KGI Bank and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2018 and 2017 and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

KGI Bank

Opinion

We have audited the accompanying consolidated financial statements of KGI Bank (the Bank) and its subsidiaries, which comprise the consolidated balance sheets as of June 30, 2018, December 31, 2017 and June 30, 2017, and the related consolidated statements of comprehensive income for the three and six months ended June 30, 2018 and 2017, changes in equity and cash flow for the six months then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of June 30, 2018, December 31, 2017 and June 30, 2017, and their consolidated financial performance for the three and six months ended June 30, 2018 and 2017, and their consolidated cash flows for the six months then end, in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the six months ended June 30, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the consolidated financial statements of the Bank and its subsidiaries for the six months ended June 30, 2018 are stated as follows:

Impairment of Discounts and Loans, Receivables, Provision for Loan Commitments and Guarantee Liabilities

Loan is the main business of the Bank, which is material to the consolidated financial statement as a whole as it accounts for 47% of the total assets of the consolidated financial statement. As stated in Note 5, to determine the impairment loss of discounts and loans, receivables, provision for loan commitments and guarantee liabilities, the management should (1) judge whether there has been a significant increase in credit risk or there is any indication of credit impairment, (2) estimate the expected future cash flow based on past event, present status and future economic circumstances of the assets with similar credit risk, and (3) review periodically the methodology and assumptions adopted for both expected future cash flow and its timing to decrease the difference between estimated and actual amount of impairment. The methodology and assumptions adopted for the assessment of objective evidence of impairment and the amount and timing of future cash flows (e.g. impairment occurrence rate, and recovery rate) require the exercise of critical judgments and estimates; therefore, the impairment of discounts and loans, receivables, provision for loan commitments and guarantee liabilities is deemed to be a key audit matter for the six months ended June 30, 2018.

Refer to Notes 4, 5 and 46 for the critical accounting policy, judgment, estimation uncertainty and related disclosure of the impairment of discounts and loans, receivables, provision for loan commitments and guarantee liabilities.

Our key audit procedures performed in respect of the above area included the following:

We understood and assessed the Bank's internal controls related to the discounts and loans, receivables, provision for loan commitments and guarantee liabilities. We verified whether the methodology used in impairment model and parameters of the assumptions reflected past event, present status and future economic circumstances. We assessed the consistency of the impairment occurrence rate and recovery rate, etc. used in estimating expected future cash flows and evaluating values of collateral. Finally, we performed sampling on discounts, loans, receivables, loan commitments and provisions cases to verify whether the allowance thereof complies with the law and related regulations issued by the authorities.

Other Matter

We have also audited the parent company only financial statements of the Bank as of and for the six months ended June 30, 2018 and 2017 on which we have issued an unqualified opinion thereon, respectively.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Public Banks, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the financial reporting process of the Bank and its subsidiaries.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of an audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements of Financial Institutions by Certified Public Accountants and auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the six months ended June 30, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

August 21, 2018

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

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

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

KGI BANK AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2018 Amount	%	December 31, 2017 Amount	%	June 30, 2017 Amount	%
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 42)	$ 9,269,780	1	$ 14,332,827	2	$ 10,271,056	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Notes 7 and 43)	31,087,128	4	33,829,034	6	43,762,617	7
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8, 42 and 43)	98,112,987	14	54,441,219	9	68,147,525	11
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 9 and 43)	145,584,947	21	-	-	-	-
DEBT INVESTMENTS MEASURED AT AMORTIZED COST (Notes 4 and 10)	11,880,146	2	-	-	-	-
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Note 11)	21,240,195	3	18,829,142	3	908,096	-
RECEIVABLES, NET (Notes 4, 12, 42 and 43)	29,430,178	4	22,432,462	4	27,423,652	5
CURRENT TAX ASSETS (Notes 4, 40 and 42)	16	-	16	-	13,260	-
ASSETS HELD FOR SALE, NET (Note 17)	-	-	-	-	12,290	-
DISCOUNTS AND LOANS, NET (Notes 4, 13 and 42)	330,752,368	47	293,656,990	50	276,521,855	47
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 4, 14 and 43)	-	-	127,662,495	22	144,441,126	24
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET (Note 15)	851,203	-	888,863	-	801,032	-
OTHER FINANCIAL ASSETS, NET (Notes 16 and 43)	2,990,560	-	7,863,747	1	4,287,130	1
PROPERTY AND EQUIPMENT, NET (Notes 17 and 43)	6,333,575	1	6,244,550	1	5,915,574	1
INVESTMENT PROPERTY, NET (Notes 18 and 43)	875,852	-	889,989	-	842,557	-
INTANGIBLE ASSETS, NET	358,158	-	372,138	-	263,364	-
DEFERRED TAX ASSETS (Notes 4 and 40)	2,968,772	-	2,994,808	1	4,169,348	1
OTHER ASSETS, NET (Notes 19, 42 and 43)	17,746,189	3	5,687,799	1	6,664,508	1
TOTAL	$ 709,482,054	100	$ 590,126,079	100	$ 594,444,990	100
LIABILITIES AND EQUITY						
LIABILITIES						
Deposits from the Central Bank and banks (Notes 20 and 42)	$ 33,535,560	5	$ 28,330,692	5	$ 28,356,201	5
Financial liabilities at fair value through profit or loss (Notes 4, 8 and 42)	92,128,647	13	43,284,681	7	42,044,882	7
Notes and bonds issued under repurchase agreements (Notes 8, 9, 10,14 and 21)	61,319,474	9	45,444,814	8	66,742,065	11
Payables (Notes 22 and 42)	8,029,060	1	6,871,991	1	9,701,020	2
Current tax liabilities (Notes 4, 40 and 42)	435,483	-	412,845	-	352,595	-
Deposits and remittances (Notes 23 and 42)	425,334,898	60	376,623,134	64	352,821,254	59
Bank debentures payable (Note 24)	1,000,000	-	1,000,000	-	3,719,875	1
Principal received on structured notes	19,912,294	3	20,147,989	4	22,138,708	4
Commercial paper payable, net (Note 25)	1,299,533	-	1,224,479	-	1,879,077	-
Other borrowings (Note 26)	2,750,851	-	2,905,082	1	3,047,253	-
Other financial liabilities	4,078	-	3,162	-	1,490	-
Provisions (Note 27)	335,818	-	230,129	-	236,922	-
Deferred tax liabilities (Notes 4 and 40)	230,315	-	243,838	-	175,384	-
Other liabilities (Note 29)	4,745,169	1	1,985,821	-	3,343,674	1
Total liabilities	651,061,180	92	528,708,657	90	534,560,400	90
EQUITY (Note 30)						
Equity attributable to owners of parent						
Capital						
Common stock	46,061,623	6	46,061,623	8	46,061,623	8
Capital surplus						
Additional paid-in capital	7,245,723	1	7,245,723	1	7,245,710	1
Other capital surplus	5,182	-	4,830	-	4,304	-
Total capital surplus	7,250,905	1	7,250,553	1	7,250,014	1
Retained earnings						
Legal reserve	4,639,065	1	3,694,540	1	3,694,540	1
Special reserve	291,319	-	1,323,519	-	1,323,519	-
Unappropriated earnings	1,028,316	-	3,148,414	-	1,638,765	-
Total retained earnings	5,958,700	1	8,166,473	1	6,656,824	1
Other equity						
Exchange differences on translation of foreign financial statements	36,922	-	(32,228)	-	3,231	-
Unrealized losses on available-for-sale financial assets	-	-	(224,671)	-	(285,424)	-
Unrealized gain on equity instruments at fair value through other comprehensive income	252,085	-	-	-	-	-
Unrealized losses on debt instruments at fair value through other comprehensive income	(1,343,178)	-	-	-	-	-
Total other equity	(1,054,171)	-	(256,899)	-	(282,193)	-
Total equity of parent company	58,217,057	8	61,221,750	10	59,686,268	10
Non-controlling interests	203,817	-	195,672	-	198,322	-
Total equity	58,420,874	8	61,417,422	10	59,884,590	10
TOTAL	$ 709,482,054	100	$ 590,126,079	100	$ 594,444,990	100

