH SUN INTERNATIONAL Bank, Ltd. (the Company) was founded and commenced its organization on June 25, 1990, originally as “Baodao Commercial Bank Ltd.” On August 10, 1991, by the Ministry of Finance Tai-Cai-Rong No. 801625754, the Company was authorized to operate as a commercial bank. As of February 1, 1992, its paid-in capital amounted to \$10,000,000 and its establishment of the Company was approved on March 26, 1992. The operation of the Company commenced on April 9, 1992. As of December 31, 2016, its outstanding capital stock amounted to \$16,655,715.

The Company’s registered address is 1st Fl, No. 10, Section 1, Chung Ching South Road, Taipei, Taiwan, R.O.C.

The main operations of the Company include managing customers’ deposits, extending loans, acting as collection agent, and investing in government bonds, stocks, short-term bills, securities, financial debentures, and other businesses approved by the competent authority of the Central Government. The trust business includes domestic and overseas fund purchases and sales entrusted by customers, employee investments and trust, etc.

On May 16, 2001, the shareholders of the Company resolved during their meeting and changed its name to JIH SUN INTERNATIONAL Bank, Ltd., in order to expand business and promote the Company’s image. Furthermore, in order to fully utilize the economic scale and operating synergies, the shareholders also resolved during their special meeting on December 14, 2001, to establish JihSun Financial Holding Co., Ltd. via a stock swap plan with JihSun Securities Co., Ltd. The conversion date of record was February 5, 2002.

The Company’s parent company and ultimate parent company are JihSun Financial Holding Co., Ltd.

The Company had 1,485 and 1,483 director and employees, respectively, as of December 31, 2016 and 2015.

2. Approval Date and Procedures of the Financial Statements

The financial statements were approved by the board of directors on March 23, 2017.

(English Translation of Financial Report Originally Issued In Chinese)
JIH SUN INTERNATIONAL Bank, Ltd.
NOTES TO FINANCIAL STATEMENTS (CONT'D)

3. Application of New and Revised Standards, Amendments and Interpretations

- (A) Impact of the International financial Reporting Standards (“IFRSs”) endorsed by the Financial Supervisory Commission, R.O.C. (“FSC”) but not yet in effect

According to Ruling No.1050026834 issued on July 18, 2016 by FSC, public entities are required to conform to the IFRSs which were issued by the International Accounting Standards Board (IASB) before January 1, 2016 and were endorsed by the FSC on January 1, 2017 when preparing their financial statements. The related new standards, interpretations and amendments are as follows:

<u>New Standards, Amendments and Interpretations</u>	<u>Effective dates per IASB</u>
Amendment to IFRS 10, IFRS12 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
Amendment to IAS 16 and IAS 38 "Clarification of Acceptable Methods of Depreciation and Amortization"	January 1, 2016
Amendment 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 "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
Annual improvements cycle 2010-2012 and 2011-2013	July 1, 2014
Annual improvements cycle 2012-2014	January 1, 2016
IFRIC 21 "Levies"	January 1, 2014

Except for the amendments to IAS 36 "Recoverable Amount Disclosures for Non-Financial Assets", the Company believes that the adoption of the above IFRSs would not have a material impact on the financial statements.

Under the amendments, the recoverable amount is required to be disclosed only when an impairment loss has been recognized or reversed. In such cases, the amendments also require that the following be disclosed if the recoverable amount is based on fair value less costs of disposal:

- (a) the level if the fair value hierarchy within which the fair value measurement is categorized;
and

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(b) the valuation technique(s) used for fair value measurements categorized within Level 2 and 3 of the fair value hierarchy, and the key valuation assumption made.

(B) Newly released or amended standards and interpretations not yet endorsed by the FSC

As of the end of reporting date, IFRS 9 and IFRS 15 have been endorsed by the FSC and public entities are required to conform since January 1, 2018. The other newly released or amended standards and interpretations have not been endorsed by the FSC. Summary of the new standards and amendments issued by the IASB but not yet endorsed by the FSC is as follows :

<u>New, Revised or Amended Standards and Interpretations</u>	<u>Effective dates per IASB</u>
IFRS 9 "Financial Instruments"	January 1, 2018
Amendments to IFRS 10 and IAS 28 "Sales or Contributions of Assets Between an Investor and its Associate/Joint Venture."	Effective date to be determined by IASB
IFRS 15 "Revenue from Contracts with Customers"	January 1, 2018
IFRS 16 "Leases"	January 1, 2019
Amendment to IFRS 2 "Clarifications of Classification and Measurement of Share-based Payment Transactions"	January 1, 2018
Amendment to IFRS 15 "Clarifications of IFRS 15"	January 1, 2018
Amendment to IAS 7 "Disclosure Initiative"	January 1, 2017
Amendment to IAS 12 "Recognition of Deferred Tax Assets for Unrealized Losses"	January 1, 2017
Amendment to IFRS 4 "Insurance Contracts" (Applying IFRS 9 "Financial Instruments" with IFRS 4 "Insurance Contracts")	January 1, 2021
Annual improvements cycle 2014-2016	
IFRS 12 "Disclosure of Interests in other Entities"	January 1, 2017
IFRS 1 "First-time Adoption of IFRSs" and IAS 28 "Investments in Associates and Joint Ventures"	January 1, 2018
IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	January 1, 2018
Amendment to IAS 40 "Transfers of Investment Property"	January 1, 2018

The Company is still determining the potential impact of the standards listed below :

<u>Issuance / Release Dates</u>	<u>Standards or Interpretations</u>	<u>Content of amendment</u>
May 28, 2014	IFRS 15 "Revenue from	IFRS 15 establishes a five-step model for recognizing revenue that applies to all contracts with customers, and will supersede IAS 18 "Revenue," IAS11 "Contribution Contracts," and a number of revenue-related interpretations. Final amendments issued on April 12, 2016, clarify how to (i) identify performance obligations in a
April 12, 2016	Contracts with Customers"	

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Issuance / Release Dates	Standards or Interpretations	Content of amendment
November 19, 2013 July 24, 2014	IFRS 9 "Financial Instruments"	<p>contract; (ii) determine whether a company is a principal or an agent; (iii) account for a license for intellectual property (IP); and (iv) apply transition requirements.</p> <p>The new standard replaces IAS 39 "Financial Instruments: Recognition and Measurement". The key amendments are as follows:</p> <ul style="list-style-type: none"> ● Clarification and Measurement: Financial instruments are identified by contractual cash flow characteristics and the entity's operating mode for managing assets. They are classified as financial assets measured at amortized cost, financial assets measured at fair value through other comprehensive income (OCI), and financial assets at fair value through profit or loss. The gains or losses on financial liabilities measured at fair value through profit or loss caused by changes in fair value resulting from changes in its credit risk are recognized in OCI. ● Impairment: The new expected credit loss model is to replace the current incurred loss model. ● Hedge accounting: Using more principle based requirements that aligns the accounting treatment with risk management activities. This includes modifying or replacing some of the hedge accounting rules and allowing more hedging instruments and hedged items to qualify for hedge accounting.
January 13, 2016	IFRS 16 "Leases"	The new standard of accounting for lease is amended as follows:

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Issuance / Release Dates	Standards or Interpretations	Content of amendment
January 29, 2016	IAS 7 "Disclosure Initiative"	<ul style="list-style-type: none"> ● For a contract that is, or contains, a lease, the lessee shall recognize a right-of use asset and a lease liability in the balance sheet. In the statement of Profit or loss and other comprehensive income, a lessee shall present interest expense on the lease liability separately from the depreciation charge for the right-of use asset during the lease term. ● A lessor classifies a lease as either a finance lease or an operating lease, and therefore, the accounting remains similar to IAS 17. <p>The amendments will require entities to provide disclosures that enable investors to evaluate changes in liabilities arising from financing activities, including changes arising from cash flows and non-cash changes.</p>
December 8, 2016	IAS 40 "Investment Property"	<p>The amendments state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use. The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.</p>
December 8, 2016	IFRIC 22 "Foreign Currency Transactions and Advance Consideration"	<p>The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.</p>

The Company is evaluating the impact of the initial adoption of the abovementioned standards or interpretations on its financial position and financial performance. The result thereof will

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be disclosed when the Company completes its evaluation.

4. Summary of Significant Accounting Policies

The significant accounting policies have been applied consistently to all periods presented in these financial statements.

(A) Assertion of compliance

The Company's financial statements were prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks (the "Regulation.")

(B) Basis of compilation

Except for the significant balance sheet items listed as below, the financial statements are prepared on the basis of historical costs.

(a) Financial instrument measured at fair value through profit or loss (including derivative instruments);

(b) Available-for-sale financial assets measured at fair value;

(c) Defined benefit assets represent the deficit or surplus of the present value of defined benefit obligation deducted from the fair value of plan assets.

(C) Foreign currency transaction and translation of foreign currency financial statements

(a) Functional currency and presentation currency

The functional currency of the Company is the currency of the primary economic environment in which it operates. The Company's functional currency is New Taiwan Dollar, and the financial reports are presented in New Taiwan Dollar.

(b) Transactions and balances

A transaction that is denominated or requires settlement in a foreign currency, is recognized in the foreign currency. The income generated and expenses incurred are recognized in functional currency, which is translated using the exchange rate at the date of the transaction.

Monetary foreign currency financial assets and liabilities are using the spot rate on the date of the balance sheet, and the exchange difference is recognized in the profit or loss of the current period. Non monetary foreign currency financial assets and liabilities which are measured in fair value shall be translated using the spot rate on the date of the balance sheet, and the exchange difference is recognized in profit or loss in the current period. Non monetary foreign currency financial assets and liabilities which are not measured by fair value shall be translated using the historical exchange rate at the date of transaction.

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(c) Foreign operations

The assets and liabilities of foreign operations are translated to functional currency at exchange rates at the reporting date. The income and expenses of foreign operations, excluding foreign operations in hyperinflationary economies, are translated to functional currency at average rate. Foreign currency differences are recognized in other comprehensive income.

(D) Cash and cash equivalents

Cash and cash equivalents include cash on hand, checks for clearing, petty cash and due from other banks. Time deposits with maturity within one year are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes are classified as cash and cash equivalents due to they are readily convertible to fixed amount of cash and insignificant risk of changes in value. In terms of cash flow statement, cash and cash equivalents are comprised of cash and cash equivalents within balance sheet and due from central bank and call loans to bank and securities purchased under resell agreements in accordance with IAS7 "Statement of Cash Flows".

(E) Securities under repurchase / resell agreements

Securities purchased under resell agreements are treated as financing transactions. When the Company prepares the financial statements, the transactions are recognized as "securities purchased under resell agreements". The difference between the purchase price and resell price is treated as interest income.

Securities sold under repurchase agreements are treated as financing transactions. When the Company prepares the financial statements, the transactions are recognized as "securities sold under repurchase agreements". The difference between the cost and the repurchase price shall be recognized as interest expenses.

(F) Financial instruments

(a) Financial assets

All of the Company's financial assets are classified as "loans and receivables", "financial assets at fair value through profit or loss", "held-to-maturity financial assets" and "available-for-sale financial assets".

(1) Loans and receivables

Loans and receivables include the origination and non-origination. The originated loans and receivables are considered as providing money, products or services to the debtor. The non-originated loans and receivables are considered as anything except from the originated ones.

Loans and receivables are recognized initially at fair values which consist of attributable price acquired, significant transaction costs, payment or receipt of significant service fees and all other premiums or discounts. Subsequent evaluation

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uses interest method. However, in conformity with the article 10-7 and article 10-10 of the Regulations Governing the Preparation of Financial Reports by Public Banks, while the influences of discount are insignificant, the loans and receivables could be measured by initial recognized amount.

Please refer to Note 4(I) for the information of the provision for impairment of financial assets.

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

A financial asset is classified in this category if it is classified as held-for-trading or is designated as such on initial recognition. Financial assets are classified as held for trading if they have been acquired principally for the purpose of selling or repurchasing in the near term. Attributable transaction costs are recognized in profit or loss as incurred. The subsequent evaluations are measured at fair value, and changes in fair value are recognized in profit or loss. Purchases or sales of financial assets under a customary way use trade date accounting. If the financial assets are required to separate an embedded derivative instrument from its host contract respectively, but it is not possible to measure the embedded derivative instrument separately either at acquisition or at the end of a subsequent financial reporting period, or in order to eliminate or reduce the accounting inconsistencies, the financial assets will be originally designated as at fair value through profit or loss. The derivative instrument held by the Company, except for those designated as hedging instruments, are classified under these accounts.

(3) Held-to-maturity financial assets

Debt instruments which the Company has a positive intention and the ability to hold to maturity are recorded under held-to-maturity financial assets and measured at amortized cost. The financial instruments are initially recognized at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method. Purchases or sales of financial assets under a customary way are using trade date accounting.

(4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified into any of the other categories of financial assets. Available-for-sale financial assets are recognized initially at fair value plus any directly attributable transaction cost. Subsequent to initial recognition, they are measured at fair value and changes therein, except for impairment losses, interest income calculated using the effective interest method, dividend income, and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented in the unrealized valuation gain or loss on available-for-sale financial assets. When an investment is derecognized, the gain or loss accumulated in equity is reclassified to profit or loss, and is included in statement of comprehensive income account as realized gain or loss on available-for-sale financial assets. Under a customary way, purchases or sales of

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financial assets shall be recognized and derecognized, using trade date accounting.

(5) Financial assets carried at cost

Equity instruments with no quoted market price are initially recognized at whose fair value plus transaction costs. When the variances of reasonable estimation of the financial assets' fair value are considered as significance, and the probabilities of the different estimation cannot be estimated reasonably, resulting in the assets' fair value cannot be measured reliably, should adopt cost method to measure the financial assets.

(6) Derecognition of financial assets

The Company shall derecognize a financial asset when the contractual rights of the cash flows from the financial asset expires or transfers substantially all the risks and rewards of ownership of the financial assets. While the financial liabilities are discharged, cancelled, or expired, the financial liability shall be derecognized.

(7) Offsetting of financial instrument

The Company presents financial assets and liabilities on a net basis when the Company has A) the legally enforceable right to offset and B) intends to settle such financial assets and liabilities on a net basis or to realize the assets and settle the liabilities simultaneously.

(b) Financial liabilities

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

Financial liabilities at fair value through profit or loss which are held by the Company include held-for-trading and designated as at fair value through profit or loss financial liabilities. A financial liability is held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term; on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. A derivative, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument, is classified as an instrument held for trading as well. Financial liabilities held for trading include obligations to deliver financial assets borrowed by a short seller.

Financial liabilities are classified as held-for-trading and designated as at fair value through profit or loss, both of them are classified as "Financial liabilities at fair value through profit or loss". The changes of fair value changes are recognized in profit or loss, and are included in the statement of comprehensive income account as "Gain or loss on financial assets or liabilities measured at fair value through profit or loss".

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(2) Financial liabilities carried at amortized cost

Financial liabilities carried at amortized cost include liabilities not classified as financial liabilities at fair value through profit or loss, financial guarantee contracts, loan commitment with a lower-than-market interest rate and the financial liabilities incurred due to continuing engagement or that the transferring of a financial asset does not meet the requirement of derecognition.

(G) Investments in subsidiaries

When preparing an individual financial statement, the Company uses equity method in evaluating the control of an investee. Under the equity method, the net income or loss for the period of individual financial statement and other comprehensive income of individual financial statement are the same as net income or loss for the period attributed to owners of parents of consolidated statement and other comprehensive income attributed to owners of parents of consolidated statement, respectively. The equity of the individual financial statement is the same as the equity attributable to the owners of parents of the consolidated statements.

Any change in ownership interest of the subsidiaries, not resulting in loss of control, is treated as equity transaction between the owners.

(H) Revenue recognition

The interest income of the Company are recognized on an accrual basis.

The interest income from loans is evaluated by the amortized cost under effective interest rate method and also refers to The Materiality Principle of Banking Industry-Adjusting the Recognition of Interest Income from Agreed Interest Method to Effective Interest Rate Method (“the Materiality Principle”) drafted by the Bankers Association of The Republic of China. According to the Materiality Principle, loans and receivables should be adjusted from agreed interest method to effective interest method when the credit periods are specific and over one year, and when one of the following criteria is met:

- (a) The agreed interest rate of loans and receivables is zero.
- (b) Loans and receivables with stepped interest are still at the step-phase.
- (c) The non-service fees income of a single loan or receivable is over 1% of the loan facility.

Loans and receivables meeting aforesaid criteria should be calculated by the difference between interest under agreed interest method and interest under effective interest method by products. The difference is significant when the difference exceeds 5% of the sum of interest revenue and service fees income for the reporting period of the Company and these loans and receivables should be adjusted into effective interest method to calculate interest income on the reporting date.

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Service fees income and commission income are recognized on an accrual basis when the service is provided. Loan commitment fees received in advance of highly probable loan agreement is considered to be the returns of such financial instruments. Such loan commitment fees and related transaction costs should be deferred and the effective interest rate should be adjusted. For the syndicated loan, in which the Company does not keep any loan proportion (or which the Company keeps some loan proportion has the same effective interest rate as other banks participating under similar risks), the fees received will be recognized as revenue when the loan process is completed. The services fee charged by the Company which acts as coordinator is recognized as revenue when the transaction is completed. The investment management service fees charged should be recognized as revenue when the service is provided. The same service fee recognition principle is applicable to wealth management, financial consultant services and custody services. If the service fees income is linked to the performance, revenue is recognized when the performance is achieved.

(I) Financial asset impairment

(a) Financial assets carried at amortized cost (including loans and receivables)

The Company should identify on every reporting day if there exists any objective evidence for impairment loss. If material impairment indicator on a single financial asset is revealed, the impairment loss is evaluated individually; if there is non-material impairment indicator on single financial assets either respectively or collectively, the impairment loss is evaluated by portfolio method. If an evaluated single financial asset does not show any objective evidence for impairment loss, it should be organized into a financial asset category in which the financial assets have similar credit risk characteristics, and evaluate if there is impairment loss existing in this set of asset. Financial assets of which the individual impairment loss has been recognized or the impairment loss has been continuingly recognized do not require to reevaluate impairment loss by aforesaid method.

If objective evidences for impairment loss exist, the difference between the book value of financial assets and the present value of estimated future cash flow discounted by effective interest rate should be recognized as impairment loss. When impairment loss happens, the book value of financial assets is reduced by the allowance account, and recognized under the account "Bad debt expenses and guarantee reserve". In calculating impairment amount, estimated future cash flows include the recoverable amount of related and collaterals insurances.

If the amount of impairment loss reduces in the following period, and that reduction is obviously related to the events which happen after the impairment loss is recognized, the previous recognized impairment loss on financial assets will be reversed. The reversal should not make the book value of financial assets to be higher than the amortized cost when the impairment loss is not recognized and the amount of reversal are recognized in current profit or loss.

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The aforesaid objective evidence includes:

- (1) Significant financial difficulty of the issuer or obligor;
- (2) A breach of contract, such as a default or delinquency in interest or principal payments;
- (3) The lender considered the economic or legal reasons relating to the borrower's financial difficulty, and granted the borrower a concession;
- (4) It is probable that the borrower will enter bankruptcy or other financial reorganization;
- (5) The financial assets cannot be traded in an active market because of the financial difficulties of issuers;
- (6) The payment status of the borrower became worse and worse;
- (7) Changes in national or local economic conditions that correlate with defaults on the assets.

Overdue loans and non accrual loans which have been actively demanded for repayment and meet one of the following situations can be written off after reducing the retrievable parts.

- (1) Part of or all of the claims cannot be retrieved because the borrowers are declared dismissed, fled, reconciled, bankrupt or any other reason.
- (2) The appraised value of collaterals and the properties of the main- and sub- borrowers is low; no compensation will be received after reduces the amount attributed to priority hypothec; the execution expenses is close to or over the compensation that the Company will receive, which is no benefit in execution.
- (3) Collaterals and the properties of the main- and sub- borrowers could not be sold out at auction for many times and the Company could not have any benefit from foreclosure.
- (4) Overdue loans, which is over the settlement period for two years and have been actively demanded for repayment, still cannot be retrieved.

The credit card receivables, of which the lowest monthly payments are not paid over the assigned payment duration for six months, should be written off in three months (after that six months exceeding payment duration).

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The evaluation process mentioned above also refers to Financial Supervisory Commission R.O.C, Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, and the Company's Rules Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Non-accrual Loans. The minimum loan loss provision and guarantee reserve shall be the sum of 1% of the outstanding balance of Category One credit asset's claim (excluding assets that represent claims against the central and local government in Taiwan), 2% of the balance of Category Two credit assets, 10% of the balance of Category Three credit assets, 50% of the balance of Category Four credit assets, and the full balance of Category Five credit assets, compare with the loss provision calculated following IAS 39, the higher amount is considered as the basis of loss provision.

(b) Available-for-sale financial assets

When the reduction in fair value of available-for-sale financial assets are recognized in other comprehensive income and there is objective evidence that show the assets are impaired, even if the financial asset had not been derecognized, the accumulated revaluation losses recognized in other comprehensive income shall be reclassified to profit or loss.

The impairment losses of equity instruments classified as available for sale assets can't be reversed in profit or loss, and any subsequent increase in fair value are recognized in other comprehensive income. If, in a subsequent period, the fair value of debt instruments classified as available for sale assets increases and the increase can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed and recognized in current period profit or loss.

(c) Financial assets carried at cost

If there is objective evidence that financial assets carried at cost are impaired, the impairment amount of the assets is recognized in account "impairment loss on assets". However, the impairment losses should not be reversed.