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

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
INTEREST REVENUES (Notes 31 and 42)	$ 3,278,228	136	$ 2,597,506	96	$ 6,287,377	134	$ 4,906,404	93
INTEREST EXPENSES (Notes 31 and 42)	(1,452,756)	(60)	(972,950)	(36)	(2,683,448)	(57)	(1,876,178)	(35)
NET INTEREST	1,825,472	76	1,624,556	60	3,603,929	77	3,030,226	58
NET REVENUES OTHER THAN INTEREST								
Service fee income, net (Notes 32 and 42)	463,083	19	388,199	14	949,247	20	775,701	15
Gains on financial assets or liabilities measured at fair value through profit or loss, net (Note 33)	111,995	5	550,911	20	834,111	18	1,574,277	30
Realized gains on available-for-sale financial assets, net (Note 34)	-	-	370,163	14	-	-	223,070	4
Realized loss on financial assets measured at fair value through other comprehensive income (Notes 35)	(306,900)	(13)	-	-	(541,663)	(12)	-	-
Reversal of impairment loss (impairment loss) on assets, net (Note 36)	5,494	-	-	-	(5,645)	-	-	-
Foreign exchange gain (loss), net	295,632	12	(273,085)	(10)	(255,159)	(6)	(430,468)	(8)
Share of the profit of associates for using equity method	(33,137)	(1)	6,928	-	(19,641)	-	16,041	-
Other non-interest income, net (Notes 17, 37 and 42)	42,718	2	42,017	2	136,726	3	74,806	1
Total net revenues other than interest	578,885	24	1,085,133	40	1,097,976	23	2,233,427	42
TOTAL NET REVENUE	2,404,357	100	2,709,689	100	4,701,905	100	5,263,653	100
REVERSAL OF ALLOWANCE (ALLOWANCE) FOR BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION	96,458	4	(206,194)	(8)	(67,234)	(1)	(344,644)	(7)
OPERATING EXPENSES (Notes 28, 38, 39 and 42)								
Employee benefits expense	(869,021)	(36)	(855,164)	(32)	(1,736,763)	(37)	(1,702,545)	(32)
Depreciation and amortization expense	(105,099)	(4)	(88,661)	(3)	(208,289)	(5)	(170,656)	(3)
Other general and administrative expenses	(506,344)	(21)	(469,557)	(17)	(998,733)	(21)	(945,262)	(18)
Total operating expenses	(1,480,464)	(61)	(1,413,382)	(52)	(2,943,785)	(63)	(2,818,463)	(53)

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KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	$ 1,020,351	43	$ 1,090,113	40	$ 1,690,886	36	$ 2,100,546	40
INCOME TAX EXPENSE (Note 40)	(160,085)	(7)	(337,946)	(12)	(125,703)	(3)	(457,170)	(9)
NET INCOME	860,266	36	752,167	28	1,565,183	33	1,643,376	31
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss, net of tax								
Gain (loss) on equity instruments measured at fair value through other comprehensive income	(32,312)	(1)	-	-	21,909	-	-	-
Share of the other comprehensive loss of associates accounted for using the equity method	(40,581)	(2)	-	-	(21,801)	-	-	-
Income tax relating to items that will not be reclassified subsequently to profit or loss	-	-	-	-	960	-	-	-
Items that will be reclassified subsequently to profit or loss, net of tax								
Exchange differences on translation of foreign financial statements	24,250	1	11,355	1	52,498	1	4,758	-
Unrealized gains on available-for-sale financial assets	-	-	356,328	13	-	-	953,827	18
Share of the other comprehensive income of associates accounted for using the equity method	35,857	1	35,082	1	16,652	1	64,063	2
Gain (loss) on debt instruments measured at fair value through other comprehensive income	(248,674)	(10)	-	-	(1,419,652)	(30)	-	-
Other comprehensive income (loss), net of tax	(261,460)	(11)	402,765	15	(1,349,434)	(28)	1,022,648	20
TOTAL COMPREHENSIVE INCOME, NET OF TAX	$ 598,806	25	$ 1,154,932	43	$ 215,749	5	$ 2,666,024	51
NET PROFIT ATTRIBUTABLE TO:								
Shareholders of parent company	$ 857,344	36	$ 750,645	28	$ 1,549,547	33	$ 1,638,765	31
Non-controlling interests	2,922	-	1,522	-	15,636	-	4,611	-
	$ 860,266	36	$ 752,167	28	$ 1,565,183	33	$ 1,643,376	31

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KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Shareholders of parent company	$ 596,191	25	$ 1,153,410	43	$ 200,302	4	$ 2,661,413	51
Non-controlling interests	2,615	-	1,522	-	15,447	1	4,611	-
	$ 598,806	25	$ 1,154,932	43	$ 215,749	5	$ 2,666,024	51
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 41)								
Basic	$ 0.19		$ 0.16		$ 0.34		$ 0.36	

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

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owners of Parent										
			Retained Earnings			Other Equity					
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Financial Assets at Fair Value through Other Comprehensive Income	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Total Equity Attributable to Owners of the Parent	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2017	$ 46,061,623	$ 7,249,280	$ 2,573,818	$ 409,670	$ 3,735,739	$ 29,311	$ -	$ (1,334,152)	$ 58,725,289	$ 195,287	$ 58,920,576
Appropriation of earnings											
Legal reserve	-	-	1,120,722	-	(1,120,722)	-	-	-	-	-	-
Special reserve	-	-	-	913,849	(913,849)	-	-	-	-	-	-
Cash dividends - common stocks	-	-	-	-	(1,701,168)	-	-	-	(1,701,168)	-	(1,701,168)
Change in equity of associate accounted for using equity method	-	(18)	-	-	-	-	-	-	(18)	-	(18)
Net income for the six months ended June 30, 2017	-	-	-	-	1,638,765	-	-	-	1,638,765	4,611	1,643,376
Other comprehensive income(loss) for the six months ended June 30, 2017, net of income tax	-	-	-	-	-	(26,080)	-	1,048,728	1,022,648	-	1,022,648
Total comprehensive income (loss) for the six months ended June 30, 2017	-	-	-	-	1,638,765	(26,080)	-	1,048,728	2,661,413	4,611	2,666,024
Share-based payments	-	752	-	-	-	-	-	-	752	-	752
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	(1,576)	(1,576)
BALANCE AT JUNE 30, 2017	$ 46,061,623	$ 7,250,014	$ 3,694,540	$ 1,323,519	$ 1,638,765	$ 3,231	$ -	$ (285,424)	$ 59,686,268	$ 198,322	$ 59,884,590
BALANCE AT JANUARY 1, 2018	$ 46,061,623	$ 7,250,553	$ 3,694,540	$ 1,323,519	$ 3,148,414	$ (32,228)	$ -	$ (224,671)	$ 61,221,750	$ 195,672	$ 61,417,422
Effect of retrospective application and retrospective restatement	-	-	-	-	(545,679)	-	351,750	224,671	30,742	(5,542)	25,200
BALANCE AT JANUARY 1, 2018 AS RESTATED	46,061,623	7,250,553	3,694,540	1,323,519	2,602,735	(32,228)	351,750	-	61,252,492	190,130	61,442,622
Appropriation of earnings											
Legal reserve	-	-	944,525	-	(944,525)	-	-	-	-	-	-
Reversal on special reserve	-	-	-	(1,032,200)	1,032,200	-	-	-	-	-	-
Cash dividends - common stocks	-	-	-	-	(3,236,089)	-	-	-	(3,236,089)	-	(3,236,089)
Change in equity of associate accounted for using equity method	-	16	-	-	-	-	-	-	16	-	16
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	24,448	-	(24,448)	-	-	-	-
Net income for the six months ended June 30, 2018	-	-	-	-	1,549,547	-	-	-	1,549,547	15,636	1,565,183
Other comprehensive income (loss) for the six months ended June 30, 2018, net of income tax	-	-	-	-	-	69,150	(1,418,395)	-	(1,349,245)	(189)	(1,349,434)
Total comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	1,549,547	69,150	(1,418,395)	-	200,302	15,447	215,749
Share-based payments	-	336	-	-	-	-	-	-	336	-	336
Changes in non-controlling interest	-	-	-	-	-	-	-	-	-	(1,760)	(1,760)
BALANCE AT JUNE 30, 2018	$ 46,061,623	$ 7,250,905	$ 4,639,065	$ 291,319	$ 1,028,316	$ 36,922	$ (1,091,093)	$ -	$ 58,217,057	$ 203,817	$ 58,420,874