(J) Non-financial asset impairment

In compliance with IAS 36 "Impairment of Assets", at each balance sheet date, the recoverable amount of non-financial asset is estimated and compared with the carrying amount whenever there is an indication that the non-financial asset may be impaired. An impairment loss is recognized in account "impairment loss on assets" when the recoverable amount, higher of fair market value or value in use, is less than the carrying amount. For assets other than goodwill, reversal of impairment loss is recognized when the recoverable amount of the asset has increased from its prior-period estimation. The carrying amount after the reversal shall not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods. Goodwill shall be tested for impairment annually regardless whether there are signs of impairment or not. The impairment losses of goodwill cannot be reversed.

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(K) Lease

In compliance with the International Accounting Standard 17, all of the Company's leases contract are classified as operating leases. Lease receivables and payables are recognized by using a straight-line basis, and accounted as "Other net non-interest income" and "Other general and administrative expenses", respectively.

(L) Investment property

Properties held by the Company are all in compliance with Article 75 of "The Banking Act of the Republic of China". Properties are classified as investment property if it is held to earn rentals or for appreciation (or both), each floor's property right is separate and the entire floor is rented or the owner occupies less than 5% of the floor. Investment properties also include buildings and land held under an operating lease and are treated in accordance with IAS 40.

Cost model is used for the subsequent measurement of the Company's investment property. After initial recognition, the depreciated method by the Company is in accordance with IAS 16. Depreciation is based on the cost of the asset minus its residual value and is calculated by using the straight-line method during its estimated useful lives. If the useful life of a component of the assets is different from the other components of the asset, its depreciation is recognized separately. Depreciation is recognized in profit or loss.

Land is not affected by depreciation, but buildings are depreciated to their residual values using straight-line method during their useful life.

The estimated useful lives are as follows:

Main part of the buildings: 50 years

The fair value of investment property is evaluated by the Appraisal Department of the Company every year.

(M) Property and equipment

The Company's property and equipment are recognized after deducting any accumulated depreciation and accumulated impairment losses from historical cost. The historical cost includes any costs directly attributable to acquiring the assets.

Subsequently expenditure of property and equipment shall be recognized as an asset or be included in the carrying amount of assets, when, and only when it is probable that the future economic benefits that are associated with property and equipment will flow to the Company, and the cost of property and equipment can be measured reliably. The carrying amount of those parts that are replaced is derecognized. The maintenance expense shall be recognized as "Other general and administrative expenses" when incurred.

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(a) Depreciation

Depreciation is determined after deducting its residual amount, and it shall be allocated on a systematic basis over its useful life. Items of property and equipment with the same useful life may be grouped in determining the depreciation charge. The remainder of the items may be depreciated separately. The depreciation charge for each period shall be recognized in profit or loss.

Land is not affected by depreciation, and equipment are depreciated to their residual values using straight line method during their useful life. Useful life are as follows:

Main part of the building: 50 years
Attachment of the building: 5 years
Computers: 3 years
Office and other equipment: 5 years
Leasehold improvement: 5 years
Decommissioning costs: in accordance with the period of lease contract.

(b) Gain or loss

The gain or loss arising from the disposition of an item of property and equipment is as the difference between the disposal proceeds and the carrying amount of the item, shall be recognized as “Other net non-interest income” in the statements of comprehensive income.

(N) Intangible assets

The Company’s intangible assets are including computer software and goodwill.

The straight-line method can be used to amortize the computer software over its useful life, and the expected maximum useful life is five years.

The goodwill shall be recognized as the amount of the consideration transferred excess of the acquisition-date amounts of the identifiable assets acquired. The amount of goodwill which derived from the business combination does not need to be amortized. Goodwill is tested for impairment periodically each year. An impairment loss is recognized when the recoverable amount is less than the carrying amount. Impairment losses of goodwill cannot be reversed.

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(O) Income Taxes

Income tax expenses include both current taxes and deferred taxes. Except for expenses related to business combinations or recognized directly in equity or other comprehensive income, all current and deferred taxes shall be recognized in profit or loss.

Current taxes include tax payables and tax deduction receivables on taxable gains (losses) for the year calculated using the statutory tax rate on the reporting date or the actual legislative tax rate, as well as tax adjustments related to prior years.

Deferred taxes arise due to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their respective tax bases. Deferred taxes shall not be recognized for the situations as follows:

- (a) Assets and liabilities that are initially recognized but are not related to the business combination and have no effect on net income or taxable gains (losses) during the transaction.
- (b) Temporary differences arising from equity investments in subsidiaries or joint ventures where there is a high probability that such temporary differences will not be reversed.
- (c) Initial recognition of goodwill.

Deferred tax assets and liabilities shall be measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities may be offset against each other if the following criteria are met:

- (a) The entity has the legal right to settle current tax assets and current tax liabilities on a net basis; and
- (b) The deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either:
 - (1) Levied by the same taxing authority; or
 - (2) Levied by different taxing authorities, but where each such authority intends to settle current tax assets and current tax liabilities (where such amounts are significant) on a net basis every year of the period of expected asset realization or debt liquidation, or where the timing of asset realization and debt liquidation is matched.

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A deferred tax asset should be recognized for the carry-forward of unused tax losses, unused tax credits, and deductible temporary differences to the extent that it is probable that future taxable profit will be available against which the unused tax losses, unused tax credits, and deductible temporary differences can be utilized. Such unused tax losses, unused tax credits, and deductible temporary differences shall also be reevaluated every year on the financial reporting date, and adjusted to reduce the related tax benefit when the unused tax losses, unused tax credits, and deductible temporary differences are not probable to be utilized.

(P) Employee benefit

(a) Retirement Plan

The Company has a defined benefit and contributory retirement plan for its employees. Under this plan, contribution is made annually to an independent pension fund at rates ranging from 4% to 8.5% of the employees monthly salary. In addition, the pension fund is independently managed by Pension Fund Administration Committee.

After the company is covered by the Labor Standards Law, in addition to voluntary Pension Contribution of the original measures, all of them have returned to person. The Company contributes monthly no less than 2% of gross salary to the employee pension fund which is deposited into a designated depository account with the Bank of Taiwan (previously known as Central Trust of China). Pension funds will be offered to employees according to the number of the years served in the company with two units per year. Those who work for longer than 15 years will be offered one unit a year. The highest they could receive would be 45 units. The units of less than 6 months will be counted as half year, and those units which are longer than six months will be counted as one year.

Effective from May 1, 1997, the Company is covered by the Labor Standards Law and as such, its pension fund contribution conforms to the Labor Standards Law. The Labor Pension Act of R.O.C. ("the Act"), effective from July 1, 2005, adopts a defined contribution pension plan. In accordance with the Act, employees of the Company who were hired before July 1, 2005 may elect to be subject to either the Act and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. Employees who were hired by the Company after July 1, 2005, are required to be covered by the pension plan as defined by the Act. For employees subject to this Act, the Company is required to make monthly cash contributions to the employees' individual pension accounts at the rate of not less than 6% of the employees' monthly wages and deposit the contribution in a personal retirement benefit account.

The Company recognizes prepaid pension fund in the balance sheet as the net amount of fair value of pension assets, less the actuarial present value of the defined benefit obligation. The calculation of defined benefit obligation is performed annually by an actuary using the projected unit credit method. The actuarial present value of defined benefit obligation is calculated by discounting future cash flow at the yield rate of high-quality corporate bond or government bond, that have maturity dates approximating the term of the obligation and that are denominated in the same currency in which the benefits are expected to be paid.

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The Company recognizes gains or losses on remeasurements of defined benefit plans in other comprehensive income comprising: A) actuarial gains and losses; B) returns on plan assets, excluding amounts included in net interest on the net defined benefit liability (asset); and C) any change in the effect of the asset ceiling. The gains or losses on remeasurements of defined benefit plans in other comprehensive income shall be recognized immediately in retained earnings.

The past service costs which are due to the modification of retirement plan are currently recognized as personnel expenses in profit or loss.

(b) Short-term employee benefit

The Company charges the short-term and non-discounted benefit expectedly paid in near future to current expenses over the periods services are rendered by employees.

(c) Preferential savings rate for employee

The Company offers current staffs a fixed amount of preferential savings rate. The difference between the preferential savings rates and the market rates is the scope of employee benefits. According to the Regulations Governing the Preparation of Financial Reports by Publicly Held Banks, the interest paid for preferential savings rate plan is recorded monthly under accrual basis. The difference between the preferential savings rates and the market rates is recognized under "employee benefit expenses".

(Q) Provisions

The Company recognizes the provision under the circumstances below:

- (a) An entity has a present obligation, legal or constructive, as a result of a past event;
- (b) It is probable that an outflow of economic benefits resources will be required to settle the obligation; and
- (c) The amount of the obligation can be estimated reliably.

The amount recognized as a provision should be the estimate of the expenditure required to settle the present obligation at the end of the reporting period. The individual provisions of the Company are the best estimates of the individual results.

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(R) Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss, once a specified debtor fails to make payment in accordance with the original or modified terms of a debt instrument at maturity date.

The Company recognizes financial guarantee liabilities initially at their fair value at the date of providing guarantee. The Company receives commission income with arm's-length transaction at contract date; this is, the income could represent the fair value of financial guarantee contract. The advanced service fee is recognized as deferred item and amortized by straight-line method over the contract period of the financial guarantee.

After initial recognition, the Company measures a financial guarantee contract at the higher of the amount determined in accordance with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets", and the amount initially recognized less, when appropriate, cumulative service fee recognized in accordance with IAS 18 "Revenue".

The aforesaid estimations are based on the experiences of trading, the database of historical losses, and the management's judgments.

The amount of increased liability from the financial guarantee contracts shall be recognized as "Provisions for bad debt expenses and guarantee reserve".

(S) Equity

The new issued capital shall be attributed as incremental cost, and the net amount of cost after deducting the related income tax expense being excluded from the equity. Stock dividends of common stock are recognized in the year which the Company's shareholders' meeting approved.

(T) Earnings per share

The Company discloses the basic EPS attributed to the common stock holders. EPS of the Company is calculated as dividing profit and loss attributed to common stock stockholders by the weight-average number of common shares outstanding of the period.

(U) Operating segments

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the Company). The segment's operating results are reviewed regularly by the Company's chief operating decision maker to make decisions pertaining to the allocation of the resources to the segment and to assess its performance. The Company provides financial information to the board of directors each month for reviewing the operational performance and the plan on resource allocation. The resource allocation plan is executed by every operational segment after getting the approval from the board of directors, thus, the chief operating decision maker of the Company is the board of directors.

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5. Primary Sources of Significant Accounting Judgments, and Uncertainty of Estimates and Assumptions

The financial statements are influenced by accounting policies, assumptions and estimates. When preparing the financial statements, the management needs to make appropriate professional judgments, estimates and assumptions, and will affect the adoption of accounting policies, reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from these estimates.

Management continued to monitor the accounting assumptions, estimates and judgments. Management recognized the changes in the accounting estimates during the period and the impact of the changes in the accounting estimates in the next period.

(A) Critical judgments in applying accounting policies

Other than determination of estimation (please refer to Note 5(B) as shown below), significant judgment made by the Company's management when determining a recognized amount in the financial report under the application of the Company's accounting policies is as follows.

Financial assets classification

The Company's management should define the classification of financial assets. Different classification of financial assets would impact the accounting methods, the Company's financial position and financial performance.

(B) Major sources of uncertainty for assumptions and estimation

The Company has made proper assumptions and estimations toward book value of assets and liabilities which may have significant risk due to significant adjustments in the next fiscal year. The Company's assumption and estimation are made by following IFRS as accepted by FSC, and are considered as the best estimation. Estimation and assumption are made based on the past experience and other factors, encompassing the expectation for the future period, and are evaluated continuously.

(a) Impairment loss on loans

Loans are reviewed quarterly by the Company to assess impairment. When the Company decides whether to recognize impairment loss, they mainly assess if there are any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable changes in debtor payment status, or sovereign or local economic situation related to debt payment in arrears. When analyzing expected cash flow, the estimates by the management are based on past losses experience on assets of similar credit risk characteristics. The Company periodically reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected loss and actual loss.

(b) Fair value of financial instruments

A valuation method is used for determination of financial instrument's fair value which is without active market or without quotation in an active market. Under this situation,

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the valuation of fair value is based on the observation of similar financial instruments with observable information. If no quotation can be referred to, fair value of a financial instrument would be determined under proper assumptions. When valuation model is applied for the determination of fair value, all models should be aligned in order to ensure that the outcome reflects actual information and market price. Observable information is applied mostly in models; however, certain items, such as credit risk (the risk bears by the Company itself and the counterparty) should rely on the management's estimation toward fluctuation and correlation. Please refer to Note 6(AM) for information on financial instruments sensitivity analyses.

For measurement on assets and liabilities by the Company, the market observable value are used as much as possible. Level of fair value hierarchy is based on the evaluation of the input value of the technology used in the following:

Level 1: Determined as the quoted price for identical assets or liabilities in an active market (unadjusted quoted price).

Level 2: Determined as the observable price other than quoted price in an active market, including an observable input obtained in an active market, either directly (i.e., as prices) or indirectly (i.e., derived from prices).

Level 3: Input for a fair value measurement for assets or liabilities is not based on obtainable data from the market (an unobservable input).

The Company recognizes the transfer on the reporting date when the fair value level are changed or adjusted.

(c) Post-employment benefits

The present value of post-employment benefits obligation is based on actuarial results of multiple assumptions. Any assumption changes will affect the carrying amount of post-employment benefits obligation.

The assumptions that determine net pension cost (revenue) include discount rate. The Company determines an appropriate discount rate at the end of each year, and uses the discount rate to calculate the present value of future cash outflow needed to cover the post-employment benefits obligation. To determine an appropriate discount rate, the Company should take into account the interest rate of high-quality corporate bond or government bond, which should be issued in the same currency as that of post-employment benefits payments. The maturity of the bonds should also match the period of pension liability.

Other significant assumptions of post-employment benefits obligation are based on current market conditions.

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6. Summary of Major Accounts

(A) Cash and cash equivalents

	<u>2016.12.31</u>	<u>2015.12.31</u>
Cash on hand and revolving funds	\$ 1,899,991	1,316,395
Checks for clearing	542,727	224,162
Due from other banks	801,152	2,898,051
Total	<u>\$ 3,243,870</u>	<u>4,438,608</u>

(B) Due from the central bank and call loans to banks

	<u>2016.12.31</u>	<u>2015.12.31</u>
Due from the central bank - general account	\$ 1,331,167	2,641,946
Due from the central bank - deposit reserve	4,959,844	4,846,089
Financial center	509,261	515,348
Call loans to banks	1,922,998	5,292,361
Total	<u>\$ 8,723,270</u>	<u>13,295,744</u>

The reserves for deposits are calculated at prescribed rates, using the average monthly balances of various deposit accounts and are appropriated and deposited in the reserve account of the Central Bank of the Republic of China (Taiwan). Deposits in “Due from the central bank - deposit reserve” are interest-bearing and cannot be withdrawn except for the monthly adjustment to the required reserve permitted by relevant regulations.

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

The financial assets held for trading and financial asset designated as at fair value through profit and loss by the Company are as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Commercial paper	\$ 10,471,442	3,466,648
Government bonds	5,698,368	9,445,388
Corporate bonds	1,984,921	3,752,645
Financial debentures	1,988,965	1,352,499
Convertible corporate bonds	4,169	9,415
Listed and TPEX securities	16,614	30,706
Negotiable certificates of deposit	17,800,000	21,652,809
Beneficiary certificates	-	29,221
Derivative instruments	1,590,287	2,809,929
Total	<u>\$ 39,554,766</u>	<u>42,549,260</u>

(a) The sum of financial assets shown above held under repurchase agreement please refers to Note 6(P).

(b) Parts of the above financial assets held for trading are restricted, and please refer to Note 8 for further details.

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(D) Securities purchased under resell agreements

	2016.12.31	2015.12.31
Securities purchased under resell agreements	\$ 19,977	-
Par value	20,000	-
Due to resell term	2017.01.05~2017.01.06	-
Due to interest rate interval	0.50% ~ 0.52%	-
Agreed amount of resell securities	\$ 19,987	-

(E) Receivables – net

	2016.12.31	2015.12.31
Accounts receivable for credit cards	\$ 680,186	756,215
Accounts receivable	240,769	119,996
Interest receivable	460,576	386,835
Acceptance receivable	68,063	113,068
Factoring receivables - without recourse	757,731	183,745
Receivable from default settlement amount of derivative product	854,663	79,920
Other receivables - financial holdings	379,709	896,989
Other receivables	157,554	166,842
Subtotal	3,599,251	2,703,610
Less: Allowance for bad debts	(552,637)	(98,324)
Total	\$ 3,046,614	2,605,286

The changes in allowance for bad debts are as follows:

	2016	2015
Beginning balance	\$ 98,324	61,098
Provision for bad debt	489,087	41,052
Recovery of bad debt	15,748	17,243
Current written off	(40,752)	(22,407)
Exchange rate effect	(9,770)	1,338
Ending balance	\$ 552,637	98,324

Items		Receivables	Allowance for bad debts
		2016.12.31	2016.12.31
With the objective evidence of impairment	Individual assessment of impairment	864,617	530,766
	Collective assessment of impairment	7,344	3,136
Without the objective evidence of impairment	Collective assessment of impairment	2,727,290	18,735
Total		3,599,251	552,637

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Items		Receivables	Allowance for bad debts
		2015.12.31	2015.12.31
With the objective evidence of impairment	Individual assessment of impairment	95,340	78,512
	Collective assessment of impairment	7,359	3,191
Without the objective evidence of impairment	Collective assessment of impairment	2,600,911	16,621
Total		2,703,610	98,324

(F) Discounts and loans — net

	2016.12.31	2015.12.31
Export bills negotiated	\$ 53,596	45,517
Accounts receivable financing	1,709	27,091
Short-term loans	20,475,893	17,464,135
Short-term secured loans	18,587,372	16,980,327
Medium-term loans	26,318,565	21,513,295
Medium-term secured loans	12,040,015	10,975,336
Long-term loans	870,839	1,053,191
Long-term secured loans	69,999,174	73,074,472
Non-accrual loans	223,114	272,226
Subtotal	148,570,277	141,405,590
Less: Allowance for bad debts	(1,897,223)	(1,720,232)
Less: Adjustment of discount and premium	(45,274)	(33,318)
Total	<u>\$ 146,627,780</u>	<u>139,652,040</u>

Please refer to Note 6(AM) for the industry information.

For the years ended December 31, 2016 and 2015, suspended accrual of interest for all of non-accrual accounts amounted to \$3,845 and \$2,005, respectively.

For the years ended December 31, 2016 and 2015, there were no loans written off without prior recourse.

The changes in allowance for bad debts are as follows:

	2016	2015
Beginning balance	\$ 1,720,232	1,583,077
Provision for bad debt	286,817	153,163
Recovery of bad debts	(6,189)	(4,992)
Recovery of bad debts-Debt negotiation	44,910	42,317
Transfer to counterfeit account	968	389
Current write-off	(144,115)	(62,102)
Exchange rate effect	(5,400)	8,380
Ending balance	<u>\$ 1,897,223</u>	<u>1,720,232</u>

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Discounts and loans should be included in the total amounts of assessment of impairment to be determined its allowance for bad debts, which are as follows:

Items		Loans	Allowance for bad debts
		2016.12.31	2016.12.31
With the objective evidence of impairment	Individual assessment of impairment	1,554,634	142,342
	Collective assessment of impairment	1,054,644	217,121
Without the objective evidence of impairment	Collective assessment of impairment	145,960,999	1,537,760
Total		148,570,277	1,897,223

Items		Loans	Allowance for bad debts
		2015.12.31	2015.12.31
With the objective evidence of impairment	Individual assessment of impairment	1,482,250	173,572
	Collective assessment of impairment	1,088,241	192,747
Without the objective evidence of impairment	Collective assessment of impairment	138,835,099	1,353,913
Total		141,405,590	1,720,232

(Reversal of) provision for bad debts expenses and guarantee reserve are as follows:

	2016	2015
Provision for bad debts expenses—Discounts and loans	\$ 286,817	153,163
(Reversal of) provision for bad debts expenses—Receivables	489,087	41,052
(Reversal of) provision for bad debts expenses—Guarantee reserve	(21,538)	(2,124)
Recovery of bad debts	(377,673)	(311,195)
Total	\$ 376,693	(119,104)

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(G) Available-for-sale financial assets – net

	<u>2016.12.31</u>	<u>2015.12.31</u>
Government bonds	\$ 10,289,228	3,415,502
Corporate bonds	6,236,815	7,261,579
Listed and TPEX securities	3,625	3,315
Financial debentures	6,494,788	-
Negotiable certificates of deposit	186,807	-
Total	<u>\$ 23,211,263</u>	<u>10,680,396</u>

The Company holds the available-for-sale financial assets sold under repurchase agreement, please refer to Note 6(P).

(H) Investment accounted for using equity method – net

	<u>2016.12.31</u>		<u>2015.12.31</u>	
	<u>Percentage of Ownership (%)</u>	<u>Book value</u>	<u>Percentage of Ownership (%)</u>	<u>Book value</u>
Subsidiary—JihSun Life Insurance Agency Co., Ltd.	99	<u>\$ 53,741</u>	99	<u>64,024</u>

Share of profit of subsidiaries, associates or joint ventures accounted for using equity method for the years ended December 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
JihSun Life Insurance Agency Co., Ltd.	<u>\$ 40,020</u>	<u>50,303</u>

Please refer to Note 13(B) for related information on investee companies.

(I) Other financial assets – net

	<u>2016.12.31</u>	<u>2015.12.31</u>
Short term advances	\$ 374,083	360,199
Pledged Deposit	785,570	1,005,800
Financial assets carried at cost—net	412,201	412,547
Other	3	-
Total	<u>\$ 1,571,857</u>	<u>1,778,546</u>

Parts of the above financial assets are restricted, please refer to Note 8 for further details.