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

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 1,690,886	$ 2,100,546
Adjustments for:		
Depreciation expenses	158,064	123,172
Amortization expenses	50,225	47,484
Allowance for bad debts expense, commitments and guarantee liability provision	67,234	344,644
Interest expense	2,683,448	1,876,178
Interest income	(6,287,377)	(4,906,404)
Dividend income	(52,269)	(55,517)
Share of profits of associates accounted for using equity method	19,641	(16,041)
Gain on disposal of investment property	(69,047)	-
Loss on financial asset impairment	5,645	-
Others	684	3,277
Changes in operating assets and liabilities		
Decrease in due from the Central Bank and call loans to banks	3,191,343	12,500,948
Decrease (increase) in financial assets at fair value through profit or loss	(39,262,831)	29,692,047
Increase in financial assets at fair value through other comprehensive income	(23,282,745)	-
Increase in debt investments measured at amortized cost	(6,360,712)	-
Increase in securities purchased under resell agreement	(475,872)	-
Decrease (increase) in receivables	(6,389,667)	1,493,077
Increase in discounts and loans	(37,215,051)	(24,412,550)
Increase in available-for-sale financial assets	-	(54,765,253)
Increase in other financial assets	(905,861)	(403,316)
Decrease (increase) in other assets	(12,042,810)	2,470,061
Increase (decrease) in deposits from the Central Bank and banks	5,204,868	(2,561,173)
Increase in financial liabilities at fair value through profit or loss	48,843,966	2,636,740
Increase in notes and bonds issued under repurchase agreements	15,874,660	4,603,751
Increase in payables	339,280	5,010,732
Increase in deposits and remittances	48,711,764	9,373,748
Increase (decrease) in other financial liabilities	(235,184)	263,907
Increase in other liabilities	2,781,458	2,009,970
Cash outflow used in operations	(2,956,260)	(12,569,972)
Interest received	5,698,930	4,716,883
Dividend received	12,801	52,067
Interest paid	(1,870,507)	(1,383,683)
Income taxes paid	(128,965)	(160,211)
Net cash flows generated from (used in) operating activities	755,999	(9,344,916)

(Continued)

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)

	For the Six Months Ended June 30	
	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	$ (217,780)	$ (188,636)
Proceeds from disposal of property and equipment	11,671	5,965
Acquisition of intangible assets	(33,352)	(48,458)
Proceeds from disposal of investment property	120,102	-
Net cash flows used in investing activities	(119,359)	(231,129)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(47,450)	(353,776)
Increase (decrease) in commercial paper payable	75,054	(678,232)
Proceeds from long-term borrowings	-	238,926
Repayments of long-term borrowings	(106,781)	-
Cash dividends paid	(3,236,089)	(1,701,168)
Net cash flows used in financing activities	(3,315,266)	(2,494,250)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	197	(11,683)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,678,429)	(12,081,978)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	47,010,963	42,658,453
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 44,332,534	$ 30,576,475

Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets as of June 30, 2018 and 2017:

	June 30	
	2018	2017
Cash and cash equivalents in consolidated balance sheets	$ 9,269,780	$ 10,271,056
Due from the Central Bank and call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 endorsed by FSC	14,894,405	19,397,323
Securities purchased under agreements to resell qualifying as cash and cash equivalents under the definition of IAS 7 endorsed by FSC	20,168,349	908,096
Cash and cash equivalents in consolidated statements of cash flows	$ 44,332,534	$ 30,576,475

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

KGI BANK AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

KGI Bank (the Bank) engages in banking operations regulated by the Banking Act of the Republic of China (the Banking Act).

As of June 30, 2018, the Bank had a main office, an international banking department, a trust department, an insurance department, various major departments, an offshore banking unit (OBU), and 53 domestic branches.

On April 8, 2014, the Bank's extraordinary shareholders' meeting resolved to the exchange of 0.2 share of China Development Financial Holding Corporation (CDFH) and NT$13.4 for one share of the Bank. On August 11, 2014, the Bank's board of directors approved September 15, 2014 as the date of the share swap after this transaction was approved by the Financial Supervisory Commission (FSC). Upon completion of the share swap, the Bank became CDFH's wholly owned subsidiary and the trading of the Bank's shares on the Taiwan Stock Exchange was terminated.

On October 9, 2014, under the approval of the board of directors, who had been authorized to exercise the functions of the shareholders' meeting, Cosmos Bank's Articles of Incorporation were amended and the bank's name became KGI Bank. The FSC approved the name change on November 10, 2014, and the Ministry of Economic Affairs approved the Bank's revised articles and change of registration on November 25, 2014.

On March 2, 2015 and April 13, 2015, the Bank's board of directors again exercised the functions of the shareholders' meeting and approved the transfer to the Bank from CDIB Capital Group (formerly China Development Industrial Bank) of (a) the assets and liabilities associated with the commercial banking business of CDIB Capital Group and (b) CDIB Capital Group's holdings of shares in leasing subsidiaries and in the Taiwan Financial Asset Service Corporation in accordance with Article 185 of the Company Act and Article 27 of the Business Mergers and Acquisitions Act. On April 16, 2015, the transaction was approved by the FSC, and the chairman was authorized by the board of directors to approve the date of transfer of business on May 1, 2015.

The Bank's board of director approved application for operating insurance broker business according to Regulations Governing Insurance Brokers and conducted the short-form merger with the subsidiary Cosmos Insurance Brokers Co., Ltd. according to Business Mergers and Acquisitions Act. The Bank was the survivor company after the merger. The application and the merger were approved by the FSC on May 12, 2016. For cooperating to operate insurance broker business, the Bank's board of director approved June 30, 2016 as the date of the merger.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were reported to the board of directors and authorized for issue on August 21, 2018.

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

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

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

1) IFRS 9 “Financial Instruments” and related amendments

IFRS 9 supersedes IAS 39 “Financial Instruments: Recognition and Measurement”, with consequential amendments to IFRS 7 “Financial Instruments: Disclosures” and other standards. IFRS 9 sets out the requirements for classification, measurement and impairment of financial assets and hedge accounting. Refer to Note 4 for information relating to the relevant accounting policies.

On the basis of the facts and circumstances that existed as at January 1, 2018, the Bank and its subsidiaries have performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods. The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the financial assets and financial liabilities as at January 1, 2018.

	Measurement Category		Carrying Amount		
Financial Assets	**IAS 39**	**IFRS 9**	**IAS 39**	**IFRS 9**	**Remark**
Financial assets at fair value through profit or loss	Financial assets held for trading	Financial assets mandatorily classified as at FVTPL	$ 30,791,143	$ 30,791,143	
	Financial assets designated as at FVTPL	Financial assets designated as at FVTPL	23,650,076	23,650,076	
Receivables, net	Financial assets at amortized cost (loans and receivables)	Financial assets at amortized cost	22,432,462	22,379,388	a)
Discount and loans, net	Financial assets at amortized cost (loans and receivables)	Financial assets at amortized cost	293,656,990	293,652,605	a)
Available-for-sale financial assets, net	Available-for-sale financial assets	Financial assets mandatorily classified as at FVTPL	4,408,937	4,408,937	b)
	Available-for-sale financial assets	FVTOCI	123,253,558	123,253,558	c)
Other financial assets, net	Financial assets measured at cost	FVTOCI	255,659	426,330	d)
	Financial assets at amortized cost (debt instruments with no active market)	Financial assets at amortized cost	5,523,388	5,521,207	e)

Financial Assets	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
Financial assets at fair value through profit or loss	$ 54,441,219						
Add: Reclassification from available-for-sale financial assets (IAS 39)	-	$ 4,408,937	$ -		$ (458,118)	$ 458,118	b)
	54,441,219	4,408,937	-	$ 58,850,156	(458,118)	458,118	
Financial assets at fair value through other comprehensive income	-						
Add: Debt instruments Reclassification from available-for-sale financial assets (IAS 39)		122,331,821	-		(21,768)	21,768	c)
Add: Equity instruments Reclassification from available-for-sale financial assets (IAS 39)		5,330,674	-				
Reclassification from financial assets measured at cost (IAS 39)		255,659	170,671		40,192	130,289	d)
Less: Debt and equity instruments From available-for-sale to FVTPL (IFRS 9) - reclassification based on classification criteria		(4,408,937)	-		-	-	
	-	123,509,217	170,671	123,679,888	18,424	152,057	
Debt investments measured at amortized cost	-						
Add: Reclassification from debt instruments with no active market (IAS 39)		5,523,388	(2,181)		(2,181)	-	e)
	-	5,523,388	(2,181)	5,521,207	(2,181)	-	
Receivables, net	22,432,462		(53,074)	22,379,388	(47,545)	-	a)
Discount and loans, net	293,656,990		(4,385)	293,652,605	(4,385)	-	a)
Investments accounted for using equity method, net	888,863		8,729	897,592	42,484	(33,754)	f)
Provisions	(230,129)		(94,560)	(324,689)	(94,358)	-	g)
Net effects of reclassifications and remeasurements as of January 1, 2018		$ 133,441,542	$ 25,200		$ (545,679)	$ 576,421	
Non-controlling interest		$ -	$ -		$ (5,160)	$ (382)	

a) The Bank and its subsidiaries elected to designate its receivables, discounts and loans previously classified as loans and receivables under IAS 39 as debt investments measured at amortized cost under IFRS 9. With an assessment of expected credit losses, an increase of $53,074 thousand in loss allowance for receivables, a decrease of $47,545 thousand in retained earnings, and an increase of $4,385 thousand in loss allowance for discounts and loans, and a decrease of $4,385 thousand in retained earnings were recognized on January 1, 2018.

b) The Bank and its subsidiaries elected to designate its stock investments previously classified as available-for-sale under IAS 39 as at FVTPL under IFRS 9, because these stock investments are not designated as FVTOCI. A decrease of $458,118 thousand in retained earnings and an increase of $458,118 thousand in other equity were recognized on January 1, 2018, respectively.

c) The Bank and its subsidiaries elected to designate its bond investments previously classified as available-for-sale financial assets under IAS 39 as at FVTOCI with an assessment of expected credit losses under IFRS 9, because on January 1, 2018, the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows and sell financial assets. A decrease of $21,768 thousand in retained earnings and an increase of $21,768 thousand in other equity were recognized on January 1, 2018.

d) The Bank and its subsidiaries elected to designate its unlisted stock investments previously classified as other financial assets - measured at cost under IAS 39 as at FVTOCI under IFRS 9 and were remeasured at fair value. Consequently, an increase of $40,192 thousand in retained earnings and an increase of $130,289 thousand in other equity were recognized on January 1, 2018.

e) The Bank and its subsidiaries elected to designate its debt investments previously classified as other financial assets - debt investments with no active market under IAS 39 were classified as debt investments measured at amortized cost under IFRS 9, because the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows. A decrease of $2,181 thousand in retained earnings were recognized on January 1, 2018.

f) The Bank and its subsidiaries recognized IFRS 9 influences of investments accounted for equity method based on the investment ratio. An increase of $42,484 thousand in retained earnings and a decrease of $33,754 thousand in other equity were recognized on January 1, 2018.

g) In accordance to the assessment of impairment of financial assets under IFRS 9, the Bank and its subsidiaries recognized provisions for off-balance-sheet guarantee, letters of credit and loan commitments. As a result, a decrease of $94,358 thousand in retained earnings was recognized on January 1, 2018.

2) The reconciliation of loss allowance for initial application IFRS 9

The reconciliation of loss allowance from IAS 39 to IFRS 9

The following table shows the reconciliation of balance of loss allowance recognized under IAS 39 based on Credit Loss Occurrence Model in prior period to balance of loss allowance recognized under IFRS 9 based on Expected Credit Losses Model on January 1, 2018.

Category	Allowance under IAS 39 and IAS 37	Reclassifications	Remeasurements	Allowance under IFRS 9
Loan and receivables (IAS 39)/financial assets at amortized cost (IFRS 9)				
Receivables	$ 1,388,629	$ -	$ (15,304)	$ 1,373,325
Discount and loans	2,524,383	-	(547,724)	1,976,659
Other financial assets	12,697	-	(4,733)	7,964
Impairment recognized in accordance with Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans	1,467,050	-	625,220	2,092,270
	5,392,759	-	57,459	5,450,218
Loans and receivables (IAS 39)/FVTOCI (IFRS 9)				
Other financial assets	40,764	-	(40,764)	-
Available-for-sale (IAS 39)/FVTOCI (IFRS 9)				
FVTOCI	-	-	21,768	21,768
Loan and receivables (IAS 39)/financial assets at amortized cost (IFRS 9)				
Debt investments measured at amortized cost	-	-	2,181	2,181
Loan commitments and provisions				
Loans and receivables (loan commitments)	-	-	94,258	94,258
Guarantee receivable	91,133	-	(22,304)	68,829
Letters of credit receivable		-	302	302
Impairment recognized in accordance with Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans	5,137	-	22,304	27,441
	96,270	-	94,560	190,830
	$ 5,529,793	$ -	$ 135,204	$ 5,664,997

b. New IFRSs endorsed by the FSC for application starting from 2019

New IFRSs	Effective Date Announced by IASB (Note 1)
Annual Improvements to IFRSs 2015-2017 Cycle	January 1, 2019
Amendments to IFRS 9 "Prepayment Features with Negative Compensation"	January 1, 2019 (Note 2)
IFRS 16 "Leases"	January 1, 2019
Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"	January 1, 2019 (Note 3)
Amendments to IAS 28 "Long-term Interests in Associates and Joint Ventures"	January 1, 2019
IFRIC 23 "Uncertainty Over Income Tax Treatments"	January 1, 2019

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

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

Note 3: The Bank and its subsidiaries shall apply these amendments to plan amendments, curtailments or settlements occurring on or after January 1, 2019.

1) IFRS 16 "Leases"

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

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

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

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

2) Amendments to IAS 19 "Plan Amendment, Curtailment or Settlement"

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

3) IFRIC 23 "Uncertainty Over Income Tax Treatments"

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

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

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

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of these consolidated financial statements please refer to the consolidated financial statements for the year ended December 31, 2017, except for those described below.

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, and IAS 34 "Interim Financial Reporting" as endorsed by the FSC. Disclosure information included in the accompanying interim financial report is less than that required for a full set of annual financial reports.

Principles for Preparing Consolidated Financial Statements

The consolidated financial report includes the financial reports of the Bank and its subsidiaries. All significant intra-group transactions, balances, income and expenses have been eliminated in full upon consolidation.

The consolidated entities were as follows:

Investor	Subsidiary	Business Features	Holding Percentage (%)		
			June 30, 2018	December 31, 2017	June 30, 2017
The Bank	CDIB Management Consulting Corporation	Management and consulting	100.00	100.00	100.00
CDIB Management Consulting Corporation	CDC Finance & Leasing Corporation	Leasing	76.04	76.04	76.04
	CDIB International Leasing Corporation	Leasing	100.00	100.00	100.00

Retirement Benefits

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings.