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Details of financial assets carried at cost are as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Taipei Forex Inc.	\$ 800	800
Dah Chung Bills Finance Co., Ltd.	268,644	268,644
D.C. International Co., Ltd.	48,276	48,276
Hanrung Venture Capital Co., Ltd.	2,830	2,830
Financial Informational Co., Ltd.	46,890	46,890
Sunny Asset Management Corp.	985	985
Financial Assets Service Co., Ltd.	50,000	50,000
Victor Taichung Machinery Works Co., Ltd.	1,060	1,060
Taiwan mobile payment Co., Ltd.	6,000	6,000
Less: Accumulated impairment	(13,284)	(12,938)
Total	<u>\$ 412,201</u>	<u>412,547</u>

Note: The Company recognized impairment loss \$346 for the year ended December 31, 2016, because there was an evidence of impairment on Hanrung Venture Capital Co., Ltd.

(J) Property and equipment – net

<u>2016.12.31</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Land	\$ 2,387,548	-	2,387,548
Buildings	1,858,000	860,295	997,705
Transportation equipment	1,712	1,708	4
Other equipment	774,191	708,769	65,422
Leasehold improvements	282,506	255,637	26,869
Prepayment for equipment	3,612	-	3,612
Total	<u>\$ 5,307,569</u>	<u>1,826,409</u>	<u>3,481,160</u>

<u>2015.12.31</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Land	\$ 2,380,968	-	2,380,968
Buildings	1,843,653	816,254	1,027,399
Transportation equipment	1,825	1,817	8
Other equipment	789,687	718,043	71,644
Leasehold improvements	276,223	236,672	39,551
Prepayment for equipment	1,080	-	1,080
Total	<u>\$ 5,293,436</u>	<u>1,772,786</u>	<u>3,520,650</u>

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Changes in the cost are as follows:

	2016.1.1	Current increase	Current decrease (Note 1)	Reclassification (Note2)	Others (Note3)	2016.12.31
Land	\$ 2,380,968	-	-	-	6,580	2,387,548
Buildings	1,843,653	2,237	-	1,213	10,897	1,858,000
Transportation equipment	1,825	-	(113)	-	-	1,712
Other equipment	789,687	20,343	(36,830)	991	-	774,191
Leasehold improvements	276,223	4,981	(1,014)	2,316	-	282,506
Prepayment for equipment	1,080	8,440	-	(2,898)	(3,010)	3,612
Construction in progress	-	1,622	-	(1,622)	-	-
Total	\$ 5,293,436	37,623	(37,957)	-	14,467	5,307,569

Note 1: For the year ended December 31, 2016, the decrease in costs includes \$37,957 from the abandonment of property and equipment.

Note 2: For the year ended December 31, 2016, the reclassification in costs includes buildings transferred out to leasehold improvements \$694 and prepayment for equipment transferred out to buildings and other equipment \$1,907 and \$991, respectively, and construction in progress transferred out to leasehold improvements \$1,622.

Note 3: For the year ended December 31, 2016, the other change in costs includes prepayment for equipment transferred out to intangible assets — computer software \$3,010 and investment property transferred into land \$6,580 and buildings \$10,897.

	2015.1.1	Current increase	Current decrease (Note 1)	Reclassification	Others (Note2)	2015.12.31
Land	\$ 2,380,968	-	-	-	-	2,380,968
Buildings	1,840,542	3,111	-	-	-	1,843,653
Transportation equipment	1,909	-	(84)	-	-	1,825
Other equipment	825,393	26,975	(62,681)	-	-	789,687
Leasehold improvements	264,886	8,666	(3,521)	6,192	-	276,223
Prepayment for equipment	370	6,679	-	-	(5,969)	1,080
Construction in progress	6,192	-	-	(6,192)	-	-
Total	\$ 5,320,260	45,431	(66,286)	-	(5,969)	5,293,436

Note 1: For the year ended December 31, 2015, the decrease in costs includes \$645 from the sale of assets and \$65,641 from the abandonment of property and equipment.

Note 2: For the year ended December 31, 2015, the other change in costs includes prepayment for equipment transferred out to intangible assets — computer software \$5,969.

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Changes in accumulated depreciation are as follows:

	<u>2016.1.1</u>	<u>Depreciation</u>	<u>Current decrease (Note 1)</u>	<u>Reclassification (Note2)</u>	<u>Others (Note3)</u>	<u>2016.12.31</u>
Buildings	\$ 816,254	41,449	-	(19)	2,611	860,295
Transportation equipment	1,817	4	(113)	-	-	1,708
Other equipment	718,043	27,476	(36,750)	-	-	708,769
Leasehold improvements	236,672	19,960	(1,014)	19	-	255,637
Total	<u>\$ 1,772,786</u>	<u>88,889</u>	<u>(37,877)</u>	<u>-</u>	<u>2,611</u>	<u>1,826,409</u>

Note1: For the year ended December 31, 2016, the decrease in accumulated depreciation includes \$37,877 from the abandonment of property and equipment.

Note2: For the year ended December 31, 2016, the reclassification in accumulated depreciation includes buildings transferred out to leasehold improvements \$19.

Note3: For the year ended December 31, 2016, the other change in accumulated depreciation includes investment property transferred into buildings \$2,611.

	<u>2015.1.1</u>	<u>Depreciation</u>	<u>Current decrease (Note 1)</u>	<u>Reclassification</u>	<u>Others</u>	<u>2015.12.31</u>
Buildings	\$ 773,697	42,557	-	-	-	816,254
Transportation equipment	1,887	14	(84)	-	-	1,817
Other equipment	749,444	31,009	(62,410)	-	-	718,043
Leasehold improvements	216,284	23,374	(2,986)	-	-	236,672
Total	<u>\$ 1,741,312</u>	<u>96,954</u>	<u>(65,480)</u>	<u>-</u>	<u>-</u>	<u>1,772,786</u>

Note1: For the year ended December 31, 2015, the decrease in accumulated depreciation includes \$576 from the sale of assets and \$64,904 from the abandonment of property and equipment.

(K) Investment property – net

<u>2016.12.31</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Land	\$ 211,716	-	211,716
Buildings	295,438	106,421	189,017
Total	<u>\$ 507,154</u>	<u>106,421</u>	<u>400,733</u>

<u>2015.12.31</u>	<u>Cost</u>	<u>Accumulated depreciation</u>	<u>Net</u>
Land	\$ 218,296	-	218,296
Buildings	306,335	103,235	203,100
Total	<u>\$ 524,631</u>	<u>103,235</u>	<u>421,396</u>

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Changes in the cost are as follows:

	<u>2016.1.1</u>	<u>Current increase</u>	<u>Current decrease</u>	<u>Others (Note)</u>	<u>2016.12.31</u>
Land	\$ 218,296	-	-	(6,580)	211,716
Buildings	306,335	-	-	(10,897)	295,438
Total	<u>\$ 524,631</u>	<u>-</u>	<u>-</u>	<u>(17,477)</u>	<u>507,154</u>

Note: For the year ended December 31, 2016, the decrease in costs of investment property includes \$17,477 transferred out to property and equipment.

	<u>2015.1.1</u>	<u>Current increase</u>	<u>Current decrease</u>	<u>Others</u>	<u>2015.12.31</u>
Land	\$ 218,296	-	-	-	218,296
Buildings	306,335	-	-	-	306,335
Total	<u>\$ 524,631</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>524,631</u>

Changes in accumulated depreciation are as follows:

	<u>2016.1.1</u>	<u>Depreciation</u>	<u>Current decrease</u>	<u>Others (Note)</u>	<u>2016.12.31</u>
Buildings	<u>\$ 103,235</u>	<u>5,797</u>	<u>-</u>	<u>(2,611)</u>	<u>106,421</u>

Note: For the year ended December 31, 2016, the decrease in accumulated depreciation of investment property – buildings includes \$2,611 transferred out to property and equipment.

	<u>2015.1.1</u>	<u>Depreciation</u>	<u>Current decrease</u>	<u>Others</u>	<u>2015.12.31</u>
Buildings	<u>\$ 97,367</u>	<u>5,868</u>	<u>-</u>	<u>-</u>	<u>103,235</u>

As of December 31, 2016 and 2015, the fair value of the investment property is \$604,955 and \$626,026, respectively. The fair value mentioned above was evaluated by the Appraisal Department of Credit Office (with related recognized professional qualifications and having related experience in field of locations and types of the investment property evaluated in the near term) semi-annually. The appraisal of property relies mainly on the approach of comparison of market value, supplemented by income approach, cost approach and land development approach. The evaluation is based on objective comparison analysis of market researches in order to acquire the gross value and net value of the evaluated objects. The rental income with sustained stability or operating properties are evaluated mainly by income approach, supplemented by the approach of comparison of market value, expounding the estimation of gross value and net value of the evaluated objects.

Rental income from investment properties are disclosed in Note 6(AI).

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(L) Intangible assets—net

	2016.12.31	2015.12.31
Goodwill	\$ 32,914	32,914
Computer software	65,170	85,486
Total	\$ 98,084	118,400

In the year 2002 the Company merged with XinYing credit co-operative in Tainan County for the purchase price over the fair value of its identifiable net asset amounted to \$94,039. Following IAS 38 as accepted by the FSC, goodwill attributed to indefinite life intangible assets will not be amortized. The impairment tests are implemented regularly every year or when there is indication of impairment. Goodwill is no longer amortized, and is conducted impairment test annually.

The Company evaluated that there was no impairment loss of goodwill for the years ended December 31, 2016 and 2015.

The movement of intangible assets are as follows:

	2016.1.1	Current increase	Current decrease	Exchange difference	Others (Note)	2016.12.31
Goodwill	\$ 32,914	-	-	-	-	32,914
Computer software	85,486	5,640	(28,966)	-	3,010	65,170
Total	\$ 118,400	5,640	(28,966)	-	3,010	98,084

Note: For the year ended December 31, 2016, the increase in intangible assets includes \$3,010 transferred from property and equipment.

	2015.1.1	Current increase	Current decrease	Exchange difference	Others (Note)	2015.12.31
Goodwill	\$ 32,914	-	-	-	-	32,914
Computer software	96,391	10,493	(27,367)	-	5,969	85,486
Total	\$ 129,305	10,493	(27,367)	-	5,969	118,400

Note: For the year ended December 31, 2015, the increase in intangible assets includes \$5,969 transferred from property and equipment.

(M) Other assets—net

	2016.12.31	2015.12.31
Refundable deposits	\$ 1,382,788	2,433,448
Prepayments	129,814	116,548
Others	4,600	4,600
Total	\$ 1,517,202	2,554,596

(N) Deposits from the central bank and other banks

	2016.12.31	2015.12.31
Deposits from other banks	\$ 3,619,035	2,813,351
Post Office transfer deposits	3,807,067	3,799,023
Loan financing from other banks	4,990	24,605
Call loans from other banks	9,542,364	725,943
Total	\$ 16,973,456	7,362,922

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

	<u>2016.12.31</u>	<u>2015.12.31</u>
Forward contracts	\$ 1,043,670	1,553,999
SWAP	29,087	190,657
Interest rate instruments	86,218	141,936
Currency option	765,646	1,955,667
Convertible bond asset swap	7,257	13,271
Total	<u>\$ 1,931,878</u>	<u>3,855,530</u>

(P) Securities sold under repurchase agreements

<u>Assets</u>	<u>2016.12.31</u>			
	<u>Par value</u>	<u>Selling price</u>	<u>Designated repurchase amount</u>	<u>Designated repurchase date</u>
Financial assets at fair value through profit or loss	\$ 1,600,000	1,600,000	1,600,997	2017.01.05 ~2017.02.07
Available-for-sale financial assets	1,000,000	1,000,000	1,000,564	2017.01.13 ~2017.02.06
Total	<u>\$ 2,600,000</u>	<u>2,600,000</u>	<u>2,601,561</u>	

(Q) Payables

	<u>2016.12.31</u>	<u>2015.12.31</u>
Accounts payable	\$ 191,912	81,383
Accrued expenses	415,524	527,249
Interest payable	273,496	295,730
Acceptances payable	68,063	113,068
Factoring payable	241,888	96,475
Collection payable	26,427	33,378
Notes payable for clearing payable	542,727	224,162
Other payables	292,425	329,292
Total	<u>\$ 2,052,462</u>	<u>1,700,737</u>

(R) Current tax liabilities

	<u>2016.12.31</u>	<u>2015.12.31</u>
Income taxes payable	\$ -	31,708

(S) Deposits and remittances

	<u>2016.12.31</u>	<u>2015.12.31</u>
Checking deposits	\$ 717,899	700,932
Bank checks	76,143	103,239
Demand deposits	29,786,665	27,900,346
Time deposits	38,435,104	40,788,336
Negotiable certificates of deposit	188,200	942,300
Savings deposits	113,129,703	111,936,469
Total	<u>\$ 182,333,714</u>	<u>182,371,622</u>

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(T) Financial debentures

Financial debentures	Terms of transactions			Type	Amount	
	Issue date	Maturity date	Interest rate		2016.12.31	2015.12.31
2012 JIH SUN unsecured subordinated financial debentures	2012.04.30	2019.04.30	Fixed rate of 2.18%	Unsecured subordinated financial debentures	\$ 2,500,000	2,500,000
2015 JIH SUN unsecured subordinated financial debentures	2015.01.30	2022.01.30	Fixed rate of 2.20%	Unsecured subordinated financial debentures	2,500,000	2,500,000
					<u>\$ 5,000,000</u>	<u>5,000,000</u>

(U) Other financial liabilities

	2016.12.31	2015.12.31
Principal received on structured notes	<u>\$ 1,398,138</u>	<u>1,738,459</u>

(V) Provisions

	2016.12.31	2015.12.31
Employee benefits provision	\$ 31,527	31,534
Guarantee reserve	4,191	25,729
Decommissioning costs of leasehold improvements	24,328	24,328
Provision of structured notes compensation	44,294	44,868
Total	<u>\$ 104,340</u>	<u>126,459</u>

Provision of structured notes compensation occurs due to the controversial event related to the consignment of structured notes which were issued by international institutions. The provision is made considering the appraisal results of the Bankers Association of the Republic of China and individual cases' situation.

The movement of provision is as follows:

	2016.1.1	Provision (reversal)	Current paid	2016.12.31
Employee benefits provision	\$ 31,534	(7)	-	31,527
Guarantee reserve	25,729	(21,538)	-	4,191
Decommissioning costs of leasehold improvements	24,328	-	-	24,328
Provision of structured notes compensation	44,868	-	(574)	44,294
Total	<u>\$ 126,459</u>	<u>(21,545)</u>	<u>(574)</u>	<u>104,340</u>

	2015.1.1	Provision (reversal)	Current paid	2015.12.31
Employee benefits provision	\$ 31,194	340	-	31,534
Guarantee reserve	27,853	(2,124)	-	25,729
Decommissioning costs of leasehold improvements	24,328	-	-	24,328
Provision of structured notes compensation	44,972	-	(104)	44,868
Other provisions	6,500	(6,500)	-	-
Total	<u>\$ 134,847</u>	<u>(8,284)</u>	<u>(104)</u>	<u>126,459</u>

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(W) Other liabilities

	<u>2016.12.31</u>	<u>2015.12.31</u>
Guarantee deposits received	\$ 14,919	34,541
Amount received in advance	122,465	136,888
Deferred revenue	44,734	47,582
Total	<u>\$ 182,118</u>	<u>219,011</u>

(X) Employee benefits

(a) Defined benefits plan

The present value of defined benefit obligation and the fair value adjustments of the plan assets for the Company are as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Total present value of benefit obligations	\$ (325,959)	(325,942)
Fair value of plan assets	393,769	386,151
Upper limit in the plan	-	-
Recognized assets (liabilities) for defined benefit obligations	<u>\$ 67,810</u>	<u>60,209</u>

The Company's defined benefits assets are as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Defined benefits plan	<u>\$ 67,810</u>	<u>60,209</u>

The Company's employee benefits liabilities are as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Compensated absences liabilities	<u>\$ 31,527</u>	<u>31,534</u>

The Company's defined benefits plan contributes to designated depository account with Bank of Taiwan. Payments of pension benefits to employees who are covered by the Labor Standards Act are calculated based on the employee's average monthly salary for the last 6 months prior to approved retirement and base point (b.p.) entitlement based on years of service.

(1) Plan Assets Component

The pension fund contributed by the Company is in compliance with Labor Standards Act, R.O.C. and is under the overall management of the Bureau of Labor Funds, Ministry of Labor ("Bureau of Labor Funds"). According to Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund, with regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statement shall be no less than the earnings attainable from the amounts accrued by two year time deposits' interest rates offered by local banks.

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Components of plan assets are as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Bank of Taiwan labor pension reserve account	\$ 227,338	221,539
Pension fund balance	166,431	164,612
Fair value of plan assets	<u>\$ 393,769</u>	<u>386,151</u>

Please refer to the website of Council of Labor Affairs for information on labor pension fund assets utilization including contribution rate and earnings rate provided by Company of Taiwan and fund asset allocation provided by Council of Labor Affairs.

(2) Movements in present value of the defined benefit obligations

The movements in present value of defined benefit obligations for the Company are as follows:

	<u>2016</u>	<u>2015</u>
Defined benefits obligation on January 1	\$ (325,942)	(295,918)
Current service costs and interest costs	(6,473)	(7,460)
Gains or losses on remeasurements of defined benefit plans		
Losses on the change of the actuarial assumption of demographic statistics	(359)	(2,681)
Losses on the change of financial actuarial assumption	-	(22,482)
Experience gains (losses) on defined benefit obligation	4,237	1,764
Prior year service costs	68	835
Payment	2,510	-
Defined benefits obligation on December 31	<u>\$ (325,959)</u>	<u>(325,942)</u>

(3) Movements of defined benefit plan assets

The movements in the present value of the defined benefit plan assets for the Company are as follows:

	<u>2016</u>	<u>2015</u>
Fair value of plan assets on January 1	\$ 386,151	371,275
Contributions	6,727	7,104
Benefits paid by the plan	(2,510)	-
Interest revenue	5,838	8,408
Gains or losses on remeasurements of defined benefit plans		
Return on plan assets	(2,437)	(636)
Fair value of plan assets on December 31	<u>\$ 393,769</u>	<u>386,151</u>

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(4) Expenses (benefits) recognized in profit or loss

The expenses (benefits) recognized in profit or loss for the Company are as follows:

	2016	2015
Current service costs	\$ 1,599	1,548
Net interest revenue on plan assets	(964)	(2,496)
Prior years service costs	(68)	(835)
Pension expenses (benefits)	<u>\$ 567</u>	<u>(1,783)</u>

(5) Gains (losses) on remeasurement of defined benefit plans in other comprehensive income

	2016	2015
Recognized gains (losses) during the period	<u>\$ (1,441)</u>	<u>24,035</u>

(6) Primary actuarial assumptions

The following are the Company's primary actuarial assumptions:

	2016	2015
Discount rate	1.50%	1.50%
Salary growth rate	2.00%	2.00%

The Company's contribution amount for the year after the reporting date will be \$7,845.

The weighted average period for the defined benefit obligations to exist are 14 years.

(7) Sensitivity analysis

The present value of post-employment benefits obligation is based on actuarial results of assumptions as of balance sheet date, and these assumptions such as discount rate and salary growth rate, etc. are needed judgments and estimation by the Company. Any assumption changes will materially affect the carrying amount of post-employment benefits obligation.

Sensitivity analysis of assumption changes are as follows:

As of December 31, 2016	Affect on the carrying amount of post-employment benefits obligation	
	Increase 0.25%	Decrease 0.25%
Discount rate	(11,135)	11,654
Salary growth rate	11,567	(11,108)
As of December 31, 2015		
Discount rate	(11,588)	12,150
Salary growth rate	12,059	(11,560)

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The above sensitivity analysis is based on one assumption factor change under other factors remaining unchanged. In practice, many assumption factors must remain related. The method of sensitivity analysis adopted is the same as the method of calculation of the present value of post-employment benefits obligation.

(b) Defined contribution plan

The defined contribution plan of the Company is in accordance with the Labor Pension Act. The Company contributes 6% of the wages and salaries as labor pension to individual accounts of labor pension at the Bureau for employees applicable to the Act on a monthly basis. The Company has no extra legal obligation or constructive obligation when the Company attributes fixed amount of money regularly to the Bureau of Labor Insurance.

The Company recognized the amount attributed to the pension fund as the cost of pension for the period. Please refer to Note 6(AJ) retirement expenses-defined contribution plans.

(Y) Income tax

Pursuant to regulations stipulated by Tai-Cai-Shui No. 910458039 dated February 12, 2003, "Principles and regulations of profit-seeking businesses filing joint tax returns in accordance with Article 49 of the Financial Holding Company Law and Article 40 of Enterprise Merger Law", while a financial holding company holds more than 90% of issued shares of a domestic subsidiary and holds for 12 months during a tax year. The company has to behalf of financial holding company as the obligatory tax payer and jointly filed income tax returns.

By adopting the principal of amortization of consolidated income tax, the joint filing of the tax returns of the Company, JihSun Financial Holding Co., Ltd. and its affiliate JihSun Securities Co., Ltd., JihSun International Property Insurance Agency Co., Ltd. resulted in a lowered tax burden and brought tax saving efficiency. Moreover, the management efficiency was enhanced because of the individual company's tax burden was fairly distributed.

The statutory income tax rate for 2016 and 2015 were both 17%, and the Company calculated the basic tax amount in accordance with the Income Basic Tax Act.