The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

Financial Instruments

Financial assets and financial liabilities are recognized when the Bank and its subsidiaries become a party to the contractual provisions of the instruments.

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

<u>Financial assets</u>

All regular way purchases or sales of financial assets and liabilities are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

a. Classification and Measurement

   <u>2018</u>

   Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, and investments in debt instruments and equity instruments at FVTOCI.

   1) Financial asset at FVTPL

      Financial asset is classified as at FVTPL when the financial asset is mandatorily classified or it is designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria. A financial asset may be designated as at FVTPL upon initial recognition, if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

      Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on the financial asset. Fair value is determined in the manner described in Note 45.

   2) Financial assets at amortized cost

      Financial assets that meet the following conditions are subsequently measured at amortized cost:

      a) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost are measured at amortized cost, which equals to gross carrying amount determined by the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for that has subsequently become credit-impaired, is calculated by applying the effective interest rate to the amortized cost of the financial asset.

Cash equivalents include time deposits, which can cancel at any time and won't afford principal losses, which are readily convertible to a known amount of cash within 3 months from the date of acquisition and are subject to an insignificant risk of changes in value and highly liquid.

3) Investments in debt instruments at FVTOCI

Debt instruments that meet the following conditions are subsequently measured at FVTOCI:

a) The financial asset is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of the financial assets; and

b) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

4) Investments in equity instruments at FVTOCI

On initial recognition, the Bank and its subsidiaries may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings.

Dividends on these investments in equity instruments are recognized in profit or loss when the Bank and its subsidiaries’ right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

b. Impairment of financial assets

<u>2018</u>

The Bank and its subsidiaries recognizes a loss allowance for expected credit losses on financial assets at amortized cost (include account receivables), investments in debt instruments at FVTOCI and lease receivables.

The Bank and its subsidiaries measures the loss allowance for account receivables and lease receivables by using lifetime Expected Credit Loss (i.e. ECL). For the other financial assets, the Bank and its subsidiaries recognizes lifetime ECL when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank and its subsidiaries measures the loss allowance for that financial instrument at an amount equal to 12-month ECL.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The Bank and its subsidiaries recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance or accumulated impairment account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of the financial asset.

Based on the Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual loans, credit assets classified as normal (this balance should be net of the balance of borrowings by ROC government agencies from the Bank), special mention, substandard, with doubtful collectability and uncollectable or loss incurring are evaluated on the basis of the borrowers'/clients' financial condition and delinquency record on interest payments, and these assets have allowances at 1%, 2%, 10%, 50% and 100%, respectively, of outstanding credit. The doubtful accounts of credit cards receivables are evaluated on the basis of Regulations Governing Institutions Engaging In Credit Card Business. The minimum allowance for credit assets on or off balance sheet is equal to the book value of the above listed.

Based on the Order No. 10300329440 issued by the FSC, for the Bank to have an enhanced risk coverage toward collateral and exposures in Mainland China, the minimum provision for the loan loss reserve is 1.5% of the mortgage and construction loans that have been classified as normal assets before 2016. Based on the Order No. 10410001840 issued by the FSC, for the Bank to have an enhanced control of the exposure to the risk in Mainland China, the minimum provision for the credit loss reserve is 1.5% of the credit include short-term trade finance that were granted to companies based in Mainland China before 2015 and classified as normal assets.

Credit deemed uncollectable may be written off under the approval of the board of directors.

c. Derivative financial instruments

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

Before 2017, Derivatives embedded in nonderivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts, and the contracts are not measured at fair value through profit or loss. From 2018, derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Bank and its subsidiaries' accounting policies, which are described in Note 4, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered relevant. Actual results may differ from these estimates.

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

Impairment Loss on Loans and Receivables - 2017

The management reviews loan and receivable portfolios to assess impairment periodically. To determine whether an impairment loss should be recognized, the management exercises its judgments on whether there is any indication of impairment. For the purpose of impairment assessment, the management determines the expected future cash flows based on historical loss on assets with similar credit risks. The management also reviews periodically the methodology and assumptions adopted for both expected future cash flow and its timing to decrease the difference between estimated and actual amount of impairment.

Impairment Loss on Loans, Receivables, Provision for Loan Commitments and Guarantee Liabilities - 2018

The management reviews loan, receivables, provision for loan commitments and guarantee liabilities portfolios to assess impairment periodically. To determine whether an impairment loss should be recognized, the management exercises its judgments on whether there has been a significant increase in credit risk or there is any indication of credit impairment. For the purpose of impairment assessment, the management determines the expected future cash flows based on past events, present conditions and future economic circumstances of the assets with similar credit risks. The management also reviews periodically the methodology and assumptions adopted for both expected future cash flow and its timing to decrease the difference between estimated and actual amount of impairment.

6. CASH AND CASH EQUIVALENTS

	June 30, 2018	December 31, 2017	June 30, 2017
Due from banks	$ 5,697,967	$ 10,532,178	$ 7,613,219
Cash on hand	1,515,103	1,394,261	1,285,885
Cash in banks	857,626	597,498	682,056
Checks for clearing	640,742	1,686,741	182,984
Excess margin of futures	558,342	122,149	506,912
	$ 9,269,780	$ 14,332,827	$ 10,271,056

Cash and cash equivalents as of December 31, 2017 as shown in the consolidated statements of cash flows can be reconciled to the related items in the consolidated balance sheets as follows; please refer to the consolidated statement of cash flows for the reconciliation information as of June 30, 2018 and 2017:

	December 31, 2017
Cash and cash equivalents in consolidated balance sheets	$ 14,332,827
Due from the Central Bank and call loans to banks qualifying as cash and cash equivalents under the definition of IAS 7 endorsed by FSC	14,444,968
Securities purchased under agreements to resell qualifying as cash and cash equivalents under the definition of IAS 7 endorsed by FSC	18,233,168
Cash and cash equivalents in consolidated statements of cash flows	$ 47,010,963

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

	June 30, 2018	**December 31, 2017**	**June 30, 2017**
Due from the Central Bank	$ 3,500,000	$ 6,520,000	$ 10,930,000
Call loans to banks	12,613,859	13,846,833	18,004,323
Deposit reserve - demand accounts	8,448,043	7,670,687	7,535,800
Deposit reserve - checking accounts	5,659,144	5,053,887	6,968,914
Due from the Central Bank - interbank settlement funds	701,382	600,326	183,574
Deposit reserve - foreign currencies	164,700	137,301	140,006
	$ 31,087,128	$ 33,829,034	$ 43,762,617

Under a directive issued by the Central Bank of the ROC, New Taiwan dollar - denominated deposit reserve are determined monthly at prescribed rates based on average balance of the Bank's deposits. Deposit reserve - demand account should not be used, except for adjusting the deposit reserve account monthly.

In addition, separate foreign-currency deposit reserves are determined at prescribed rates based on balances of foreign-currency deposits. These reserves may be withdrawn anytime at no interest.