(a) Income tax expenses (benefit)

The components of income tax expenses (benefit) were as follows:

	<u>2016</u>	<u>2015</u>
Current tax expenses	\$ 44,879	88,302
Income tax benefit from jointly filed tax return	(72,261)	(84,822)
(Over) under estimate of prior year's expenses	(1,726)	4,035
Difference of prior year's taxable income assessed by tax authority	(20,025)	(15,693)
Deferred tax expenses	976	1,142
Income tax expenses (benefit)	<u>\$ (48,157)</u>	<u>(7,036)</u>

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The components of deferred income tax expense (benefit) were as follows:

	<u>2016</u>	<u>2015</u>
Loss carryforward	\$ (71)	(369)
Employee benefits provision	1,047	1,511
Total	<u>\$ 976</u>	<u>1,142</u>

- (b) The income tax expenses (benefit) recognized under other comprehensive income are as follows:

	<u>2016</u>	<u>2015</u>
Components of other comprehensive income that will not be reclassified to profit or loss		
Actuarial gains (losses) of defined benefit plan	\$ 245	(4,086)

- (c) The reconciliations of income tax expenses (benefit) and net income before tax are as follows:

	<u>2016</u>	<u>2015</u>
Net income	\$ 800,966	1,214,581
Income tax expenses (benefit)	(48,157)	(7,036)
Net income before tax from continuing operations	<u>752,809</u>	<u>1,207,545</u>
Income tax using the Company's domestic tax rate	127,978	205,283
Tax-exempt income	(63,191)	(118,209)
Difference of prior year's taxable income assessed by tax authority	(20,025)	(15,693)
Under (over) estimate of prior year's income tax	(1,726)	4,035
Difference between income basic tax and income tax	44,879	88,302
Operating loss carryforwards	(167,987)	(226,008)
Income tax benefit from jointly filed tax return	(72,261)	(84,822)
Other	104,176	140,076
Total	<u>\$ (48,157)</u>	<u>(7,036)</u>

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(d) Deferred tax assets and liabilities

(1) Unrecognized deferred tax assets

Unrecognized deferred tax assets are as follows:

	2016.12.31	2015.12.31
Operating loss carryforwards	\$ 2,300,643	2,561,599

(2) Recognized deferred tax assets and liabilities

The movement of deferred tax assets and liabilities for 2016 and 2015 are as follows:

Deferred Tax Assets:

	Defined benefit plans	Fair value gains	Others	Total
Balance at January 1, 2016	\$ -	-	32,822	32,822
Recognized in profit or loss	-	-	71	71
Balance at December 31, 2016	\$ -	-	32,893	32,893
Balance at January 1, 2015	\$ -	-	32,453	32,453
Recognized in profit or loss	-	-	369	369
Balance at December 31, 2015	\$ -	-	32,822	32,822

Deferred Tax Liabilities:

	Defined benefit plans	Fair value gains	Others	Total
Balance at January 1, 2016	\$ 10,235	-	29,277	39,512
Recognized in profit or loss	1,047	-	-	1,047
Recognized in other comprehensive income	245	-	-	245
Balance at December 31, 2016	\$ 11,527	-	29,277	40,804
Balance at January 1, 2015	\$ 12,810	-	29,277	42,087
Recognized in profit or loss	1,511	-	-	1,511
Recognized in other comprehensive income	(4,086)	-	-	(4,086)
Balance at December 31, 2015	\$ 10,235	-	29,277	39,512

(e) The Company's income tax returns had been assessed for the years up to 2011.

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- (f) As of December 31, 2016, the Company's unused operating loss carryforwards and expiration years are as follows:

<u>Year of loss incurred</u>	<u>Year of expiration</u>	<u>Amount</u>
2007(Authorized)	2017	\$ 1,191,787
2008(Authorized)	2018	4,689,644
2009(Authorized)	2019	7,651,763
Total		<u><u>\$ 13,533,194</u></u>

- (g) Significant tax events:

- (1) For the year ended December 31, 2009, the different amount of income tax of \$82,631 had been decided by National Tax Administration in March, 2015. The Company had accrued this tax shortage and didn't have to repay the tax. The main adjusted item is amortization of operation rights resulted from acquisition of the trust department of Taiwan Land Development Trust Ltd. The Company decided not to appeal to further administrative remedies.
- (2) For the year ended December 31, 2010, the different amount of income tax of \$34,749 had been decided by National Tax Administration in February, 2016. The Company had accrued this tax shortage and didn't have to repay the tax. The main adjusted item is amortization of operation rights resulted from acquisition of the trust department of Taiwan Land Development Trust Ltd. The Company decided not to appeal to further administrative remedies.
- (3) The Company's income tax return for the year ended December 31, 2011 had been decided by National Tax Administration in June, 2016 and there is no different amount.

(Z) Imputation credit account

	<u>2016.12.31</u>	<u>2015.12.31</u>
Unappropriated earnings of 1998 and after	<u>\$ 802,162</u>	<u>1,194,632</u>
Imputation credit account balance	<u>\$ 6,396</u>	<u>17,810</u>
	<u>2016 (Estimated)</u>	<u>2015 (Actual)</u>
Tax deduction ratio for earnings distribution	<u>0.80%</u>	<u>2.53%</u>

The aforementioned information regarding imputation credit account is in accordance with the order of Tai-Cai-Shui No.10204562810 issued by the Ministry of Finance on October 17, 2013.

(AA) Equity

- (a) Capital stocks

The Company's original authorized and paid-in capital stock were both \$10,000,000, and divided into 1,000,000 thousands of shares at \$10 dollars par value per share. As of

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December 31, 2016 and 2015, after subsequent new stocks issuance of capital increases over the years, the Company's outstanding capital stock amounted to \$16,655,715 and \$16,237,594, respectively, was divided into 1,665,572 and 1,623,759 thousands of shares, respectively.

On April 21, 2016, the board of directors, on behalf of the shareholders, resolved to implement capital increases at NT\$10 (dollars) per share by capitalization of retained earnings with 41,812 thousands of new shares amounted to \$418,121. The case of capital increase was approved by FSC, with June 15, 2016 as its baseline, and the Company had completed the amendment of registration on July 7, 2016.

On April 23, 2015, the board of directors, on behalf of the shareholders, resolved to implement capital increases at NT\$10 (dollars) per share by capitalization of retained earnings with 43,870 thousands of new shares amounted to \$438,704. The case of capital increase was approved by FSC, with June 1, 2015 as its baseline, and the Company had completed the amendment of registration on June 16, 2015.

(b) The movement of the Company's other equity are as follow:

	Unrealized (losses) gains on available-for-sale financial assets	Exchange differences of translation of foreign financial statements	Total
January 1, 2016	\$ 77,220	(7,767)	69,453
Available-for-sale financial assets			
– Valuation adjustment	(704,202)	-	(704,202)
– Realized amount	(18,935)	-	(18,935)
Exchange differences of translation of foreign financial statements	-	47,080	47,080
December 31, 2016	<u>\$ (645,917)</u>	<u>39,313</u>	<u>(606,604)</u>
January 1, 2015	\$ 47,003	1,477	48,480
Available-for-sale financial assets			
– Valuation adjustment	30,183	-	30,183
– Realized amount	34	-	34
Exchange differences of translation of foreign financial statements	-	(9,244)	(9,244)
December 31, 2015	<u>\$ 77,220</u>	<u>(7,767)</u>	<u>69,453</u>

(AB) Earnings distribution and dividend policy

In accordance with the Company's articles of incorporation, its net income after deduction of income tax and offset prior year cumulative losses shall be appropriated as legal reserve at 30% and provision for special reserve in compliance with related Acts. The remaining, if any, shall be distributed to dividends. Based on the proportion of stock holding, the remaining earning, if any, is appropriated as stockholders' bonuses. Before the legal reserve balance reaches to total paid-in capital, cash dividends are limited to 15% of total paid-in capital. In addition, the Company complied with the principle which is to distribute all of the remaining

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earning. When the Company's ratio of Equity Capital and Risk-Weighted Assets of Banks is less than the Company's legal standard, stock dividends will be distributed instead of cash dividends as stockholders' bonuses.

In addition, according to the Company Act amended in January 2012, a company incurs no loss, it may pursuant to a resolution to be adopted by a stockholders' meeting distribute its legal reserve by issuing new shares or by cash. Legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed. In addition, it is necessary for the Company to comply with Article 50 of the Banking Act and "The Regulations Governing the Criteria of Capital Adequacy Ratio being Sound in Finance and Business Operations as stipulated in Paragraph 2, Article 50 of the Banking Act" amended by Jin-Kuan-Yin-Kong-Zi No.10160001340, dated April 30, 2012. After distribution, the accumulated legal reserve must reach seventy five percent of the Company's paid-in capital, to meet the principle of sound finance and business operations.

For the year ended December 31, 2014, the employee bonuses and the director's remuneration were estimated amounting to \$8,734 and \$5,500, respectively. The estimation of the employee bonuses and directors' remuneration were recognized as operating expenses of 2014 based on the Company's 2014 net income after tax, multiplied by the rate of employee bonuses and directors' remuneration stated by the Company's articles of incorporation. The employees' bonuses was underestimated by \$127 and had been adjusted in 2015 net income.

Resolutions on 2015 and 2014 earnings distribution of the Company were approved by the board of directors on behalf of stockholders on April 21, 2016 and April 23, 2015, respectively, (The related information could be found in the Market Observation Post System). The relevant distributions of directors' remuneration and employees' bonuses are as follows:

	2014
Employees' bonuses - cash	\$ 8,861
Directors' remuneration	5,500
Total	\$ 14,361

The relevant dividend distributions to shareholders are as follows:

	2015		2014	
	Dividends per share (in NTD)	Amount	Dividends per share (in NTD)	Amount
Dividends to common shares				
Cash dividends	\$ 0.26	418,121	0.28	438,705
Stock dividends	0.26	418,121	0.28	438,704
Total		836,242		877,409

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(AC) EPS

	2016	2015
Basic EPS :		
Net income attributed to the Company	\$ 800,966	1,214,581
Weighted average outstanding shares of common stock (in thousands)	1,665,572	1,665,572
Basic EPS (in dollars)	\$ 0.48	0.73

Retroactive adjustments are applied to the Company's weighted average outstanding shares of common stock for the year ended December 31, 2015.

The Company is an investee owned 100% by JihSun Financial Holding Co., Ltd., the Company did not adopt the method of distributing stocks for employee bonus. No diluted EPS shall be presented for the year ended December 31, 2016 and 2015, because there is no potential common shares would influence the weighted-average number of shares outstanding.

(AD) Employees' bonus and directors' remuneration

According to the Company's article of incorporation, if the Company poses profits in the fiscal year, it shall set aside no less than 0.01% as the remuneration for employees and no higher than 1% as the remuneration for directors. However, if the Company still suffers accumulated losses, it shall retain a certain amount to cover the losses in advance. For the years ended December 31, 2016 and 2015, the remuneration for employees are estimated to be \$5,980 and \$12,245, respectively, the remuneration for directors are estimated to be both \$5,500, and are recognized as current operating expenses based on the Company's pretax income before deducted employees' and directors' remuneration multiplied by the ratio set by the Company's articles of incorporation. Differences between the actual outcomes resolved by the shareholder's meeting next year and the estimation will be accounted for as changes in accounting estimates and recognized as next year's profit or loss.

For the year ended December 31, 2015, actual amount of employees' bonuses and directors' remuneration are \$8,838 and \$5,500, respectively, the estimated amount of employees' bonuses and directors' remuneration accrued in 2015 net income are \$12,245 and \$5,500, respectively. The employees' bonuses are overestimated by \$3,407 and had been adjusted in 2016 net income.

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(AE) Net interest income

	<u>2016</u>	<u>2015</u>
<u>Interest income</u>		
Discount and loans	\$ 2,904,205	3,154,182
Due from banks and call loans to banks	106,380	122,809
Factoring receivables	10,678	665
Securities purchased under resell agreements	392	1,763
Securities	280,169	137,402
Revolving credit	56,441	66,316
Others	67,194	53,747
Subtotal	<u>3,425,459</u>	<u>3,536,884</u>
<u>Interest expense</u>		
Deposit	1,043,619	1,279,569
Due to central bank and other banks	46,373	55,886
Borrowings from central bank and other banks	23,941	20,347
Securities sold under repurchase agreements	1,943	732
Financial debentures	109,500	105,212
Others	323	389
Subtotal	<u>1,225,699</u>	<u>1,462,135</u>
Net interest income	<u>\$ 2,199,760</u>	<u>2,074,749</u>

Interest income and expense from financial assets and liabilities measured at fair value through profit and loss are excluded.

(AF) Net service fee and commission income

	<u>2016</u>	<u>2015</u>
<u>Commission income</u>		
Imports and exports service fee income	\$ 1,783	2,135
Letter of credit service fee income	1,636	1,958
Remittances service fee income	10,497	9,833
Interbank service fee income	29,655	44,365
Loan service fee income	39,290	51,303
Trust service fee income	268,455	351,479
Trust affiliated service fee income	18,037	15,524
Credit card business	87,202	87,845
Promotion agency service fee income	500,486	476,679
Others	21,264	21,920
Total commission income	<u>978,305</u>	<u>1,063,041</u>
<u>Service fee</u>		
Custodian service fee	4,681	2,717
Agency service fee	7,872	8,789
Remittances service fee	3,162	3,718
Interbank service fee	13,606	13,224
Credit card business	36,562	36,872
Others	31,131	31,922
Total service fee	<u>97,014</u>	<u>97,242</u>
Net service fee and commission income	<u>\$ 881,291</u>	<u>965,799</u>

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(AG) Gains (losses) on financial assets or liabilities measured at fair value through profit or loss

	<u>2016</u>	<u>2015</u>
<u>Disposal gains (losses)</u>		
Commercial paper	\$ 45,000	48,395
Government bonds	28,430	(33,867)
Corporate bonds	(2,297)	(6,950)
Financial debentures	1,376	(153)
Listed and TPEX securities	18,924	(14,939)
Negotiable certificates of deposit	1,422	241
Beneficiary certificates	(8,030)	(5,640)
Derivative instruments	(226,753)	(223,268)
Others	-	96
Subtotal	<u>(141,928)</u>	<u>(236,085)</u>
<u>Valuation gains (losses)</u>		
Commercial paper	(3,252)	1,170
Government bonds	(635)	130,248
Corporate bonds	(563)	(2,962)
Financial debentures	4,411	(3,155)
Convertible corporate bonds	(25)	146
Listed and TPEX securities	1,613	(3,913)
Negotiable certificates of deposit	(1,020)	4,861
Beneficiary certificates	781	(3,762)
Derivative instruments	402,642	(835,369)
Subtotal	<u>403,952</u>	<u>(712,736)</u>
Interest income	325,030	420,819
Total	<u>\$ 587,054</u>	<u>(528,002)</u>

For the years ended December 31, 2016 and 2015, the profit and loss resulted from the foreign exchange derivatives undertaken by the Company were a profit of \$88,360 and a loss of \$1,040,040, respectively. The Company engaged in such business mainly to hedge the spot foreign exchange rate risk. The changes in exchange rate valuation of spots of such foreign currency have been recorded in the account of exchange gains or losses in accordance with IAS 21 "The Effects of Changes in Foreign Exchange Rates."

(AH) Realized gains (losses) on available-for-sale financial assets

	<u>2016</u>	<u>2015</u>
Government bonds	\$ 5,931	(19)
Corporate bonds	8,106	(15)
Financial debentures	4,898	-
Dividends earned	72	115
Total	<u>\$ 19,007</u>	<u>81</u>

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(AI) Other net non-interest income

	<u>2016</u>	<u>2015</u>
Rental income	\$ 11,658	12,366
Rental income from investment property	15,767	16,133
Losses on retirement of property and equipment	(80)	(737)
Gain on equity investment carried at cost	28,870	34,095
Losses on sale of property and equipment	-	(24)
Others	(10,464)	16,550
Total	<u>\$ 45,751</u>	<u>78,383</u>

(AJ) Employee benefits expenses

	<u>2016</u>	<u>2015</u>
Salary expenses	\$ 1,188,580	1,293,574
Insurance expenses	107,204	107,666
Retirement expenses		
Defined contribution plan	57,255	57,170
Defined benefits plan	567	(1,783)
Other personnel expenses		
Termination benefits	1,689	1,359
Other employee benefits	54,391	53,710
Total	<u>\$ 1,409,686</u>	<u>1,511,696</u>

(AK) Depreciation and amortization expenses

	<u>2016</u>	<u>2015</u>
Property and equipment	\$ 88,889	96,954
Investment property	5,797	5,868
Intangible assets	28,966	27,367
Total	<u>\$ 123,652</u>	<u>130,189</u>

(AL) Other general and administrative expenses

	<u>2016</u>	<u>2015</u>
Rent	\$ 205,480	201,928
Site usage expenses	245,351	236,576
Insurance expenses	60,150	64,748
Professional service fees	65,471	66,111
Software maintenance fees	71,521	64,831
Tax	202,468	217,249
Others	339,980	353,444
Total	<u>\$ 1,190,421</u>	<u>1,204,887</u>

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(AM) Disclosure of financial instruments

(a) Fair value of financial instruments

(1) Fair value hierarchy information on assets and liabilities

<u>Assets and liabilities</u>	2016.12.31				
	<u>Book value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Recurring fair value measurement</u>					
<u>Non-derivative instruments</u>					
Assets:					
Financial assets at fair value through profit or loss					
Financial assets held for trading					
Stocks	\$ 16,614	16,614	-	-	16,614
Bonds	9,676,423	5,698,368	3,978,055	-	9,676,423
Others	28,271,442	17,800,000	10,471,442	-	28,271,442
Available-for-sale financial assets					
Stocks	3,625	3,625	-	-	3,625
Bonds	23,020,831	-	23,020,831	-	23,020,831
Others	186,807	-	186,807	-	186,807
<u>Derivative instruments</u>					
Assets:					
Financial assets at fair value through profit or loss	\$ 1,590,287	27,189	1,305,027	258,071	1,590,287
Liabilities:					
Financial liabilities at fair value through profit or loss	1,931,878	-	1,673,807	258,071	1,931,878
<u>Assets that are not measured at fair value in the balance sheet</u>					
Investment property	400,733	-	-	604,955	604,955
2015.12.31					
<u>Assets and liabilities</u>	<u>Book value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>Recurring fair value measurement</u>					
<u>Non-derivative instruments</u>					
Assets:					
Financial assets at fair value through profit or loss					
Financial assets held for trading					
Stocks	\$ 30,706	30,706	-	-	30,706
Bonds	14,559,947	9,445,388	5,114,559	-	14,559,947
Others	25,148,678	21,129,855	4,018,823	-	25,148,678
Available-for-sale financial assets					
Stocks	3,315	3,315	-	-	3,315
Bonds	10,677,081	-	10,677,081	-	10,677,081
<u>Derivative instruments</u>					
Assets:					
Financial assets at fair value through profit or loss	\$ 2,809,929	43,145	2,766,784	-	2,809,929
Liabilities:					
Financial liabilities at fair value through profit or loss	3,855,530	-	3,855,530	-	3,855,530
<u>Assets that are not measured at fair value in the balance sheet</u>					
Investment property	421,396	-	-	626,026	626,026

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(2) Definition of three-level fair value hierarchy

- A) Fair value measurement for a financial instrument classified in Level 1 is determined as the quoted price for an identical financial instrument in an active market. The definition of active market has all of the following conditions: the products traded in the market are homogeneous, willing parties are available anytime in the market, and price information is available for the public. The Company's investments in listed and TPEX securities, beneficiary certificates, popular Taiwan central government bonds and derivative financial instruments with the quoted price in an active market are classified to Level 1.
- B) Fair value measurement for a financial instrument classified in Level 2 is determined as the observable price other than quoted price in an active market including an observable input obtained in an active market, either directly (i.e., as prices) or indirectly (i.e., derived from prices). The Company's investments in government bonds not in popular demand, corporate bonds, financial debentures, convertible bonds and majority derivative instruments are classified to Level 2.
- C) Input for a fair value measurement for a financial instrument classified in Level 3 is not based on obtainable data from the market (an unobservable input, such as volatility for a share option derived from the share's historical prices, as it does not generally represent current market expectations about future volatility).

(3) Valuation techniques of financial assets and liabilities measured by fair value

If there is a quoted price in an active market for non-derivative financial assets and liabilities measured at fair value through profit or loss and available-for-sale financial assets, the quoted price is regarded as its fair value. Financial instruments with public market prices (except for stocks and depositary receipt) such as government bonds use the latest trade price or reference theory price under OTC European Breakdown Tyre System as fair value. Foreign currency bonds use latest trade price as fair value. If there is no quoted price in an active market for the financial asset, its fair value is estimated on the basis of the result of a valuation technique that refers to quoted prices provided by financial institutions. The information is available for the Company. Financial derivative instruments with active market price use market value as fair value. When there is no active market price, valuation model is mainly adopted in evaluation. Derivative instruments – non-option use discounted cash flow method; derivative instruments – options mainly use Black-Scholes Model in evaluation.

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(4) Fair value adjustment

A) Valuation models' restriction and uncertainty inputs used to measure fair value

Although the outputs of the Company's valuation models are rough estimates, the inputs for a fair value measurement are based on daily obtainable data from the market during the valuation procedure. Thus the outputs of the Company's valuation models can reflect current market situation and fairly present the financial instruments' fair value.

B) Credit risk valuation adjustments

Credit risk valuation adjustments can be classified into credit value adjustments and debit value adjustments. The definitions are as follows:

a) Credit value adjustments

Credit value adjustments are the valuation adjustments of financial derivative instruments which were not traded in the listed market, but were traded over the counter. The adjustments will reflect in the fair value regarding the possibility that the counterparty may delay to pay the price and the Company may not collect all market value of the transactions.

b) Debit value adjustments

Debit value adjustments are the valuation adjustments of financial derivative instruments which were not traded in the listed market, but were traded over the counter. The adjustments will reflect in the fair value regarding the possibility that the Company may delay to pay the price and the Company may not pay all market value of the transactions.

The credit value adjustments are calculated based on the consideration of the counterparty's probability of default ("PD") (under the condition that the Company does not default), loss given default ("LGD") and exposure at default ("EAD"). On the other hand, the debit value adjustments are calculated based on the consideration of the Company's PD (under the condition that the counterparty does not default), LGD and EAD.

The Company use internal data or external collectable data to determine the counterparties' ratings and based on the latest rating to periodically update the corresponding probability of default. The counterparty's loss given default is set at 60% standard assumption, and its exposure at default of OTC derivative instruments is evaluated by mark to market.

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- (5) Movement in financial assets measured at fair value through profit or loss which were classified to Level 3

		2016.12.31				
		Current increase		Current decrease		
Beginning balance	Valuation adjustment recognized in current net profit	Purchase or issue	Sale, disposal, or settlement	Transfer out from level 3	Ending balance	
Financial assets at fair value through profit or loss						
Foreign currency options	\$ -	224,171	74,362	(40,462)	-	258,071

- (6) Statements of changes in financial liabilities which were classified to Level 3 based on fair value measurement

		2016.12.31				
		Current increase		Current decrease		
Beginning balance	Valuation adjustment recognized in current net profit	Purchase or issue	Sale, disposal, or settlement	Transfer out from level 3	Ending balance	
Financial liabilities at fair value through profit or loss						
Foreign currency options	\$ -	295,124	-	(37,053)	-	258,071

- (7) The quantitative information about the significant unobservable inputs (Level 3) used in fair value measurement

The investments classified into the Level 3 of the fair value hierarchy means that the measurement of the fair value of the investment parameters are not based on market availability of information, and must be based on assumptions to do the appropriate estimates and adjustments. According to IFRS13 p93(d), an entity is not required to create quantitative unobservable inputs not developed by the entity when measuring fair value. Therefore, part of the derivative investments of the Company were classified into Level 3 of the fair value hierarchy, due to using the counterparty's offer price as fair value. There was no quantitative information about the significant unobservable inputs (Level 3) used in fair value measurement.

- (8) Sensitivity analysis of reasonable substitute assumptions for fair value measurements categorized within Level 3 of the fair value hierarchy.

The Company's investments in the derivative instruments used the counterparty's offer price as fair value so that sensitivity analysis of reasonable substitute assumptions for fair value measurements categorized within Level 3 of the fair value hierarchy is not applicable.

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- (9) Valuation procedures of assets or liabilities categorized within Level 3 of the fair value hierarchy.

The Company's investments classified into the Level 3 of the fair value hierarchy are mostly due to using the counterparty's offer price as fair value. The middle office of the treasury department is responsible to update the latest offer price every week and needs to maintain stable fair value sources.

- (b) Assets or liabilities that are not measured at fair value in the balance sheet

- (1) Since these instruments such as cash and cash equivalents, due from the central bank and call loans to banks, securities purchased under resell agreements, receivables, other financial assets (except for financial assets carried at cost), other assets, deposits from the central bank and other banks, securities sold under repurchase agreements and payables have short maturities or their book value are similar to the future receivable/payable amounts, the fair value of the financial instruments is estimated by their book value on the balance sheet date.

- (2) Deposits and remittance

Considering the nature of the banking industry, the decision maker of market interest rate (also referred to as market price), and most of the deposit transactions mature in one year, its book value is considered to be a reasonable basis in evaluating fair value. Among deposits, the fair value of long-term deposits with fixed interest rate should be evaluated by using discounted cash flow projections, and the longest maturity date is not more than 3 years. Therefore, it should be reasonable to evaluate its fair value with book value.

- (3) Discounts and loans (including non-accrual loans)

The interest rate that the Company uses in loans is basically based on floating rate, which can reflect the market rate. Therefore, it is reasonable to use its book value to evaluate the expected retrieve possibility.

- (4) Held-to-maturity financial assets

The fair value is determined as the quoted price if an active market exists. If there was no quoted price, use counterparty's bid price or theory price calculated based on the financial assets' contract terms by using market risk management system – Risk Manager developed by MSCI as fair value.

- (5) Other financial assets – financial assets carried at cost

Financial assets carried at cost are equity investments without quoted market price, these assets do not belong to listed and TPEX securities, or emerging stocks. Due to no quoted market price, the variances of reasonable estimation of the financial assets' fair value are considered as significant, and the probabilities of the different estimation cannot be estimated reasonably, resulting in the inability to reliably measure the assets' fair value, thus the book value is adopted as a reasonable basis in

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estimating the fair value.

(6) Investment property: Please refer to Note 6(K).

(7) Financial debentures

The financial debentures are all issued by the Company. Due to these bonds' coupon interest rate being almost equal to market interest rate, their fair value evaluated based on the present value of expected future cash flows are almost equal to book value.

(8) Other financial liabilities, including principal of structured instruments

These kinds of liabilities' book value are pay out price so that book value should be the reasonable basis in evaluating these liabilities' fair value.

(c) Transfer of financial assets

Transferred financial assets that are not derecognized in their entirety:

In daily transactions of the Company, most financial assets of the transferred financial assets that are not derecognized in their entirety are bonds sold under repurchase agreements. These transactions' collection right of contract cash flows had been transferred to the counter party, and these transactions reflect the related liabilities of the Company to buyback the transferred assets with fixed price in the future. Regarding these kinds of transactions, the Company cannot use, sell, or pledge these transferred assets during the effective contract periods, and the Company should bear interest risk and credit risk, thus they are recognized as transferred financial assets that are not derecognized in their entirety. The information of transferred financial assets that is not derecognized in their entirety is as follows:

December 31, 2016					
Category of financial assets	Carrying amount of transferred financial assets	Carrying amount of related financial liabilities	Fair value of transferred financial assets (Note)	Fair value of related financial liabilities (Note)	Fair value net position (Note)
Financial assets at fair value through profit or loss					
Securities sold under repurchase agreements	\$ 1,610,569	1,600,000	-	-	-
Available for sale financial assets					
Securities sold under repurchase agreements	1,061,906	1,000,000	-	-	-

Note: The counter parties of securities sold under repurchase agreements with the Company have the rights of recourse not only on the transferred assets but also on the Company's assets. There is no need to disclose fair value of transferred assets, fair value of related financial liabilities and fair value of net position according to IFRS 7 p42 D (d).

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(d) Offsetting of financial assets and liabilities:

There are no financial instrument transactions of the Company that should adopt IAS 32 paragraph 42 accepted by FSC to offset related financial assets and liabilities and show net amount in the balance sheet.

The Company has financial assets subject to offsetting, enforceable master netting arrangements and similar agreements but do not meet the offsetting conditions of IFRS regulations, such as securities purchased under resell agreements, securities sold under repurchase agreements, and derivative financial instruments, etc. The transaction parties can choose to use net settlement or settle on a gross basis for above subject to offsetting, enforceable master netting arrangements and similar agreements. In the case of default when all the transactions with the counterparty are terminated, the other party who are not responsible for the default can choose net settlement.

Offsetting of financial assets and liabilities' information are as follows:

December 31, 2016						
Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements						
	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities set off in the statement of financial position(b)	Net amounts of financial assets presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position		Net amount (e)= (c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial instruments	\$ 1,563,097	-	1,563,097	53,727	-	1,509,370

December 31, 2016						
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements						
	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets set off in the statement of financial position(b)	Net amounts of financial liabilities presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position		Net amount (e)= (c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial instruments	\$ 1,931,878	-	1,931,878	53,727	-	1,878,151
Securities sold under repurchase agreements	19,977	-	19,977	19,977	-	-
	\$ 1,951,855	-	1,951,855	73,704	-	1,878,151

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December 31, 2015						
Financial assets subject to offsetting, enforceable master netting arrangements and similar agreements						
	Gross amounts of recognized financial assets (a)	Gross amounts of liabilities set off in the statement of financial position(b)	Net amounts of financial assets presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position		
				Financial instruments (Note)	Cash collateral received	Net amount (e)= (c)-(d)
Derivative financial instruments	\$ 2,766,784	-	2,766,784	1,143,495	-	1,623,289

December 31, 2015						
Financial liabilities subject to offsetting, enforceable master netting arrangements and similar agreements						
	Gross amounts of recognized financial liabilities (a)	Gross amounts of assets set off in the statement of financial position(b)	Net amounts of financial liabilities presented in the statement of financial position (c)=(a)-(b)	Related amounts not set off in the statement of financial position		
				Financial instruments (Note)	Cash collateral received	Net amount (e)= (c)-(d)
Derivative financial instruments	\$ 3,855,530	-	3,855,530	1,143,495	-	2,712,035

Note: Master netting arrangements and non-cash collaterals are included.

(e) Financial risk management

(1) Overview

The purpose of the financial risk management of the Company gives consideration to the operation of financial business, the whole risk tolerance and law limitation, and maintains capital adequacy under affordable risks and assists in balancing risk and return.

The major risks the Company faced includes credit risk, market risk (including interest rate, foreign exchange, equity security and commodity risk) liquidity risk, and operational risk of on- and off- balance sheet items.

To identify, measure, supervise, and control risk, the risk management policy or risk control regulations of the Company are approved through the board of directors.

(2) Risk management organization structure

The board of directors is a risk management authority of the Company and its responsibility is to approve risk management regulations and risk limits. The risk management committee of financial holding company is a risk management supervision and decision making institution. Its responsibility is risk supervision and conducting with exceptional risk of financial holding company and the Company, and making some ways and strategies to hedge risk. The division of risk management is an independent department and is responsible for risk management of the Company under board of directors. The department of market risk, the department of credit risk, and the department of operation risk included in the division of risk management are responsible for planning and controlling of market risk, liquidity risk, credit risk, and operation risk and disperse regularly risk management to individual business departments.

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(3) Credit Risk

A) The definition of credit risk

Credit risk of the Company is the risk of financial loss if a client or counterparty fails to meet its contractual obligations. The scope of credit risk covers the credit risks on balance sheet, off balance sheet, and its derivatives including credit check, credit, investment, loan overdue, credit risk mitigation instruments (including collateral, guarantees, and hedging) and derivatives trading.

B) The management policy of credit risk

- a) To ensure that the credit risk is within a tolerable range. The credit risk management process of the Company includes identifying, assessing, measuring, supervising and reporting. In order to response to credit risks, if a client of consumer banking meets one of principles and conditions on the negative listing, the Company would not be willing to lend to avoid risk. As for corporate banking, the Company avoids choosing clients who have poor ratings, such as default, and warning clients. However, the Company still takes the extent of overall credit risk into account and assesses whether the collaterals or guarantees could reduce expected losses to a controllable level.
- b) The Company establishes a consistent method based on its business characteristics to evaluate asset quality and classification, calculates and controls its risk exposure and regularly reviews and verifies its allowance for bad debts. The credit assets of the Company are classified into 5 categories. Normal credit assets shall be classified as “Category One”. According to the status of the loan collaterals and the length of overdue, the remaining unsound credit assets should be classified as category two to category five, and be named as attention, substandard, doubtful, and loss, respectively. To manage problematic credit, the Company will make regulations as the basis of management of problematic loans and remaining debt.
- c) Based on business characteristics and size, the Company builds up the grade of credit quality, supervises, collects credit information of all counterparties and credit clients, and sets up the management objectives through the regulations of credit risk management and credit policy to reduce default and concentration risks.

The systems of credit risk measurement are described as follows.

1) Corporate banking

To evaluate credit risk, the Company has to do credit investigation and financial analysis by using relevant information provided by the credit clients and conduct credit rating after understanding the profiles of companies and industry. To accurately quantify credit risks, the Company has to develop various probability of default models (PD models) and complete credit rating system of corporate banking. In addition to the probability of default model (PD), loss given default model (LGD) is also established by the Company. The properties of credit risk measurement system are:

- A. Credit pricing: the risk premium is the expected loss which is measured by probability of default (PD), loss given default (LGD), and exposure at default (EAD), and it is treated as the basis of corporate credit pricing.
- B. Risk concentration control: the credit rating generated by the corporate credit rating system is the basis of the Company's corporate credit limits. The credit balance of each credit rating cannot exceed a certain percentage of the total corporate credit balance. Lower quality of credit is granted for high-risk credit clients who have poor credit ratings.
- C. Post-loan risk warning: credit rating is used in the post-loan management, and monitoring every warning situation.
- D. Monitor the extent of credit risk: Monitors can evaluate the extent of credit risk based on the segregation method of credit rating, and corporate group.

2) Consumer banking

To measure credit risks of the credit clients, the Company must review the basic information such as age and occupation of the credit clients when doing consumer credit. To further quantify credit risks, the Company develops model to qualify risks of consumer banking. Currently the Company has established the scoring cards of credit loans, automobile loans, mortgage loans and credit cards, and has established the behavioral scoring card and the probability of default model (PD).

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3) Investment

The Company manages the risk of debt instrument by external institutions or internal mechanism such as credit rating, credit quality of bond, country, and counterparty risk to identify credit risk.

The counterparties of the Company's derivative transactions and financial peers shall be deemed as mostly above investment grade and will be controlled according to their credit limit (including interbank credit limit); for counterparties that have no credit rating or are classified as non-investment grade, the transactions are prohibited. For general customers, credit exposure is controlled in accordance with the derivative instrument risk limit that is approved when applying for the credit by following a general procedure.

4) Credit risk is divided into 4 categories and described as follows:

Category	Definition
Low risk	High transparency of information and strong capacity to meet debt obligations. Low probability of default or small expected losses.
Medium risk	Average transparency of information and capacity to meet debt obligations. Average probability of default or moderate expected losses.
High risk	Low capacity to meet debt obligations and is vulnerable to external economic conditions. High probability of default or large expected losses.
No rating	Impossible to use quantitative methods to segregate risks.

C) Policy of Mitigation of Credit Risk

a) Collateral

For risk events with low probability of default but large loss given, the Company takes actions such as call for additional collateral, guarantor and on-balance sheet netting in order to mitigate or transfer risks. When the credit cases are evaluated to be low probability of default and small loss given, the Company would bear the risk.

b) Credit extension limit and credit risk concentration control

To avoid excessive concentration of credit risk, the Company has built up limits of credit balance for a same person, same related parties, same affiliated enterprises, same enterprise group and the category of industry, collaterals and countries, respectively.

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c) General conventions of net settlement

The transactions of the Company is usually settled on a gross basis, net settlement is set with certain counterparties or in the case of default when all the transaction with the counterparty are terminated and settled on a net basis to reduce credit risk.

D) Maximum exposure to credit risk

Without taking collateral or other credit enhancement instruments into account, the maximum exposure to credit risk of on-balance sheet financial assets is equal to their book values and the maximum exposure to credit risk of off-balance sheet financial instruments are as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Various guarantee proceeds	\$ 411,054	449,168
Unused amount of irrevocable letter of credit	609,002	270,922
Unused amount of irrevocable credit card commitments	22,390,307	24,240,666
Total	<u>\$ 23,410,363</u>	<u>24,960,756</u>

The related information of maximum exposure to credit risk about the on-balance sheet and off-balance sheet items held for collateral, netting agreements and other credit enhancement obtained is as follows:

<u>December 31, 2016</u>	<u>Collateral</u>	<u>Netting agreements that do not qualify for offset in accordance with IAS 32</u>	<u>Other credit enhancement obtained</u>	<u>Total</u>
<u>On-balance sheet items</u>				
Receivable from default settlement amount of derivative products	\$ 58,405	-	-	58,405
Discounts and loans	100,702,337	-	4,723,032	105,425,369
<u>Off-balance sheet items</u>				
Unused amount of irrevocable letter of credit	8,677	-	18,077	26,754
Various guarantee proceeds	11,915	-	73,245	85,160
Total	<u>\$ 100,781,334</u>	<u>-</u>	<u>4,814,354</u>	<u>105,595,688</u>

<u>December 31, 2015</u>	<u>Collateral</u>	<u>Netting agreements that do not qualify for offset in accordance with IAS 32</u>	<u>Other credit enhancement obtained</u>	<u>Total</u>
<u>On-balance sheet items</u>				
Discounts and loans	\$ 101,019,670	-	4,376,657	105,396,327
<u>Off-balance sheet items</u>				
Unused amount of irrevocable letter of credit	16,277	-	9,068	25,345
Various guarantee proceeds	19,320	-	77,017	96,337
Total	<u>\$ 101,055,267</u>	<u>-</u>	<u>4,462,742</u>	<u>105,518,009</u>

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E) Information on concentrations of credit risk

Concentrations of credit risk exist when counter-parties to financial instrument transactions are individuals or groups engaged in similar activities with similar economic characteristics, which would impair their ability to meet contractual obligations under negative economic or other conditions.

The credit risk concentration of the Company originates from assets, liabilities or off-balance sheet items that are generated by the transaction (irrespective of the product or service), performance, execution or cross-category exposure combination, including credit extension, deposits and call loans to banks, securities investment, receivables, and derivatives instruments. There is no significant concentration of credit risk within the Company in terms of a single client or counterparty to a transaction, and the transaction amount of a single client or counterparty does not account for a significant amount of the Company balance of discounts and loans and non-accrual account. The following table illustrates the diversification of the loan portfolio among geographical regions, industry sectors and collateral types.

a) By Industry

Industry	2016.12.31		2015.12.31	
	Amount	%	Amount	%
Private business	\$ 65,873,663	44.34	60,033,270	42.46
Public enterprises	293,412	0.20	293,412	0.21
Individual	78,090,583	52.56	80,083,688	56.63
Financial institution	4,312,618	2.90	995,220	0.70
Total	<u>\$ 148,570,276</u>	<u>100.00</u>	<u>141,405,590</u>	<u>100.00</u>

b) By Area

The Company primarily engage its business in Taiwan and there is no significant geographically concentrated credit risk.

c) By Collateral

Collateral	2016.12.31		2015.12.31	
	Amount	%	Amount	%
No Collateral:				
Credit	\$ 43,144,908	29.04	36,009,264	25.47
Collateral by:				
Stocks	10,645,361	7.17	9,275,902	6.56
Bonds	373,110	0.25	932,909	0.66
Real estate	87,405,130	58.83	88,665,171	62.70
Movables	2,930,769	1.97	1,890,813	1.34
Note receivable	1,544,230	1.04	1,357,279	0.96
Guaranty	2,051,184	1.38	2,759,467	1.95
Others	475,584	0.32	514,785	0.36
subtotal	105,425,368	70.96	105,396,326	74.53
Total	<u>\$ 148,570,276</u>	<u>100.00</u>	<u>141,405,590</u>	<u>100.00</u>

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F) Credit quality and impairment analysis of financial assets

Some financial assets held by the Company, such as cash and equivalent cash, due from the Central bank, call loans to banks, financial assets at fair value through profit or loss, securities purchased under resell agreements, refundable deposits, interest receivable—due from the Central bank and government bonds, receivable from pre-issuing trading bonds, and other receivables—financial holdings, are excluded from this analysis since most of the counterparty is normally with good credit quality and can be considered as low credit risk. Below tables provide the credit quality analysis for other financial assets.

a) Credit quality analysis of discounts and loans as well as receivables

Items	2016.12.31										
	Neither past due nor impaired					Past due not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Appropriated loss (D)		Net amount (A)+(B)+(C)-(D)
	Low risk	Medium risk	High risk	No rating	Subtotal (A)				With objective evidence of individual impairment	Without objective evidence of individual impairment	
On-balance-sheet items											
Receivables											
— Credit card business	\$ 179,799	414,899	455	479	595,632	74,130	10,424	680,186	2,515	9,098	668,573
— Accounts receivable	106,946	51,873	28,914	53,036	240,769	-	-	240,769	7,578	-	233,191
— Interest receivable— loans	147,165	8,897	-	-	156,062	1,299	5,326	162,687	758	900	161,029
— Acceptance receivable	68,063	-	-	-	68,063	-	-	68,063	-	951	67,112
— Factoring accounts receivable—without resource	757,731	-	-	-	757,731	-	-	757,731	-	7,786	749,945
— Receivable from default settlement amount of derivative products	-	-	-	-	-	-	854,663	854,663	523,051	-	331,612
Discount and loans	138,950,851	6,581,873	122	-	145,532,846	428,152	2,609,279	148,570,277	359,463	1,537,760	146,673,054
Off-balance-sheet items											
Guaranty	402,952	-	8,102	-	411,054	-	-	411,054	162	4,029	406,863
Letter of Credit	589,500	19,502	-	-	609,002	-	-	609,002	-	-	609,002
Total	\$ 141,203,007	7,077,044	37,593	53,515	148,371,159	503,581	3,479,692	152,354,432	893,527	1,560,524	149,900,381

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Items	2015.12.31								Appropriated loss (D)		Net amount (A)+(B)+(C)-(D)
	Neither past due nor impaired					Past due not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	With objective evidence of individual impairment	Without objective evidence of individual impairment	
	Low risk	Medium risk	High risk	No rating	Subtotal (A)						
On-balance-sheet items											
Receivables											
– Credit card business	\$ 212,628	449,585	1,939	270	664,422	80,810	10,983	756,215	2,656	12,799	740,760
– Accounts receivable	94,240	23,586	-	43,742	161,568	-	6,040	167,608	2,462	-	165,146
– Interest receivable – loans	142,526	8,118	27	-	150,671	1,035	4,721	156,427	622	515	155,290
– Acceptance receivable	113,068	-	-	-	113,068	-	-	113,068	-	1,361	111,707
– Factoring accounts receivable – without resource	183,745	-	-	-	183,745	-	-	183,745	-	1,946	181,799
– Receivable from default settlement amount of derivative products	-	-	-	-	-	-	79,920	79,920	68,417	-	11,503
Discount and loans	132,647,333	5,868,302	8,383	-	138,524,018	311,081	2,570,491	141,405,590	366,319	1,353,913	139,685,358
Off-balance-sheet items											
Guaranty	315,059	104,637	29,472	-	449,168	-	-	449,168	21,532	4,197	423,439
Letter of Credit	245,500	25,422	-	-	270,922	-	-	270,922	-	-	270,922
Total	\$ 133,954,099	6,479,650	39,821	44,012	140,517,582	392,926	2,672,155	143,582,663	462,008	1,374,731	141,745,924

Note: No rating is (1) missing (or closed card) accounts and normal accounts which have been approved for more than 1 year but no billing recorded in the recent 1 year, or (2) bad debt, legal proceedings and doubtful accounts.