For the certificates of deposit issued by the Central Bank of the ROC pledged as collaterals by the Bank, please refer to Note 43.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2018	**December 31, 2017**	**June 30, 2017**
Financial assets mandatorily classified as at FVTPL			
Derivative instruments			
Interest rate swap contracts	$ 15,618,166	$ -	$ -
Currency swap contracts	24,708,131	-	-

(Continued)

	June 30, 2018	December 31, 2017	June 30, 2017
Option contracts	$ 2,688,866	$ -	$ -
Others	1,107,790	-	-
Non-derivative financial assets			
Bank debentures	991,314	-	-
Convertible (exchangeable) corporate bonds	1,848,985	-	-
Corporate bonds	392,735	-	-
Commercial papers	16,816,178	-	-
Others	1,650,349	-	-
	65,822,514	-	-
Financial assets held for trading			
Derivative instruments			
Interest rate swap contracts	-	7,965,579	8,176,825
Currency swap contracts	-	6,409,790	8,153,984
Option contracts	-	620,875	851,065
Others	-	1,409,158	1,295,272
Non-derivative financial assets			
Bank debentures	-	3,006,792	2,300,654
Convertible (exchangeable) corporate bonds	-	1,950,536	2,973,766
Corporate bonds	-	322,286	-
Commercial papers	-	8,775,184	5,157,706
Others	-	330,943	148,995
	-	30,791,143	29,058,267
Financial assets designated as at FVTPL			
Government bonds	7,088,858	12,808,586	31,796,188
Corporate bonds	1,805,758	-	-
Bank debentures	1,745,161	-	182,745
Others	21,650,696	10,841,490	7,110,325
	32,290,473	23,650,076	39,089,258
Financial assets at FVTPL	$ 98,112,987	$ 54,441,219	$ 68,147,525
Financial liabilities held for trading			
Derivative instruments			
Interest rate swap contracts	$ 17,175,932	$ 9,107,790	$ 8,540,578
Currency swap contracts	23,958,656	6,315,597	7,878,566
Option contracts	20,562,617	9,629,101	7,419,840
Others	1,147,767	814,210	800,463
	62,844,972	25,866,698	24,639,447
Financial liabilities designated as at FVTPL			
Bank debentures payable	26,936,416	17,417,983	17,405,435
Others	2,347,259	-	-
	29,283,675	17,417,983	17,405,435
Financial liabilities at FVTPL	$ 92,128,647	$ 43,284,681	$ 42,044,882

(Concluded)

As of June 30, 2018, December 31, 2017 and June 30, 2017, bank debentures issued by the Bank and designated as at FVTPL were as follows:

Name	June 30, 2018	December 31, 2017	June 30, 2017	Issuance Period	Method of Paying Principal and Interests	Interest Rate
15KGIB1	$ 3,233,000	$ 3,163,888	$ 3,226,216	2015.03.24-2045.03.24 (Note 1)	Principal due on maturity	0%
P16KGIB1	3,355,000	3,283,280	3,347,960	2016.05.03-2046.05.03 (Note 2)	Principal due on maturity	0%
P16KGIB2	3,355,000	3,283,280	3,347,960	2016.05.27-2046.05.27 (Note 2)	Principal due on maturity	0%
P16KGIB3	2,440,000	2,387,840	2,434,880	2016.11.08-2046.11.08 (Note 1)	Principal due on maturity	0%
P17KGIB1	6,100,000	5,969,600	6,087,200	2017.01.23-2047.01.23 (Note 1)	Principal due on maturity	0%
P18KGIB1	6,100,000	-	-	2018.01.30-2048.01.30 (Note 3)	Principal due on maturity	0%
P18KGIB2	4,880,000	-	-	2018.02.27-2048.02.27 (Note 3)	Principal due on maturity	0%
	29,463,000	18,087,888	18,444,216			
Valuation adjustments	(2,526,584)	(669,905)	(1,038,781)			
	$ 26,936,416	$ 17,417,983	$ 17,405,435			

Note 1: Based on 100% of the carrying value of each bond principal plus the interest; the Bank may redeem all the debentures after two years from the issue date.

Note 2: Based on 100% of the carrying value of each bond principal plus the interest; the Bank may redeem all the debentures after one year from the issue date.

Note 3: Based on 100% of the carrying value of each bond principal plus the interest; the Bank may redeem all the debentures after five years from the issue date.

The contract (nominal) amounts of the Bank and its subsidiaries' outstanding derivative financial instruments as of June 30, 2018, December 31, 2017 and June 30, 2017 are summarized as follows:

	Contract Amount		
	June 30, 2018	December 31, 2017	June 30, 2017
Currency swap contracts	$ 1,595,877,704	$ 1,420,861,044	$ 1,358,366,072
Interest rate swap contracts	1,076,253,700	904,748,596	902,025,403
Option contracts	698,331,905	315,452,631	237,902,992
Forward exchange contracts	32,561,499	26,220,926	42,612,238
Cross-currency swap contracts	30,953,994	27,978,819	38,515,704
Asset swap contracts	1,350,700	1,355,180	2,061,952
Non-deliverable forward contracts	2,571,341	2,282,220	1,097,719
Commodity swap contracts	728,450	695,444	714,051
Futures contracts	18,000,540	17,963,103	22,811,879

As of June 30, 2018, December 31, 2017 and June 30, 2017, financial assets at fair value through profit or loss with aggregate carrying values of $4,331,458 thousand, $4,582,517 thousand and $5,180,974 thousand, respectively, had been sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

The Bank and its subsidiaries have not applied hedged accounting.

For the information on financial instruments at fair value through profit or loss pledged as collateral for the Bank and its subsidiaries, please refer to Note 43.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	June 30, 2018
Investments in equity instruments at FVTOCI	$ 2,563,553
Investments in debt instruments at FVTOCI	143,021,394
	$ 145,584,947

a. Investments in equity instruments at FVTOCI

	June 30, 2018
Listed and OTC stocks	$ 2,146,485
Unlisted stocks	417,068
	$ 2,563,553

For the six months ended June 30, 2018, the Bank and its subsidiaries sold its shares in order to manage its investment portfolio. The sold shares had a fair value of $254,608 thousand and the Bank and its subsidiaries transferred gain of $24,448 thousand from other equity related-unrealized gain (loss) on financial assets at fair value through other comprehensive income to retained earnings.

Dividend income for the three and six months ended June 30, 2018, were both $23,929 thousand, which were all related to investments held at the end of the reporting period.

b. Investments in debt instruments at FVTOCI

	June 30, 2018
Government bonds	$ 60,966,660
Negotiable certificates of deposit	40,365,608
Corporate bonds	28,591,127
Bank debentures	13,097,999
	$ 143,021,394

As of June 30, 2018, investments in debt instruments at FVTOCI, with aggregate carrying values of $53,750,242 thousand had been sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

For the information on financial assets at fair value through other comprehensive income pledged as collateral for the Bank and its subsidiaries, please refer to Note 43.

There was no significant increase in the credit risk of investments in debt instruments at FVTOCI of the Bank and its subsidiaries; therefore, the 12 months expected credit losses were used to assess allowance for loss. The retroactive application of IFRS 9 on January 1, 2018 resulted in $21,768 thousand of loss allowance. An increase in the investment position resulted in $25,667 thousand of loss allowance on June 30, 2018.

10. DEBT INVESTMENTS MEASURED AT AMORTIZED COST, NET - 2018

	June 30, 2018
Domestic bank debentures	$ 1,525,000
Foreign bank debentures	10,359,100
	11,884,100
Allowance for impairment	(3,954)
Net amount	$ 11,880,146

As of June 30, 2018, debt investments measured at amortized cost, with aggregate carrying values of $268,400 thousand had been sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

The Bank and its subsidiaries had not pledged any of the debt investments measured at amortized cost as collateral.

There was no significant increase in the credit risk of debt investments measured at amortized cost of the Bank and its subsidiaries; therefore, the 12 months expected credit losses were used to assess allowance for loss. The retroactive application of IFRS 9 on January 1, 2018 resulted in $2,181 thousand of loss allowance. An increase in the investment position resulted in $3,954 thousand of loss allowance on June 30, 2018.

11. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	June 30, 2018	December 31, 2017	June 30, 2017
Commercial papers	$ 10,497,894	$ 11,184,033	$ 908,096
Bank debentures	848,867	893,492	-
Government bonds	1,507,230	50,022	-
Corporate bonds	8,036,115	-	-
Negotiable certificates of deposits	350,089	6,701,595	-
	$ 21,240,195	$ 18,829,142	$ 908,096
Agreed-upon resell amounts	$ 21,256,912	$ 18,835,223	$ 908,199
Last maturity date	October 2018	April 2018	July 2017

12. RECEIVABLES, NET

	June 30, 2018	December 31, 2017	June 30, 2017
Accounts receivable - forfaiting	$ 8,119,096	$ 4,400,120	$ 5,468,843
Lease receivables	3,743,509	4,164,820	4,984,138
Credit cards	3,242,987	2,684,731	2,960,050
Interest receivable	2,287,433	1,698,986	1,944,113
Accounts receivables factoring without recourse	9,749,139	8,498,843	8,916,480
Interbank settlement funds	1,747,257	208,585	207,885
Rental deposits	467,748	467,748	467,748

(Continued)

	June 30, 2018	December 31, 2017	June 30, 2017
PEM receivable	$ 896,061	$ 859,377	$ 876,398
Receivable on securities sold	54,629	159,186	2,402,112
Others	875,101	959,383	956,511
	31,182,960	24,101,779	29,184,278
Less: Unrealized interest	(200,278)	(213,786)	(274,745)
Allowance for bad debts	(1,552,504)	(1,455,531)	(1,485,881)
Net amount	$ 29,430,178	$ 22,432,462	$ 27,423,652

(Concluded)

As of June 30, 2018, December 31, 2017 and June 30, 2017, the rental deposits receivable amounting to $467,748 thousand and the allowance for bad debts was $409,848 thousand, resulted from the relocation to Bank-owned property, of which, deposits from Prince Motors and Cosmos Construction Management Corporation amounted to $101,901 thousand, and the allowance for bad debts on these deposits was $44,001 thousand.

On February 14, 2014, the Taiwan District Court had judged that the Bank lost the lawsuit against the third party which claimed that the Bank had fraudulently infringed the rights of the creditors regarding property rights of Dun Nun Building, and the Bank then filed appeal. The court has revoked the original adjudication and rejected the third party appeal on July 26, 2017. Please refer to Note 44 for details.

From May 2007 to February 2008, the Bank sold structured notes, which were issued by GVEC Resource Inc. (GVEC), amounting to US$48,920 thousand through a specific trust fund. PEM Group, which GVEC was subordinate to, was found to have committed fraud by the U.S. Securities and Exchange Commission (SEC). In view of its social responsibility, the Bank's board of directors decided to buy back the structured notes before March 31, 2010 and ask for compensation from PEM Group.

PEM Group had invested in life insurance policy products, etc. In order to recover its creditor's rights effectively and to protect shareholders' equity, the Bank's board of directors adopted a resolution on December 21, 2010, to take over all the insurance policies and hold these policies in the form of trust. The Bank completed the transfer of the life insurance policies from PEM Group on March 7, 2011. The Bank measured the policies' cost based on an actuarial report less administration fees, and then recognized the cost amounting to $218,386 thousand (US$7,423 thousand). At the same time, the Bank wrote off the initial cost and provision for life insurance policies amounting to $433,061 thousand (US$14,721 thousand).

As of June 30, 2018, the PEM receivable amounting to $896,061 thousand (US$29,379 thousand) was measured as the abovementioned PEM receivable plus premiums paid thereon, less any recovery amount. After assessing the possibility of recovery based on the latest information provided by the trust entity, the balance of the PEM receivable and its allowance for bad debts was as follows:

(In Thousands of USD/TWD)

	June 30, 2018	
	USD	TWD
Life insurance policies	$ 13,805	$ 421,071
Non-life insurance policies	15,574	474,990
	29,379	896,061
Less: Allowance for bad debts	(16,212)	(494,467)
Net amount	$ 13,167	$ 401,594

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

	June 30, 2017	
	USD	TWD
Life insurance policies	$ 13,218	$ 402,314
Non-life insurance policies	15,576	474,084
	28,794	876,398
Less: Allowance for bad debts	(16,215)	(493,520)
Net amount	$ 12,579	$ 382,878

The Change in Loss Allowance on Receivables

The changes in the Bank and its subsidiaries' allowance for bad debts of receivables for the six months ended June 30, 2017 were as follows:

	For the Six Months Ended June 30, 2017
Balance, January 1	$ 1,699,854
Provisions	92,945
Write-offs	(265,224)
Recovery of written-off credits	16,743
Effects of exchange rate changes	(58,437)
Balance, June 30	$ 1,485,881

The reconciliation statement of loss allowance for receivables for the six months ended June 30, 2018 of the Bank and its subsidiaries were as follows:

	Stage 1	Stage 2		Stage 3				
	12 Months ECL	**Lifetime ECL (Collectively Assessed)**	**Lifetime ECL (Individually Assessed)**	**Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)**	**Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)**	**Impairment in Accordance With IFRS 9**	**The Adjustments Under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Nonaccrual Loans**	**Total**
Balance at January 1	$ 108,302	$ 32,442	$ -	$ 1,232,581	$ -	$ 1,373,325	$ 135,280	$ 1,508,605
Changes due to financial instruments that have been identified at the beginning of the period:								
To lifetime ECL	(947)	2,925	-	(1,978)	-	-		-
From conversion to credit-impaired financial assets	(793)	(5,067)	-	5,860	-	-		-
To 12 months ECL	1,546	(140)	-	(1,406)	-	-		-
Derecognizing financial assets during the current period	(38,826)	(5,435)	-	(6,907)	-	(51,168)		(51,168)
Purchased or originated new financial assets	41,281	7	-	-	-	41,288		41,288
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with nonperforming/nonaccrual loans							81,545	81,545
Write-off	-	(6,351)	-	(29,923)	-	(36,274)		(36,274)
Recovery of written-off	-	-	-	79,840	-	79,840		79,840
Effect of exchange rate changes and others	(25,903)	646	-	(46,075)	-	(71,332)		(71,332)
Balance at June 30	$ 84,660	$ 19,027	$ -	$ 1,231,992	$ -	$ 1,335,679	$ 216,825	$ 1,552,504

Changes in total book values of receivables for the six months ended June 30, 2018 of the Bank and its subsidiaries were as follows:

	Stage 1	Stage 2		Stage 3		
	12 Months ECL	**Lifetime ECL (Collectively Assessed)**	**Lifetime ECL (Individually Assessed)**	**Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)**	**Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)**	**Total**
Balance at January 1	$ 21,697,882	$ 251,185	$ -	$ 1,938,926	$ -	$ 23,887,993
Conversion from individual financial instruments to lifetime ECL	-	-	-	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	-	-	-	-	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Receivables based on collective assessment	(58,986)	10,433	-	48,553	-	-
Purchased or originated new receivables	11,245,046	4,433	-	22,217	-	11,271,696
Write-off	-	(6,351)	-	(29,923)	-	(36,274)
Derecognition	(4,029,363)	(40,357)	-	(100,586)	-	(4,170,306)
Effect of exchange rate changes and others	(475)	71	-	29,977	-	29,573
Balance at June 30	$ 28,854,104	$ 219,414	$ -	$ 1,909,164	$ -	$ 30,982,682

For the impairment loss analysis of receivables, please refer to Note 46.

For the receivables pledged as collaterals for the Bank and its subsidiaries, please refer to Note 43.