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b) Client-credit-quality-based credit quality analysis on none past due and none impaired discounts and loans

2016.12.31	Neither past due nor impaired			
	Low risk	Medium risk	High risk	Total
Consumer banking				
– Residential mortgages	\$ 45,090,085	844	-	45,090,929
– Micro-credit loans	362,902	268,942	-	631,844
– Other	24,399,405	1,159	-	24,400,564
Corporate banking				
– Secured	27,712,485	1,914,299	104	29,626,888
– Unsecured	41,385,974	4,396,629	18	45,782,621
Total	\$ 138,950,851	6,581,873	122	145,532,846

2015.12.31	Neither past due nor impaired			
	Low risk	Medium risk	High risk	Total
Consumer banking				
– Residential mortgages	\$ 48,997,659	2,807	-	49,000,466
– Micro-credit loans	345,268	392,166	6,301	743,735
– Other	23,028,991	2,213	29	23,031,233
Corporate banking				
– Secured	26,363,552	1,304,637	-	27,668,189
– Unsecured	33,911,863	4,166,479	2,053	38,080,395
Total	\$ 132,647,333	5,868,302	8,383	138,524,018

c) Credit quality analysis of security investments

Items	2016.12.31									
	Neither past due nor impaired					Past due not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Loss amount recognized (D)	Net amount (A)+(B)+(C)-(D)
	Low risk	Medium risk	High risk	No rating	Subtotal (A)					
Available-for-sale financial assets										
– Bonds investment	\$ 22,619,016	401,815	-	-	23,020,831	-	-	23,020,831	-	23,020,831
– Stocks investment	3,625	-	-	-	3,625	-	-	3,625	-	3,625
– Other	186,807	-	-	-	186,807	-	-	186,807	-	186,807
Other financial assets										
– Stocks investment	268,645	-	-	104,675	373,320	-	52,165	425,485	13,284	412,201
Total	\$ 23,078,093	401,815	-	104,675	23,584,583	-	52,165	23,636,748	13,284	23,623,464

Items	2015.12.31									
	Neither past due nor impaired					Past due not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Loss amount recognized (D)	Net amount (A)+(B)+(C)-(D)
	Low risk	Medium risk	High risk	No rating	Subtotal (A)					
Available-for-sale financial assets										
– Bonds investment	\$ 10,073,242	603,839	-	-	10,677,081	-	-	10,677,081	-	10,677,081
– Stocks investment	3,315	-	-	-	3,315	-	-	3,315	-	3,315
Other financial assets										
– Stocks investment	268,645	-	-	104,675	373,320	-	52,165	425,485	12,938	412,547
Total	\$ 10,345,202	603,839	-	104,675	11,053,716	-	52,165	11,105,881	12,938	11,092,943

Note: No rating means (1) not listed nor TPEX securities without the Company's rating; (2) listed and TPEX securities without the Company's rating whose listing period are less than one year.

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G) Aging analysis on past due but not impaired financial assets

Past due but not impaired loans might results from some temporary administration reasons so the customer is in the early stages of delinquency but no actual impairment occurs yet. According to the internal credit risk assets impairment evaluation guideline, unless there are other objective evidences shown the potential loss, a less than 90-day past due loan is typically not to be treated as impairment.

The aging analysis on past due but not impaired financial assets is as follows:

	2016.12.31		
	Overdue within 1 month	Overdue between 1 and 3 months	Total
Receivables			
– Credit card business	\$ 22,005	52,125	74,130
– Interest from loans	512	787	1,299
Discounts and loans			
Consumer banking			
– Residential mortgages	168,349	110,777	279,126
– Micro-credit loans	3,116	1,120	4,236
– Others	74,115	68,321	142,436
Corporate banking			
– Secured	2,296	-	2,296
– Unsecured	58	-	58
Total	\$ 270,451	233,130	503,581
	2015.12.31		
	Overdue within 1 month	Overdue between 1 and 3 months	Total
Receivables			
– Credit card business	\$ 23,597	57,213	80,810
– Interest from loans	386	649	1,035
Discounts and loans			
Consumer banking			
– Residential mortgages	138,867	90,238	229,105
– Micro-credit loans	3,667	1,883	5,550
– Others	33,837	42,321	76,158
Corporate banking			
– Secured	-	241	241
– Unsecured	-	27	27
Total	\$ 200,354	192,572	392,926

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

a) Asset quality

Unit: in thousands of New Taiwan Dollars, %

Business/Items		2016.12.31				
		Non-performing loans	Total loans	Non-performing loans ratio	Allowance for bad debts	Coverage ratio of allowance for bad debts
Corporate banking	Secured	96,024	30,776,941	0.31%	378,053	393.71%
	Unsecured	131,794	46,379,551	0.28%	538,241	408.40%
Consumer banking	Residential mortgages	39,322	45,654,975	0.09%	684,224	1,740.05%
	Cash cards	-	-	- %	-	- %
	Micro-credit loans	1,570	716,332	0.22%	14,390	916.56%
	Other	Secured	65,063	24,417,567	0.27%	252,891
Unsecured		1,195	624,911	0.19%	29,424	2,462.26%
Total loan business		334,968	148,570,277	0.23%	1,897,223	566.39%
		Overdue accounts	Receivables	Overdue accounts ratio	Allowance for bad debts	Coverage ratio of allowance for bad debts
Credit card business		2,631	1,054,269	0.25%	11,613	441.39%
Factoring receivables – without recourse		-	757,731	- %	7,786	- %

Business/Items		2015.12.31				
		Non-performing loans	Total loans	Non-performing loans ratio	Allowance for bad debts	Coverage ratio of allowance for bad debts
Corporate banking	Secured	68,768	28,825,768	0.24%	342,061	497.41%
	Unsecured	126,679	38,554,603	0.33%	467,329	368.91%
Consumer banking	Residential mortgages	24,706	49,469,799	0.05%	620,757	2,512.58%
	Cash cards	-	-	- %	-	- %
	Micro-credit loans	1,764	850,592	0.21%	18,013	1,021.15%
	Other	Secured	66,236	22,948,867	0.29%	233,582
Unsecured		1,802	755,961	0.24%	38,490	2,135.96%
Total loan business		289,955	141,405,590	0.21%	1,720,232	593.28%
		Overdue accounts	Receivables	Overdue accounts ratio	Allowance for bad debts	Coverage ratio of allowance for bad debts
Credit card business		1,976	1,116,414	0.18%	15,455	782.14%
Factoring receivables – without recourse		-	183,745	- %	1,946	- %

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Note 1: Non-performing loans represent the amount of overdue loans as reported in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans.” The credit card overdue loans represent the amount of overdue loans as reported in accordance with Jin-Kuan-Yin-(4)-Zi No. 0944000378, dated July 6, 2005.

Note 2: Non-performing loans ratio = non-performing loans ÷ total loans; Credit card delinquency ratio = overdue receivables ÷ balance of receivables.

Note 3: Coverage ratio of allowance for bad debts = allowance for credit losses ÷ non-performing loans; Coverage ratio for credit card = allowance for credit losses ÷ overdue receivables.

Note 4: For residential mortgage loans, a borrower provides his/her (or spouse's or minor child's) house as collateral in full and pledges it to the financial institution for the purpose of obtaining funds to purchase property and to construct or repair a house.

Note 5: Micro-credit loans are defined by Jin-Kuan-Yin-(4)-Zi No. 09440010950, dated December 19, 2005, and they do not include credit cards or cash cards.

Note 6: Others in consumer banking are secured and unsecured consumer loans other than residential mortgage loans, cash cards, and micro-credit loans, and do not include credit cards.

Note 7: In accordance with Jin-Kuan-Yin-(5)-Zi No. 094000494, dated July 19, 2005, the amounts of without-recourse factoring will be classified as overdue receivables within three months from the date that suppliers or insurance companies resolve not to compensate the loss.

b) The information below shows supplemental disclosures of the Company's loans and receivables that may be exempted from reporting as non-performing loans and overdue receivables, respectively.

	2016.12.31		2015.12.31	
	Loans may be exempted from reporting as a non-performing loan	Receivables may be exempted from reporting as overdue receivables	Loans may be exempted from reporting as a non-performing loan	Receivables may be exempted from reporting as overdue receivables
Pursuant to a contract under a debt negotiation plan (Note 1)	51,901	-	75,929	-
Pursuant to a contract under a debt liquidation plan and a debt relief plan (Note 2)	22,408	6,002	28,680	6,481
Total	74,309	6,002	104,609	6,481

Note 1: In accordance with Jin-Kuan-Yin-(1)-Zi No. 09510001270, dated April 25, 2006, a bank is required to make supplemental disclosure reporting credit information which was approved under the “Debt Coordination Mechanism of Unsecured Consumer Debts by the Bankers Association of the R.O.C”.

Note 2: In accordance with Jin-Kuan-Yin-(1)-Zi No. 09700318940, dated September 15, 2008, a bank is required to make supplemental disclosure reporting credit information once debtors apply for pre-negotiation, relief and liquidation under the “Consumer Debt Clearance Act.”

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c) Concentration of credit extensions

Unit: in thousands of New Taiwan Dollars, %

2016.12.31			
Rank	Enterprise group	Credit amount	Credit amount to shareholders' equity ratio (%)
1	A GROUP – Petroleum and Coal Products Manufacturing	3,149,646	16.60%
2	B GROUP – Other Financial Intermediates not Elsewhere Classified	2,702,560	14.24%
3	C GROUP – Ocean Transportation	1,786,475	9.42%
4	D GROUP – Basic Chemical Materials Manufacturing	1,764,530	9.30%
5	E GROUP – Financial Lease	1,712,355	9.02%
6	F GROUP – Wholesale Electronic Equipment and Parts	1,603,082	8.45%
7	G GROUP – Financial Lease	1,481,702	7.81%
8	H GROUP – Cement Products Manufacturing	1,197,749	6.31%
9	I GROUP – Real Estate Development	1,153,651	6.08%
10	J GROUP – Monitor and Terminal Manufacturing	1,032,480	5.44%

2015.12.31			
Rank	Enterprise group	Credit amount	Credit amount to shareholders' equity ratio (%)
1	A GROUP – Other Financial Intermediates not Elsewhere Classified	3,091,357	16.05%
2	B GROUP – Real Estate Development	2,159,755	11.21%
3	C GROUP – Petroleum and Coal Products Manufacturing	2,144,004	11.13%
4	D GROUP – Financial Leases	1,580,624	8.20%
5	E GROUP – Wholesale of Electronic Equipment and Parts	1,267,601	6.58%
6	F GROUP – Cement Products Manufacturing	1,226,948	6.37%
7	G GROUP – Manufacture of Basic Chemical Material	1,037,927	5.39%
8	H GROUP – Computer Manufacturing	971,265	5.04%
9	I GROUP – Automobile Manufacturing	958,400	4.97%
10	J GROUP – Renting and Selling Real Estate	941,700	4.89%

(4) Liquidity Risk

A) Definition and sources of liquidity risk

Liquidity risk of the Company refers to the inability to liquidate assets or obtain financing to meet its due obligations, and thus impact the Company's earnings or shareholders' equity.

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B) Management policy of liquidity risk

a) Strategy

In addition to be in compliance with the reserve requirement and the lowest liquidity ratio required by the competent authority, the Company establishes liquidity analysis, triggers, and limit of indicators in order to set up coping strategies to prevent poor liquidity.

b) Management process

- 1) Financial investment division uses the daily estimated funding gap as the basis for allocation of funds.
- 2) The Company conducts stress tests of liquidity to assess the level of risk it can bear when encountering crisis and the result will be reported to the risk management division and top executives.
- 3) The Company convenes “Asset Liability Management Committee” every month to review the Company’s liquidity risk.
- 4) Risk management division monitors external warning indicators on a daily basis to control the flexibility risk alert immediately.
- 5) Risk management division produces liquidity risk management report to top executives every month. The report includes internal indicators of the Company’s liquidity risk management and tables of gap analysis. The risk management division monitors and analyzes the liquidity risk profiles then submits a report to the Assets and Liabilities Management Committee, and together with the monthly liquidity risk analysis report will be reported to the top executives, audit committee and board of directors.

c) Evaluation method

- 1) Prepare tables of structure analysis of maturity in accordance with the competent authority.
- 2) Prepare tables of fund gap that predicts the renewal rate of deposits and loans in order to assess the Company’s fund liquidity analysis.
- 3) The internal indicators of liquidity risk management are “LTD ratio of Taiwanese or foreign currency”, “liquidity reserve ratio”, “ratio of the amount of liquidity gap of new Taiwan dollar that will mature within 30 days to total assets” and “liquidity coverage ratio”. Limit of indicators are set in accordance with risk tolerance level to develop coping strategies.

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- 4) In addition to internal indicators, the Company also uses external indicators. For example when its credit ratings are downgraded or when it's significantly penalized by the competent authority, contingency measures will be initiated by the emergency response team.
- 5) Setting scenarios for stress test for liquidity is in order to assess the Company's duration under stress scenarios. Appropriate strategies for capital allocation and countermeasures are developed when it's necessary.
- 6) The Company sets "Business Crisis Contingency Measures" in accordance with the "Operational Measures when Handling Business Crisis for Financial Institutions" issued by FSC. When the Company faces abnormal deposits withdrawals, a serious shortage of funds or other huge loss of liquidity, relevant procedures will be carried out.

C) Maturity analysis of non-derivatives liabilities

Table below shows the analysis of cash outflows of non-derivatives liabilities based on time remaining until the contractual maturity date.

	2016.12.31					
	0-30 days	31-90 days	91-180 days	181 days-1year	Over 1 year	Total
Deposits from the central bank and other banks	\$ 9,977,409	1,062,294	1,463,715	1,419,133	3,050,905	16,973,456
Securities sold under repurchase agreements	1,100,000	1,500,000	-	-	-	2,600,000
Payables	1,494,977	182,267	243,797	66,757	64,664	2,052,462
Deposits and remittances	29,052,622	19,742,133	17,606,551	34,878,847	81,053,561	182,333,714
Financial debentures	-	-	-	-	5,000,000	5,000,000
Other financial liabilities	67,762	199,336	546,427	239,639	344,974	1,398,138
	2015.12.31					
	0-30 days	31-90 days	91-180 days	181 days-1year	Over 1 year	Total
Deposits from the central bank and other banks	\$ 1,440,106	671,180	1,447,588	1,311,098	2,492,950	7,362,922
Payables	825,965	521,130	214,332	98,122	41,188	1,700,737
Deposits and remittances	30,489,239	21,653,103	18,646,415	36,681,471	74,901,394	182,371,622
Financial debentures	-	-	-	-	5,000,000	5,000,000
Other financial liabilities	141,628	25,807	112,980	136,935	1,321,109	1,738,459

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D) Maturity analysis of derivatives liabilities

Table below shows the analysis of cash outflows of derivatives liabilities based on the maturity date.

		2016.12.31					
		0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss							
– Forward contracts	\$	1,043,670	-	-	-	-	1,043,670
– SWAP		29,087	-	-	-	-	29,087
– Currency option		14,541	34,041	252,977	267,330	196,757	765,646
– Interest rate instruments		86,218	-	-	-	-	86,218
– Convertible bond asset swap		7,257	-	-	-	-	7,257
Total		<u>\$ 1,180,773</u>	<u>34,041</u>	<u>252,977</u>	<u>267,330</u>	<u>196,757</u>	<u>1,931,878</u>
		2015.12.31					
		0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss							
– Forward contracts	\$	1,553,999	-	-	-	-	1,553,999
– SWAP		190,657	-	-	-	-	190,657
– Currency option		56,759	149,266	58,679	309,092	1,381,871	1,955,667
– Interest rate instruments		141,936	-	-	-	-	141,936
– Convertible bond asset swap		13,271	-	-	-	-	13,271
Total		<u>\$ 1,956,622</u>	<u>149,266</u>	<u>58,679</u>	<u>309,092</u>	<u>1,381,871</u>	<u>3,855,530</u>

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E) Maturity analysis of off-balance sheet items

Table below shows the maturity analysis of off-balance-sheet items for the Company. The amount of the guarantee and committed credit lines will be allocated to the earliest period when such obligation can be exercised anytime by clients.

Unit: in thousands of New Taiwan Dollars

	2016.12.31					
	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Unused amount of irrevocable credit card commitments	\$ 21,767,079	7,963	3,694	29,364	582,207	22,390,307
Unused amount of irrevocable letter of credit	149,190	404,724	55,088	-	-	609,002
Various guarantee proceeds	23,102	55,200	131,954	143,798	57,000	411,054

	2015.12.31					
	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year	Total
Unused amount of irrevocable credit card commitments	\$ 23,567,257	18,134	53,222	225,199	376,854	24,240,666
Unused amount of irrevocable letter of credit	58,000	211,113	1,809	-	-	270,922
Various guarantee proceeds	44,472	180,500	78,124	65,605	80,467	449,168

F) Maturity analysis of lease contract and capital expenditure commitment

The lease contracts of the Company are operating lease. Operating lease commitment is the future minimum rental payment under operating lease conditions when the Company is a lessee or lessor.

The capital expenditure commitment of the Company is the contractual commitments signed for obtaining buildings and equipment.

Maturity analysis of lease contract and capital expenditure commitment of the Company is as follows:

Unit: in thousands of New Taiwan Dollars

2016.12.31	Under 1 year	1 to 5 years	Over 5 years	Total
Lease contract commitments				
Operating lease expense (lessee)	\$ 167,327	320,445	3,671	491,443
Operating lease revenue (lessor)	14,106	11,278	12,258	37,642
Capital expenditure commitments	2,248	882	-	3,130

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<u>2015.12.31</u>	<u>Under 1 year</u>	<u>1 to 5 years</u>	<u>Over 5 years</u>	<u>Total</u>
Lease contract commitments				
Operating lease expense (lessee)	\$ 145,261	208,997	6,819	361,077
Operating lease revenue (lessor)	26,507	19,921	-	46,428
Capital expenditure commitments	10,470	-	-	10,470

Unit: in thousands of New Taiwan Dollars

(5) Market Risk

A) Sources and definition of market risk

Market risk results from the changes in market prices, such as interest rates, foreign exchange rates, security prices and commodity prices, and will cause the risk of loss.

B) Market risk management policy

a) Strategy

- 1) The market risk positions of the Company are monitored in accordance with the limit of indicators approved by the board of directors.
- 2) To fulfill market risk management and the operational goals of the Company, the risk management division of the Company complies with the Company's Risk Management Rules and Market Risk Management Measures.
- 3) Establishing market risk management mechanism helps effectively monitor the financial instruments positions of the Company, including limitation management, profit and loss evaluation, stress test execution, and risk measurement. All of above will be reported to the top executives as references for decision making.

b) Policies and procedures

In order to establish the market risk management mechanism of the Company and its operating segments and to ensure that market risk is within the tolerable range, rules, approaches and operating articles are enacted by the Company and its operating segments. These regulations would help the Company and its operating segments effectively monitor all possible risks deriving from financial instruments.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

C) Market risk management process

a) Recognition and evaluation

To effectively evaluate the degree of market risk exposure, the Company has set management indicators and its limit by establishing scientific methods and system of market risk management. The evaluation can serve as a basis to manage and monitor the Company's possible market risk. The Company's internal market risk estimation model includes interest rate, foreign exchange, equity, product and other risk factors. In addition to the traditional control methods such as authorize position limit, stop-loss limit, limit of risk indicators (e.g., Greeks, DVO1.....), Value at Risk (VaR), stress test and limit on permission suspension are applied to measure market risk. Nevertheless, when data is applied for stress test, in the extreme scenario the monitor and management of limit is valued as the whole financial holding company.

b) Monitoring and reporting

- 1) Risk management department of each business unit : Daily supervision is conducted by each business unit by following related internal policies and executing hierarchical authorization control. Furthermore, reports should be submitted. When a divergence or exception occurs, an analysis should be accompanied with the report. When submitting a report, one should not only follow the Company's notification procedures, but also send notification to risk management division. If the risk indicator is within the limit, general manager of the Company should approve further measures and the top executive from the financial holding company's risk management division should review before giving notice to the chairman. If, however, the loss of a business unit exceeds its limit, it should ameliorate within a period of time unless the character of the business operation unit requires seeking approval from the Company's chairman. When the loss can't be dropped below the limit, the business operation unit needs to take specific handling procedures. If necessary, financial holding company's risk management committee should be held to come up with a resolution.
- 2) Risk management division : In compliance with financial holding company's risk management mechanism, risk management division would supervise the indicators of market risk of the Company and its managed business unit on the daily basis. If the Company's risk indicator exceeds the limit, risk management division should analyze the irregularity and report to the Company's general manager and chairman. Furthermore, the general manager and chairman of the parent company should be notified the case. If necessary, financial holding company's risk management committee should be held and the case should be reported in the nearest board meeting.

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D) Trading book risk management policies

Trading book is established in compliance with Regulations Governing the Capital Adequacy and Capital Category of Banks. Trading book includes the position of financial products and physical products which are evaluated frequently and actively managed for trading or for hedging.

a) Strategies

- 1) Intend to make a profit through the spreads of actual or expected price of held position.
- 2) Intend to make a profit through the changes of other prices or interest rate of held position.
- 3) Position held for the brokerage and proprietary business.
- 4) Position held for the need of hedge.
- 5) Other all transactions under predetermined investment limit.

b) Policies and procedures

Financial Investment Limit Authorization and Suspension Policies of the Division of Investments is established by the Company as a basis of governance of trading book.

c) Evaluation policy

Position of trading book is evaluated daily according to its fair value or models. Market price data needed by the valuation models should be updated daily.

d) Measurement approach

- 1) The assumptions and calculations of Value at Risk (VaR) refer to I. Technique of market risk valuation a. Value at Risk (VaR).
- 2) Stress tests carried out by the Company include single factor sensitivity test, historical scenario test and custom scenario test. These tests are conducted to understand the influence on the Company's existing trading portfolio assuming a recurrence of significant international and domestic events or an occurrence of customized extreme condition and to verify extreme situation which may cause extraordinary loss.

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E) Trading book interest rate risk management

a) The Definition of interest rate risk

Interest rate risk arises from changes in interest rates that will affect the Company's income or the fair value of its holdings of financial instruments. Primary interest rate related instruments held in the Company's trading portfolios include domestic and overseas bonds, interest rate derivatives, interest rate futures, interest rate options, convertible bond asset swap, and the interest rate derivative instruments issued by the Company and its hedging position.

b) Management procedure of trading book

In order to effectively supervise the interest rate risk and the possible effect on the Company's profitability, authorized trading limit, suspension limit and limit of related risk indicator are established for each business unit, traders and interest related product.

c) Measurement approach

- 1) DVO1 limit is set for domestic and overseas bonds, interest rate derivatives and domestic and overseas interest rate futures.
- 2) Greeks limit (e.g., DVO1, Gamma and Vega) is set for interest rate options.
- 3) DVO1 limit and Greeks limit (e.g., Delta, Gamma and Vega) are set for the interest rate derivative instruments and its hedging position that are issued by the Company.
- 4) Greeks limit (e.g., Delta, Gamma and Vega) is set for convertible bond asset swap.

F) Banking book interest rate risk management

Interest rate risk is a risk that profit and economic value of assets and liabilities are affected due to an adverse change in the absolute level of interest rates.

a) Strategies

In order to decrease the degree of interest risk exposure, the Company has built up interest rate sensitive balance sheet, analyzed interest sensitive gap and established limit of indicators for setting strategies and hedging programs.

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b) Management process

1) Identification and measurement

Interest rate sensitive balance sheet system is established by the Company to measure the Company's interest rate risk of banking book. The system includes the Company's on and off balance sheet's asset and liability positions in New Taiwan Dollars and US Dollars. And the system is applied to observe the influence on the Company's economic value and the following year's net interest revenue, if a change in interest rate occurs.

2) Monitor and report

A. Monitoring the Company's banking book interest rate risk exposure, supervising interest rate risk indicator, building up interest rate sensitive balance sheet and analyzing interest rate sensitivity gap are performed by the risk management division on the monthly basis. During the Asset Liability Committee, a report should be put forward. Moreover, a report of interest rate risk management analysis should be submitted to top executives, audit committee and board of directors.

B. Holding the Asset Liability Committee on a monthly basis and the committee should examine interest rate risk.

C. When the Company's banking book interest rate risk exceeds the predetermined threshold (medium and high risk or up), the risk management division should analyze and report to Asset Liability Committee and the parent company's risk management committee. Furthermore, possible walk around is developed with the consideration of the Company's ability to sustain the interest risk regarding its eligible capital.

3) Measurement

Analyzing the possible economic effect as the parallel shift of interest rate at 200 bps divided by eligible capital is the main indicator used to measure interest rate risk.

G) Foreign exchange risk management

a) The definition of foreign exchange risk

The foreign exchange risk shall mean the potential loss of an exchange of two different currencies at different period of time. The main foreign exchange products operated by the Company are non-option foreign exchange products, foreign exchange options, and the foreign exchange derivative instruments issued by the Company and its hedged position.

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b) Foreign exchange risk management policies, procedures and evaluation methods.

- 1) In order to effectively manage the Company's risk incurred due to foreign exchange market operation and gauge the influence on the Company's profit, transaction limit, stop-loss limit and related risk indicator are established to each business unit, traders and foreign exchange related products.
- 2) Individual limit of every kinds of foreign currency position are set by the Company's operation of non-option foreign exchange products, including spot exchange, forward exchange, foreign exchange swap and NDF.
- 3) Greeks limit (e.g., Delta, Gamma and Vega) is set by the Company for the operation of foreign exchange option.
- 4) Greeks limit (e.g., Delta, Gamma and Vega) is set by the Company for the Company's foreign exchange derivatives instruments and its hedged position.

H) Management of price risk of equity securities

a) The definition of equity security risk

Equity security market risk includes specific risk incurs due to the price change of a specific equity security and a general market risk incurs due to the price change of whole market. Primary equity instruments held in the Company's trading portfolios include listed stocks, ETF and stock equity funds, foreign currency mutual fund, oversea currency stock and ETF, domestic and oversea equity index futures, domestic equity index options, stock futures, warrants, foreign currency equity futures, convertible bonds and securities lending of convertible bonds.

b) Equity securities risk management policies, procedures and evaluation methods

- 1) In order to efficiently control the risks which arise from trading of equity securities and the impact on profits, the Company regulates the authorized transaction limit, stop limit and related risk indicator for each business unit, traders and other equity security instruments.
- 2) Alert for a decline of single share and stop-loss percentage are set for listed stock, convertible bond, securities lending of convertible bonds, ETF and stock mutual funds.
- 3) Greeks limit (e.g., Delta, Gamma and Vega) is set for equity instruments.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

I) Technique of market risk valuation

a) Value at Risk (VaR)

Incompliance with Basel Internal Model Approach for Market Risk, the Company updates market data on a daily basis. Exponentially-weighted moving average (EWMA) is applied to compute volatility based on the market price range for the past year. Additionally, correlation of different market risk factor is considered and assumption of price changed of risk factor follow certain pattern is made. With an assistance of a computer, simulation of possible price path is identified. The Company uses the simulation as the basis of investment portfolio's profit allocation. Monte Carlo simulations may be applied to compute Value at Risk of 99% confidence interval. Variance-covariance matrices or Historical simulations can also be applied. Furthermore, the Company would exercise back testing to evaluate the appropriateness of Value at Risk model on a daily basis.

99%C.L.1 day(VaR)	(In Million of New Taiwan Dollars)		
	2016		
	Season average	Season high	Season low
Exchange instrument	31.95	60.63	20.39
Interest instrument	1.43	0.06	0.10
Equity instrument	2.20	1.29	2.38
VaR	31.77	60.73	20.03

99%C.L.1 day(VaR)	2015		
	Season average	Season high	Season low
	Exchange instrument	47.10	68.99
Interest instrument	1.14	0.08	0.14
Equity instrument	4.97	2.50	3.15
VaR	46.21	68.65	28.40

b) Stress Testing

Stress test is exercised to evaluate the greatest potential loss of risk-weighted assets under the worst hypothetical scenarios. The test is composed by three parts: (1) Single Factor Sensitivity Test: The purpose of this test is to observe the change on a portfolio's value whenever a specific risk factor changes. Assuming that the risk factor is the stock price of common stocks, the single factor sensitivity test is to evaluate the value change on a portfolio when the stock price changes. (2) Historical Scenario Test: The purpose of this test is to simulate the portfolio under a historical event, where the portfolio is applied to following the historical returns. (3) Custom Scenario Test: This test is similar to the single-factor sensitivity test and in addition, takes the correlation of risk factors into consideration.

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c) Sensitivity analysis

Summary of sensitivity analysis are as follows:

(In Million of New Taiwan Dollars)

2016.12.31			
Risk items	Movement	Amount	
		Profit and loss	Equity
Interest	Interest rate curve shift up 100bps	3	(1,208)
Rate Risk	Interest rate curve shift down 100bps	(58)	1,313
Foreign Exchange	Foreign currency appreciate 7% against NTD	223	502
Rate Risk	Foreign currency depreciate 7% against NTD	(231)	(502)
Equity Price Risk	Equity price appreciate 20%	4	1
	Equity price depreciate 20%	(3)	(1)

(In Million of New Taiwan Dollars)

2015.12.31			
Risk items	Movement	Amount	
		Profit and loss	Equity
Interest	Interest rate curve shift up 100bps	(490)	(207)
Rate Risk	Interest rate curve shift down 100bps	407	103
Foreign Exchange	Foreign currency appreciate 7% against NTD	176	-
Rate Risk	Foreign currency depreciate 7% against NTD	505	-
Equity Price Risk	Equity price appreciate 20%	11	1
	Equity price depreciate 20%	(12)	(1)

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K) Interest rate sensitivity information

a) Interest rate sensitive assets and liabilities analysis sheet

2016.12.31

Unit: in Thousands of Taiwan Dollars ; %

ITEM	1-90 days (inclusive)	91-180 days (inclusive)	181 days -1 year (inclusive)	Over 1 year	Total
Interest-rate-sensitive assets	\$ 160,226,272	1,350,803	2,332,105	23,148,093	187,057,273
Interest-rate-sensitive liabilities	64,241,220	80,004,490	24,090,390	7,546,398	175,882,498
Interest rate sensitivity gap	95,985,052	(78,653,687)	(21,758,285)	15,601,695	11,174,775
Net value					18,780,464
Interest-rate-sensitive assets to interest-rate-sensitive liabilities ratio					106.35
Interest rate sensitivity gap to net value ratio					59.50

2015.12.31

Unit: in Thousands of Taiwan Dollars ; %

ITEM	1-90 days (inclusive)	91-180 days (inclusive)	181 days -1 year (inclusive)	Over 1 year	Total
Interest-rate-sensitive assets	\$ 153,991,465	636,724	3,287,172	17,989,103	175,904,464
Interest-rate-sensitive liabilities	59,943,848	74,494,094	25,443,929	7,134,089	167,015,960
Interest rate sensitivity gap	94,047,617	(73,857,370)	(22,156,757)	10,855,014	8,888,504
Net value					18,776,606
Interest-rate-sensitive assets to interest-rate-sensitive liabilities ratio					105.32
Interest rate sensitivity gap to net value ratio					47.34

Note 1: Listed amounts of the head office, domestic branches, offshore banking unit and overseas branches (excluding foreign currency amounts) are denominated in NTD.

Note 2: Interest-rate-sensitive assets and liabilities are determined by the revenue or cost of various rates spreads between interest-earning assets and interest-bearing liabilities.

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 (denominated in NTD).

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b) Interest rate sensitive assets and liabilities analysis sheet (USD)

2016.12.31

Unit: in Thousands of USD ; %

ITEM	1-90 days (inclusive)	91-180 days (inclusive)	181 days - 1 year (inclusive)	Over 1 year	Total
Interest-rate-sensitive assets	\$ 248,128	65,781	77,065	309,585	700,559
Interest-rate-sensitive liabilities	349,997	300,238	37,969	435	688,639
Interest rate sensitivity gap	(101,869)	(234,457)	39,096	309,150	11,920
Net value					5,149
Interest-rate-sensitive assets to interest-rate-sensitive liabilities ratio					101.73
Interest rate sensitivity gap to net value ratio					231.50

2015.12.31

Unit: in Thousands of USD ; %

ITEM	1-90 days (inclusive)	91-180 days (inclusive)	181 days - 1 year (inclusive)	Over 1 year	Total
Interest-rate-sensitive assets	\$ 181,506	42,551	101,613	251,002	576,672
Interest-rate-sensitive liabilities	247,109	310,885	36,161	249	594,404
Interest rate sensitivity gap	(65,603)	(268,334)	65,452	250,753	(17,732)
Net value					15,278
Interest-rate-sensitive assets to interest-rate-sensitive liabilities ratio					97.02
Interest rate sensitivity gap to net value ratio					(116.06)

Note 1: Listed amounts of the head office, domestic branches and offshore banking unit (excluding contingent assets and liabilities) are denominated in USD.

Note 2: Interest-rate-sensitive assets and liabilities are determined by the revenue or cost of various rates spreads between interest-earning assets and interest-bearing liabilities.

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 (denominated in USD).

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(f) Capital management

(1) Overview

The Company's capital management objectives are as follows:

- A) The capital management objective of the Company is that their eligible capital is sufficient to meet the capital requirements and the minimum legal capital adequacy rate. The eligible capital and the authorized capital are calculated in pursuant to the regulations set by the regulators.
- B) To enable the Company to have an adequate capital to cover various risks, the required capital should be calculated based on the risk portfolios and the risk characteristics that the Company faced. Optimal allocation of resources can be achieved by regularly reviewing the objectives of capital management.

(2) Capital management procedures

- A) The Company reviews and completes the overall risk management report and submitted to the Board monthly, and maintains adequate capital to meet the requirements of the authority and to report to the authority on a quarterly basis.
- B) When the indicator of capital adequacy ratio management shows the following signals, the related management mechanism would be as follows:
 - a) Indicator in red and yellow light: An analysis should be provided by the risk management division. Additionally, the event should be reported in the nearest Risk Management Committee.
 - b) Indicator in red light: An analysis should be provided by the risk management division. Additionally, the event should not only be reported to the Risk Management Committee, but also be dealt with in accordance to the resolutions reached in the committee. If a decrease of risk-weighted asset is proposed, the related departments should take actions accordingly. If, however, an increase in authorized capital is proposed, the proposal should be submitted to and evaluated by Asset Liability Committee.

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- C) The Company's capital management is responsible for the Risk Management Division. The Company's regulatory capital is divided into Tier 1 Capital and Tier 2 Capital following the "Regulations Governing the Capital Adequacy and Capital Category of Banks".
- a) Tier 1 Capital: The aggregate amount of Common Equity Tier 1 and additional Tier 1 Capital.

Tier I capital includes Common Equity Tier 1 and additional Tier I capital. Common Equity Tier 1 includes common shares, capital surplus, capital collected in advance, paid-in capital-other, legal reserve, special reserve, accumulated profit or loss, non-controlling interest and adjustment items of equity. The statutory deductible items include: a gain and loss resulting from an effective hedge instrument which belongs to cash flow hedge (deducting revenues and adding back losses), prepaid pension expense or the deficiency of defined benefit liability which is placed under reserve of employee benefit liability, treasury stock, goodwill, other intangible assets, the deferred tax assets due to the future profitability of the Company, unrealized losses or gains due to the change of the credit risk of the Company's liability (deducting revenues and adding back losses), unrealized gain of available-for-sale financial assets, operational reserve, the shortage of operational reserves and loan-loss provisions, an increase in retained earning that is due to the recognition of fair value or revaluation in the cost of fixed assets that are applicable to IFRS, the deductible amount of securitized transaction, the investments of finance-related business which are recognized by the Company, shortage of allocation of evaluation reserve (market risk), appreciation gains on changes in the fair value of investment properties subsequently measured using fair value model, income from sale and leaseback after January 1, 2012 and other adjustments requested by regulations or the supervising authorities, the excess amount of the deferred tax resulting from temporary difference and 10% of Tier 1 capital, the deductible amount incurred when deferred tax asset resulting from temporary difference is greater than 15% of deduction threshold, and other deductible amount resulting from the shortage of additional Tier 1 and 2 capital.

Additional Tier 1 capital: The total amount of non-cumulative perpetual preferred stock and its capital stock premium, non-cumulative perpetual subordinated debts and its capital stock which are issued by the Company's subsidiaries, and are not directly and indirectly held by the Company. The addition is accompanied by the deductible items that belong to additional Tier 1 capital. (i.e., the deduction of inadequacy of Tier 2 capital, the investments of finance-related business which are recognized by the Company, and other deductible items.)

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- b) Tier 2 capital: Consists of the aggregate amount of cumulative perpetual preferred stock and its capital stock premium, cumulative perpetual subordinated debts, convertible subordinated debts, long-term subordinated debts, non-perpetual preferred stock and its capital stock premium, the increase in retained earnings when fair value or re-estimated value is adopted as deemed cost for the first-time adoption of IFRSs on property, 45% of unrealized gains on available-for-sale financial assets, the 45% of appreciation gains on changes in the fair value of investment properties subsequently measured using fair value model, operational reserves and loan-loss provisions, and Tier 2 capital issued by the Company's subsidiary and not directly or indirectly held by the Company, minus statutory adjustment items belong to Tier 2 capital (the investments of finance-related business which are recognized by the Company, and other deductible items).
- D) According to Regulations Governing the Capital Adequacy and Capital Category of Banks, the definition of risk-weighted assets is as follows:
- a) Total risk-weighted assets: The term “Total Risk-Weighted Assets” shall mean the sum of risk weighted assets for credit risk and the capital requirements for market risk and operational risk multiplied by 12.5. Those assets already deducted from regulatory capital, however, shall be deducted from the total risk-weighted assets.
- b) Risk-Weighted Assets for Credit Risk: The term shall mean measurement of the risk of loss caused by the counterparty’s default. This risk measurement is expressed as the total of each of the Company’s transaction items on and off-balance sheet multiply risk weight.
- c) The Capital Requirement for Market Risk: The term shall mean the capital required for assessed losses to the Company’s transaction items on and off-balance sheet in arising from movements in market prices (interest rates, exchange rates, and stock prices, etc.)
- d) The Capital Requirement of Operational Risk: The term shall mean the capital required for the risk of loss resulting from inadequate or failed internal process, people and systems or external events.

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(3) Capital adequacy

Analysis item		Period		
		2016.12.31	2015.12.31	
Eligible capital	Common Equity Tier 1		17,877,346	17,697,871
	Additional Tier 1 capital		-	-
	Tier 2 capital		3,113,934	3,515,180
	Eligible capital		20,991,280	21,213,051
Risk-Weighted assets	Credit risk	Standardized approach	150,029,456	135,992,805
		Internal ratings-based approach	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach	7,251,557	7,099,572
		Standardized approach/ Alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	4,103,910	12,466,584
		Internal model approach	-	-
	Total		161,384,923	155,558,961
	Capital adequacy ratio		13.01%	13.64%
Common equity / Risk-weighted assets ratio		11.08%	11.38%	
Tier 1 capital / Risk-weighted assets ratio		11.08%	11.38%	
Leverage ratio		7.29%	7.53%	

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

Note 2: Capital adequacy ratios for two years period are required for annual financial statements. However, second quarter financial statements are required to disclose for the current period in two years and also the year ended of last year.

Note 3: Formulas used are as follows:

1. Eligible capital = Common Equity Tier 1 + Additional Tier 1 capital + Tier 2 capital.
2. Risk-weighted assets = Risk-weighted asset for credit risk + appropriate proportion of (operation risk + market risk) x 12.5.
3. Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.
4. Ratio of common equity to risk-weighted assets = Common Equity Tier 1 ÷ Risk-weighted assets.

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

6. Leverage ratio = the average of past three months Tier 1 capital ÷ the average of past three months total exposure.

Note 4: Not applicable for the first and third quarter statements.

7. Related Party Transactions

(A) Names of related parties and relationship with the Company

<u>Name of related party</u>	<u>Relationship with the Company</u>
JihSun Financial Holding Co., Ltd.	Parent company of the Company
JihSun Life Insurance Agency Co., Ltd.	An investee company carried under the equity method
JihSun Securities Co., Ltd.	An investee company carried under the equity method by Parent company of the Company
JihSun International Property Insurance Agency Co., Ltd.	"
JihSun Futures Co., Ltd.	An investee company carried under the equity method by JihSun Securities Co., Ltd.
JihSun Securities Investment Consulting Co., Ltd.	"
JihSun International Investment Holding C., Ltd.	"
JihSun Venture Capital Co., Ltd.	"
JS CRESVALE SECURITIES INTERNATIONAL LIMITED	"
JihSun Financial Services (Cayman) Limited	"
JS Cresvale Capital Limited	"
JihSun Investment Consulting (Shanghai) Co., Ltd.	"
JihSun Capital Management Limited	"
Jih-Sun Securities Investment Trust Co., Ltd.	An investee company carried under the equity method by JihSun Securities Co., Ltd.
Other related parties	The Company's chairman, directors, general manager, vice general manager, division level executives, branch managers, and their spouses and children.

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(B) Material transactions with related parties

(a) Deposits

<u>Name of related party</u>	2016			
	Ending balance	Maximum balance	Interest revenue	Interest interval %
JihSun Securities Co., Ltd.	\$ 629,949	2,572,309	1,908	0-2.5%
JihSun Financial Holding Co., Ltd.	12,971	644,736	60	0-1.36%
JihSun Life Insurance Agency Co., Ltd.	122,912	162,549	97	0-0.13%
JihSun Securities Investment Consulting Co., Ltd.	42,852	54,238	391	0-1.36%
JihSun Futures Co., Ltd.	303,230	770,250	1,583	0-3.4%
JihSun Venture Capital Co., Ltd.	325,127	326,054	296	0.03-0.13%
Jih-Sun Securities Investment Trust Co., Ltd.	67,529	79,838	820	0-1.36%
JihSun International Property Insurance Agency Co., Ltd.	6,139	6,281	5	0-0.13%
JS CRESVALE SECURITIES INTERNATIONAL LIMITED	522,337	568,547	-	0-0.11%
JihSun Financial Services (Cayman) Limited	287,822	289,966	2,247	0-0.85%
JihSun Capital Management Limited	62,675	65,435	47	0.05-0.50%
JihSun International Investment Holding Co., Ltd.	13,912	14,607	72	0.05-0.75%
Others	194,133	298,800	1,708	0-4.8%
Total	<u>\$ 2,591,588</u>		<u>9,234</u>	

<u>Name of related party</u>	2015			
	Ending balance	Maximum balance	Interest revenue	Interest interval %
JihSun Securities Co., Ltd.	\$ 1,301,862	2,744,769	1,619	0-3.15%
JihSun Financial Holding Co., Ltd.	2,753	998,110	164	0-1.36%
JihSun Life Insurance Agency Co., Ltd.	144,914	144,914	147	0-0.16%
JihSun Securities Investment Consulting Co., Ltd.	54,225	54,619	456	0-1.36%
JihSun Futures Co., Ltd.	388,200	737,275	4,393	0-3.4%
JihSun Venture Capital Co., Ltd.	205,144	299,106	403	0.16%
Jih-Sun Securities Investment Trust Co., Ltd.	78,634	79,619	946	0-1.36%
JihSun International Property Insurance Agency Co., Ltd.	6,100	6,246	8	0-0.16%
JS CRESVALE SECURITIES INTERNATIONAL LIMITED	427,949	452,056	-	0.16%
JihSun Financial Services (Cayman) Limited	284,737	284,860	2,059	0-0.90%
JihSun Capital Management Limited	64,255	64,404	48	0.05-0.50%
JihSun International Investment Holding Co., Ltd.	14,344	14,511	74	0.05-0.75%
Others	159,474	273,897	2,128	0-4.1%
Total	<u>\$ 3,132,591</u>		<u>12,445</u>	

The above interest rates on deposits are substantially the same as for comparable transactions with non-related parties.

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(b) Rental contract

(1) Leased

The leased condition of the offices from the related parties are as follows:

	2016		2015	
	Rental expense	Deposit	Rental expense	Deposit
JihSun Securities Co., Ltd.	\$ 10,438	1,749	10,593	1,749
JS CRESVALE SECURITIES INTERNATIONAL LIMITED	1,717	237	1,638	237
	\$ 12,155	1,986	12,231	1,986

(2) Rental

The rental condition of the offices to the related parties are as follows :

	2016		2015	
	Rental income	Deposit	Rental income	Deposit
JihSun Securities Co., Ltd.	\$ 10,343	2,012	10,367	2,012
JihSun Futures Co., Ltd.	296	45	368	45
	\$ 10,639	2,057	10,735	2,057

Note: The rentals were determined by the reference to the rental rates of nearby office buildings. The rentals are based on market price; therefore, there are no notable difference between the related parties and non-related parties. The rentals are paid and collected by month.

(c) Loan:

2016.12.31							
Classification	Number or related party name	Maximum balance	Ending balance	Agreement		Collateral	Terms of trade different or not with non-related party
				Normal loans	Overdue loans		
Employee consuming loan	2	1,378	1,047	1,047	-	none	none
Mortgage loan	30	237,724	210,833	210,833	-	Real estate	none
Others	4	3,004	1,633	1,633	-	Real estate	none

2015.12.31							
Classification	Number or related party name	Maximum balance	Ending balance	Agreement		Collateral	Terms of trade different or not with non-related party
				Normal loans	Overdue loans		
Employee consuming loan	1	775	775	775	-	none	none
Mortgage loan	30	220,263	202,623	202,623	-	Real estate	none
Others	4	4,772	4,610	4,610	-	Real estate	none

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The Company's guaranteed line of credit to JihSun Securities Co., Ltd. approved by the board of directors were both amounted to \$1,200,000 on June 23, 2016 and July 9, 2015. As of December 31, 2016 and 2015, the loan balances were both \$0.

As of December 31, 2016 and 2015, there were no overdue loans from the related parties. Allowance for bad debts is estimated in accordance with the accounting policy of the Company. In relation to the related-party credit policy, the Company follows the requirements under Articles 32, 33, 33-1, 33-2, 33-4, 33-5 of the Banking Act, and does not provide credit loans without collaterals. For collateralized loans, the collaterals shall consists of full guarantees, and the terms (including interest rate, collateral and its related appraisal, guarantor requirement, loan term, repayment method of principal and interest, etc.) must not be superior to the other parties for similar types of loan. Financing provided to the same related party, which individually or cumulatively amounts to \$100,000 or 1% of the Company's net worth, whichever is lower, must be presented to the board of directors for deliberation. Moreover, the meeting must be attended by more than two-thirds of the directors and approved by more than three-fourths of the directors in attendance. The terms and conditions of loans to related parties are not superior to those given to non-related parties.

(d) Others

(1) Tax refund receivable from joint filing of tax

	2016.12.31		2015.12.31	
	Amount	%	Amount	%
JihSun Financial Holding Co., Ltd.	\$ 379,709	12.46	896,989	34.42

(2) The other receivables and payables from the related parties :

Related party	2016.12.31	2015.12.31
Other receivables		
JihSun International Property Insurance Agency Co., Ltd.	\$ 513	487
JihSun Life Insurance Agency Co., Ltd.	98,344	96,801
Other payables		
JihSun Securities Co., Ltd.	\$ 20,812	18,515
JihSun Securities Investment Consulting Co., Ltd.	210	210
JihSun Futures Co., Ltd.	11	32
JihSun Financial Holding Co., Ltd.(Note 1)	5,500	5,500

Note 1: This amount is the accrued directors' remuneration.

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(3) Other transactions with JihSun Securities Co., Ltd. are as follows :

	<u>2016</u>	<u>2015</u>
Brokerage fee	\$ 1,336	1,565
Stock agent fee	960	940
Trust and other commissions service fee	906	888
Joint marketing fee	846	920
Site usage fee (Note 2)	236,496	226,603
Miscellaneous service fee	38	-

Note 2: The Company acts as an agent of JihSun Securities Co., Ltd. to pay for the site usage fee to deal with trading securities for customers.

(4) Other transactions with JihSun Futures Co., Ltd are as follows:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Futures margin	\$ 14,899	14,858

	<u>2016</u>	<u>2015</u>
Brokerage fee	\$ 151	281
Interest income of guarantee deposits	10	27
Software service fees	52	572
Custodian fees of operational deposit	10	10

(5) Other transactions with Jih-Sun Securities Investment Trust Co., Ltd. are as follows:

	<u>2016</u>	<u>2015</u>
Fund bonus	\$ 212	247

(6) Other transactions with JihSun International Property Insurance Agency Co., Ltd. are as follows:

	<u>2016</u>	<u>2015</u>
Commission revenue	\$ 2,965	2,841

(7) Other transactions with JihSun Securities Investment Consulting Co., Ltd. are as follows:

	<u>2016</u>	<u>2015</u>
Consulting service fees	\$ 2,520	2,520
Custodian fees of operational deposit	1	1

(8) Other transactions with JS CRESVALE SECURITIES INTERNATIONAL LIMITED are as follows:

	<u>2016</u>	<u>2015</u>
Custodian service fees	\$ 1,438	1,718

(9) Other transactions with JihSun Life Insurance Agency Co., Ltd. are as follows:

	<u>2016</u>	<u>2015</u>
Commission fees	\$ 492,857	470,158

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(e) Other (JihSun Securities Co., Ltd. and the Company's financial debentures transaction)

- (1) The Company entrusted JihSun Securities Co., Ltd. as financial advisor to issue and fund unsecured subordinated financial debentures for the first period of 2015. The Company paid for financial adviser consulting fees amounted to \$850.
- (2) JihSun Securities Co., Ltd. acted as financial advisor to issue unsecured subordinated financial debentures for the first period of 2015. In order to fund target amount and to meet their clients' delivery needs, JihSun Securities Co., Ltd. performed initial subscription at primary market which amounted to \$1,700,000 and sold all of shares to subscribers at secondary market on the issuing day.

(C) Compensation information for main management

The Company's main management refers to the level above vice general managers.

	2016	2015
Salary and other short-term employee benefits	\$ 57,143	52,559
Post-employment benefits	942	852
Total	\$ 58,085	53,411

8. Pledged Assets

Assets	Type of securities	2016.12.31 Par value	Purpose of collateral
Financial assets at fair value through profit or loss	Government bonds	\$ 86,900	Deposited court guarantee
	Government bonds	50,000	Guarantee of bills dealer
	Government bonds	50,000	Trust fund reserve for compensation
	Government bonds	2,000,000	Fund dispatching needs
Other assets	Certificate of time deposits	508,310	Guarantee of CNY dollar clear accounts
	Certificate of time deposits	277,260	Guarantee of CNY loan financing from other banks
Total		\$ 2,972,470	

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Assets	Type of securities	2015.12.31 Par value	Purpose of collateral
Financial assets at fair value through profit or loss	Government bonds	\$ 30,700	Deposited court guarantee
	Government bonds	50,000	Guarantee of bills dealer
	Government bonds	50,000	Trust fund reserve for compensation
	Government bonds	2,000,000	Fund dispatching needs
Other assets	Certificate of time deposits	704,060	Guarantee of CNY dollar clear accounts
	Certificate of time deposits	301,740	Guarantee of CNY loan financing from other banks
Total		\$ 3,136,500	

9. Significant Contingent Liabilities and Unrecognized Contract Commitments

(A) Major commitments and contingencies:

	<u>2016.12.31</u>	<u>2015.12.31</u>
Acted as an agent for various collections	\$ 102,207	148,832
Consignment sale—traveler's checks	18,499	24,322
Handled several guarantees	411,054	449,168
Outstanding bank acceptance liabilities	68,063	113,068
Letters of credit	609,002	270,922
Acted as custodian of post-dated checks for its clients (excluding next day's checks for clearing)	12,119,461	13,058,413
Loans commitments	72,015,469	68,415,935
Credit card commitments	22,390,307	24,240,666
Total	<u>\$ 107,734,062</u>	<u>106,721,326</u>

- (B) The customer- X Co., Ltd. of Chiayi Branch of the Company alleged that X Co., Ltd. had suffered losses because 452 checks (the total amount of \$40,410) with X Co., Ltd.'s name and with the prohibition of endorsement transfer accepted by Chiayi Branch of the Company for the period from April 10, 2006 to January 31, 2012, were deposited into a third person's account. X Co., Ltd. believes its rights were infringed due to the Company and the employee were involved and did not to fulfill debt, and requested the Company to be responsible for compensation liability. On April 8, 2016 the Company received a copy of the indictment. The case is now being handled by Taiwan Chiayi District Court.

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- (C) Customers of Xinyin Branch of the Company alleged that one wealth management consultant was suspected of misappropriation of customers' funds, and believe their rights were infringed due to the Company and the wealth management consultant was involved and did not to fulfill debt, and requested the Company to be responsible for compensation liability of \$123,379. The case is now being handled by Taiwan Tainan District Court. The civil compensation section has yet to be heard. Therefore, the possibility of compensation and the compensation amount will not have significant influence on the Company's operation and equities.

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(D) Pursuant to Article 17 of the Enforcement Rules of the Trust Enterprise Act, the balance sheets and income statements of trust accounts are as follows :

TRUST BALANCE SHEETS

<u>Trust Assets</u>	<u>2016.12.31</u>	<u>2015.12.31</u>	<u>Trust Liabilities</u>	<u>2016.12.31</u>	<u>2015.12.31</u>
Cash in bank	\$ 485,985	206,973	Payables	\$ 1	4
Prepayments	210	96	Payable for securities in custody	5,467,816	3,612,551
Bonds	2,180,451	1,403,201	Trust capital	25,325,419	26,417,951
Stocks	436,454	422,212	Reserves and accumulated earnings (losses)		
Funds	18,216,726	20,521,459	Accumulated earnings (losses)	1,760	1,609
Securities borrowed by the other parties	21,076	64,890	Net income	75,503	325,778
Structured products	1,442,934	1,152,633	Deferred amount transferred from the previous period	(74,434)	(325,627)
Real estate					
Land	1,770,370	2,133,816			
Buildings	93,700	93,149			
Construction in progress	680,343	421,286			
Securities in custody	5,467,816	3,612,551			
Total trust assets	<u>\$ 30,796,065</u>	<u>30,032,266</u>	Total trust liabilities	<u>\$ 30,796,065</u>	<u>30,032,266</u>

Note : The above total trust assets included trust assets of OBU, the related amounts as of December 31, 2016 and 2015 are \$579,356 and \$609,713, respectively.

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TRUST PROPERTY LIST

Investment Items	2016.12.31	2015.12.31
Cash in bank	\$ 485,985	206,973
Short-term investments	2,180,451	1,403,201
Bonds		
Stocks	436,454	422,212
Funds	18,216,726	20,521,459
Securities borrowed by the other parties	21,076	64,890
Structured products	1,442,934	1,152,633
Real estate		
Land	1,770,370	2,133,816
Buildings	93,700	93,149
Construction in progress	680,343	421,286
Securities in custody	5,467,816	3,612,551
Total	\$ 30,795,855	30,032,170

TRUST INCOME STATEMENTS

	2016	2015
Trust revenues		
Interest income	\$ 1,066	1,330
Dividends	797,423	813,780
Revenue from securities borrowing	526	776
Realized capital gains	640	207
Gain on sale of properties	247,862	534,513
Other revenues	6,000	-
Subtotal	<u>1,053,517</u>	<u>1,350,606</u>
Trust expenses		
Administration expenses	163,405	224,762
Service fee expenses	15	19
Loss on sale of properties	809,508	799,910
Other expenses	5,035	4
Tax expenses	51	133
Subtotal	<u>978,014</u>	<u>1,024,828</u>
Net income	\$ 75,503	325,778

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

10. Significant Catastrophic Losses: None.

11. Significant Subsequent Events: None.

12. Others

- (A) Average amount and current period average interest rate of interest-earning assets and interest-bearing liabilities are as follows :

	2016.12.31		2015.12.31	
	Average amount	Average rate (%)	Average amount	Average rate (%)
Interest-earning assets	\$ 202,498,289	1.83	201,410,570	1.95
Interest-bearing liabilities	197,584,114	0.62	195,309,962	0.75

- (B) The income and expenses arising from the joint marketing operation and information interoperability amongst the Financial Holding Company's subsidiaries were allocated as follows :

The allocation of marketing income and expenses between the Company and JihSun Securities Co., Ltd., except for the rental, which was paid at a fixed amount based on agreements, were mutually shared according to the proportion of the actual usage. For the years ended December 31, 2016 and 2015, receivable marketing income from JihSun Securities Co., Ltd. was \$0 for both years, whereas marketing expenses were amounted to \$846 and \$920, respectively.

- (C) Supplementary disclosures of asset quality, concentration of credit extensions, interest rate sensitivity information, profitability, and the structure analysis of assets and liabilities time to maturity are as follows:

(a) Profitability

Unit : %

Item		2016	2015
Return on assets ratio	Before tax	0.33	0.55
	After tax	0.35	0.56
Return on equity ratio	Before tax	3.94	6.40
	After tax	4.19	6.43
Net income ratio		20.79	30.86

Note 1: Return on assets ratio = Net income (loss) before/after income tax ÷ average total assets.

Note 2: Return on equity ratio = Net income (loss) before/after income tax ÷ average total equity.

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Note 3: Net income ratio = Net income after income tax ÷ net revenue.

Note 4: Net income (loss) before/after tax represents accumulated income (loss) of the current year.

(b) Maturity analysis of assets and liabilities:

(1) Structure analysis of New Taiwan Dollars time to maturity

2016.12.31

	Total	Remaining amount to maturity					
		0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Major capital inflow at maturity	\$ 198,490,007	45,990,758	8,318,597	20,938,285	7,732,481	12,312,939	103,196,947
Major capital outflow at maturity	261,346,989	14,786,628	12,236,617	24,743,634	30,125,647	60,652,121	118,802,342
Gap	(62,856,982)	31,204,130	(3,918,020)	(3,805,349)	(22,393,166)	(48,339,182)	(15,605,395)

2015.12.31

	Total	Remaining amount to maturity					
		0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Major capital inflow at maturity	\$ 189,886,510	46,423,791	8,849,954	18,793,480	7,088,850	11,888,112	96,842,323
Major capital outflow at maturity	251,559,090	6,867,841	12,683,189	26,768,558	30,563,577	62,190,501	112,485,424
Gap	(61,672,580)	39,555,950	(3,833,235)	(7,975,078)	(23,474,727)	(50,302,389)	(15,643,101)

Note: Listed amounts of the head office and domestic branches (excluding foreign currency amounts) are denominated in NTD.

(2) Structure analysis of US Dollars time to maturity

2016.12.31

Unit: in Thousands of U.S. Dollars

	Total	Remaining amount to maturity				
		1-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Major capital inflow at maturity	\$ 1,073,404	260,141	201,525	103,775	105,046	402,917
Major capital outflow at maturity	1,284,954	335,074	279,809	144,698	237,600	287,773
Gap	(211,550)	(74,933)	(78,284)	(40,923)	(132,554)	115,144

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2015.12.31

Unit: in Thousands of U.S. Dollars

	Total	Remaining amount to maturity				
		1-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Major capital inflow at maturity	\$ 1,228,148	345,590	212,950	88,963	213,999	366,646
Major capital outflow at maturity	1,350,938	428,521	261,639	103,722	285,331	271,725
Gap	(122,790)	(82,931)	(48,689)	(14,759)	(71,332)	94,921

Note 1: Listed amounts of the head office and domestic branches and offshore banking unit are denominated in U.S. dollars. The amounts were listed by book value except for additional statement. Non-recorded amount shall not be listed. (For example: planning to issue negotiable certificates of deposit, bonds or stocks.)

Note 2: The supplementary disclosure of information shall be provided, if the overseas assets accounts for more than 10% of the total assets.

13. Disclosure Required

(A) Related information on significant transactions

- (a) Loans to others businesses or individuals: Not applicable to bank.
- (b) Endorsements and guarantees for others: Not applicable to bank.
- (c) Marketable securities held as of December 31, 2015: Not applicable to bank.
- (d) Cumulative purchase or sale of the same investee's capital stock up to \$300,000 or 10% of paid-in capital: None.
- (e) Cumulative purchase or sale of the same securities up to \$300,000 or 10% of paid-in capital: Not applicable to bank.
- (f) Acquisition of real estate up to \$300,000 or 10% of paid-in capital: None.
- (g) Disposal of real estate up to \$300,000 or 10% of paid-in capital: None.
- (h) Discount on commission fees for transaction with related parties up to \$5,000: None.
- (i) Receivables from related parties up to \$300,000 or over 10% of paid in capital: Please refer to Note 6(E) and 7(B).
- (j) Financial derivative transactions: Not applicable to bank.

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NOTES TO FINANCIAL STATEMENTS (CONT'D)

- (k) Information on NPL disposal transactions: None.
- (l) Types of securitization instruments approved to be issued pursuant to financial assets securitization rules or real estate securitization rules and other relevant information: None.
- (m) Significant transactions that may affect the decision of financial report users: None.

(B) Information on investees:

Names of investee company	Address	Main business scope	Shareholding ratio	Highest shareholding ratio and funding of the period	Carrying value	Investment gain recognized	Aggregate shareholding of the Bank and its subsidiaries				Remark
							Number of shares	Number of proforma shares	Total		
									Number of shares	Shareholding ratio	
JihSun Life Insurance Agency Co., Ltd.	Taiwan	Life Insurance Agency	99.00%	-%	53,741	40,020	297,000	-	297,000	99.00%	

- (C) Information on investment in Mainland China: None.

14. Segment Information

(A) Segment information:

(a) Factors determining reportable segment

The segment reporting relates to the Company as several types of services and products are provided by different divisions. Each division has its own characteristics, pricing strategy and marketing strategy, thus should be managed separately.

(b) Source of revenue from each reportable segment

There are four major reportable segments within the Company, including: consumer banking division, Corporate banking division, wealth management division, and investment management division.

Consumer banking division provides general personal account dealing affairs, products include: mortgage loans, housing insurance, credit loans, car loans and credit cards.

Corporate banking division mainly focuses on corporate customers, the Company provides the following service and products, including: short-term, medium to long and long-term loans, accounts receivables, guarantee, project finance, syndication loans, imports and exports, foreign exchange, trust service, financial planning, electronic financial products and underwriting.

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Wealth management division offers a variety of products and services to meet personal wealth management needs. Products and services provided include: savings, remittance services, insurance products, financial instruments, fund investment and personal trust.

Investment management division is responsible for the short-term investment and fund dispatching of the Company and to provide relevant financial products for customers to avoid risks.

(c) Gains/losses of business segments and valuation of assets

Accounting treatments applied to business segments are consistent with the significant accounting policies used with the external reports. The Company assesses the operating performance based on earnings before tax.

In order to improve capital efficiency and loan strategy, the Company has established an integrated funds transferring system, the interest rate given to the internal funds depends on the ratio between savings and loans which has direct impact on capital efficiency.

(d) Financial information on reportable segments

<u>2016</u>	<u>Consumer banking</u>	<u>Corporate banking</u>	<u>Wealth management</u>	<u>Investment management</u>	<u>Others</u>	<u>Total</u>
Net interest income	\$ 1,161,535	1,158,163	5,867	(14,888)	(110,917)	2,199,760
Net service fee income	112,465	20,088	829,079	605,291	86,578	1,653,501
Net revenue	<u>1,274,000</u>	<u>1,178,251</u>	<u>834,946</u>	<u>590,403</u>	<u>(24,339)</u>	<u>3,853,261</u>
(Reversal of) provisions for bad debt expenses and guarantee reserve	(157,386)	46,331	-	487,748	-	376,693
Operating expenses	957,714	749,184	643,176	349,352	24,333	2,723,759
Net income before tax	<u>\$ 473,672</u>	<u>382,736</u>	<u>191,770</u>	<u>(246,697)</u>	<u>(48,672)</u>	<u>752,809</u>
Assets (Note)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>2015</u>						
Net interest income	\$ 1,188,465	1,182,114	16,294	(205,647)	(106,477)	2,074,749
Net service fee income	141,020	56,566	908,943	722,154	31,781	1,860,464
Net revenue	<u>1,329,485</u>	<u>1,238,680</u>	<u>925,237</u>	<u>516,507</u>	<u>(74,696)</u>	<u>3,935,213</u>
(Reversal of) provisions for bad debt expenses and guarantee reserve	(98,831)	(65,409)	-	45,136	-	(119,104)
Operating expenses	1,012,972	771,965	687,752	336,645	37,438	2,846,772
Net income before tax	<u>\$ 415,344</u>	<u>532,124</u>	<u>237,485</u>	<u>134,726</u>	<u>(112,134)</u>	<u>1,207,545</u>
Assets (Note)	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

Note: According to Interpretation (99) No. 151, the assets are disclosed at zero amount due to the volume of deposits/loans, financial assets and liabilities are measured at an average quantity.

(B) Geographic information: The Company primarily operates within the Republic of China, and therefore, has no other regional information for disclosure.

(C) Information on major customers: The Company does not have income from a single customer that made up to 10% of the Company's income.