13. DISCOUNTS AND LOANS, NET

	June 30, 2018	December 31, 2017	June 30, 2017
Short-term loans	$ 90,641,628	$ 72,264,667	$ 70,985,769
Medium-term loans	183,956,117	171,175,807	163,069,985
Long-term loans	59,942,077	53,761,759	45,536,728
Overdue loans	486,955	455,444	628,991
Export negotiations	80,694	17,155	141,489
	335,107,471	297,674,832	280,362,962
Less: Allowance for bad debts	(4,243,592)	(3,924,531)	(3,773,595)
Less: Discounts on loans	(111,511)	(93,311)	(67,512)
Net amount	$ 330,752,368	$ 293,656,990	$ 276,521,855

The Change in Loss Allowance on Discounts and Loans

The changes in the Bank's allowance for bad debts of discounts and loans for the six months ended June 30, 2017 were as follows:

	For the Six Months Ended June 30, 2017
Balance, January 1	$ 3,429,672
Provisions	267,687
Recovery of written-off credits	371,366
Write-offs	(232,162)
Reduction and exemption	(15,189)
Effects of exchange rate changes	(47,779)
Balance, June 30	$ 3,773,595

The reconciliation statement of loss allowance for discounts and loans for the six months ended June 30, 2018 of the Bank were as follows:

	Stage 1	Stage 2		Stage 3				
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	Impairment in Accordance With IFRS 9	The Adjustments Under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/ Nonaccrual Loans	Total
Balance at January 1	$ 1,316,129	$ 129,626	$ -	$ 530,904	$ -	$ 1,976,659	$ 1,952,257	$ 3,928,916
Changes due to financial instruments that have been identified at the beginning of the period:								
To lifetime ECL	(2,226)	9,432	-	(7,206)	-	-		-
From conversion to credit-impaired financial assets	(2,246)	(23,418)	-	25,664	-	-		-
To 12 months ECL	2,049	(1,645)	-	(404)	-	-		-
Derecognizing financial assets during the current period	(271,561)	(2,474)	-	(6,702)	-	(280,737)	-	(280,737)
Purchased or originated new financial assets	453,559	380	-	6,851	-	460,790		460,790
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with nonperforming/nonaccrual loans							311,027	311,027
Write-off	-	-	-	(204,371)	-	(204,371)		(204,371)
Recovery of written-off	-	-	-	375,494	-	375,494		375,494
Effect of exchange rate changes and others	(161,229)	(7,715)	-	(178,583)	-	(347,527)		(347,527)
Balance at June 30	$ 1,334,475	$ 104,186	$ -	$ 541,647	$ -	$ 1,980,308	$ 2,263,284	$ 4,243,592

Changes in total book values of discounts and loans for the six months ended June 30, 2018 of the Bank were as follows:

	Stage 1	Stage 2		Stage 3		Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	
Balance at January 1	$ 292,239,778	$ 1,977,828	$ -	$ 3,457,226	$ -	$ 297,674,832
Conversion from individual financial instruments to lifetime ECL	-	-	-	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	-	-	-	-	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Discounts and loans based on collective assessment	(466,342)	197,957	-	268,385	-	-
Purchased or originated new discounts and loans	180,347,838	19,134	-	385,253	-	180,752,225
Write-off	-	-	-	(204,371)	-	(204,371)
Derecognition	(138,275,226)	(126,164)	-	(304,304)	-	(138,705,694)
Effect of exchange rate changes and others	(3,762,680)	(172,103)	-	(474,738)	-	(4,409,521)
Balance at June 30	$ 330,083,368	$ 1,896,652	$ -	$ 3,127,451	$ -	$ 335,107,471

For the impairment loss analysis of discounts and loans, please refer to Note 46.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017	June 30, 2017
Government bonds	$ 50,899,335	$ 62,634,164
Bank debentures	14,277,692	22,650,383
Corporate bonds	26,320,268	27,671,187
Stocks	5,330,674	5,682,852
Negotiable certificates of deposits	30,834,526	25,802,540
	$ 127,662,495	$ 144,441,126

As of December 31, 2017 and June 30, 2017, available-for-sale financial assets, with aggregate carrying values of $40,043,756 thousand and $59,731,319 thousand, respectively, had been sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

For the available-for-sale financial assets pledged as collaterals by the Bank and its subsidiaries, please refer to Note 43.

15. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET

Immaterial associates:

	June 30, 2018		December 31, 2017		June 30, 2017	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
CDIB & Partners Investment Holding Corporation	$ 850,857	4.95	$ 888,387	4.95	$ 800,417	4.95
Others	346		476		615	
	$ 851,203		$ 888,863		$ 801,032	

The above investments accounted for using equity method and the Bank and its subsidiaries' share of earnings and other comprehensive income had been calculated on the basis of audited financial statements.

The Bank and its subsidiaries had not pledged any of the equity-method investments as collateral.

16. OTHER FINANCIAL ASSETS

	June 30, 2018	December 31, 2017	June 30, 2017
Financial assets measured at cost, net	$ -	$ 255,659	$ 255,659
Due from banks (original maturities over three months)	2,990,260	2,083,400	1,503,983
Debt instruments with no active market	-	5,523,388	2,526,188
Overdue receivables	12,802	12,697	13,523
Pledged time deposits	300	1,300	1,300
	3,003,362	7,876,444	4,300,653
Less: Allowance for bad debts - overdue receivables	(12,802)	(12,697)	(13,523)
Net amount	$ 2,990,560	$ 7,863,747	$ 4,287,130

For the other financial assets pledged as collaterals by the Bank and its subsidiaries, please refer to Note 43.

17. PROPERTY AND EQUIPMENT, NET

	June 30, 2018	December 31, 2017	June 30, 2017
Land	$ 3,439,901	$ 3,465,361	$ 3,510,433
Buildings and facilities	1,686,690	1,683,562	1,678,788
Machinery and computer equipment	199,081	194,542	128,636
Leased assets	646,965	571,396	376,171
Leasehold improvement	271,352	248,429	165,834
Transportation equipment	215	316	419
Miscellaneous equipment	44,047	41,940	31,632
Prepayments for acquisition of properties	45,324	39,004	23,661
	$ 6,333,575	$ 6,244,550	$ 5,915,574

Except for depreciation recognized, the Bank and its subsidiaries' had no significant addition, disposal and impairment of property and equipment during the three and six months ended June 30, 2018 and 2017.

The board of directors held in September 2016 approved selling the building located in Sanchong, thus it was transferred from property and equipment to assets held for sale. Further, the building had no impairment loss which evaluated by the external independent appraiser appointed by the Bank. The building was sold in August 2017, and the gain on disposal of assets held for sale was 8,344 thousand, which recognized as net revenues other non-interest income.

Property and equipment were depreciated on a straight-line basis at the following estimated service lives:

Buildings and facilities	4-60 years
Machinery and computer equipment	1-8 years
Transportation equipment	2-15 years
Miscellaneous equipment	2-10 years
Leasehold improvement	1-10 years
Leased assets	1-20 years

For the property and equipment pledged as collaterals by the Bank and its subsidiaries, please refer to Note 43.

18. INVESTMENT PROPERTY, NET

	June 30, 2018	December 31, 2017	June 30, 2017
Land	$ 726,715	$ 751,262	$ 706,190
Buildings and facilities	149,137	138,727	136,367
	$ 875,852	$ 889,989	$ 842,557

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

	For the Six Months Ended June 30	
	2018	2017
Cost		
Beginning balance	$ 1,147,771	$ 902,137
Disposal	(52,109)	-
Reclassification	46,640	192,510
Ending balance	1,142,302	1,094,647
Accumulated depreciation		
Beginning balance	(106,866)	(80,199)
Depreciation	(3,039)	(2,357)
Disposal	1,054	-
Reclassification	(6,683)	(18,618)
Ending balance	(115,534)	(101,174)

(Continued)

	For the Six Months Ended June 30	
	2018	2017
Accumulated impairment		
Beginning balance	$ (150,916)	$ (150,916)
Impairment	-	-
Ending balance	(150,916)	(150,916)
Carrying amount, net	$ 875,852	$ 842,557

(Concluded)

Investment property was depreciated on a straight-line basis at the following estimated service lives:

Buildings and facilities	
Main building and parking spaces	20-60 years

The fair value of the Bank and its subsidiaries' investment property was based on the assessment of an external independent appraiser and is reviewed by the Bank and its subsidiaries' management that considers the validity of appraisal report in 2017 and 2016 and regard the fair value as effective. The comparative approach was based on the prices of similar transactions, and the income approach was based on the estimated income generated by a property and capitalization rate. Based on these valuations, the fair values of the Bank and its subsidiaries' investment properties as of June 30, 2018, December 31, 2017 and June 30, 2017 were $962,001 thousand, $1,016,815 thousand and $990,999 thousand, respectively.

For the investment properties pledged as collaterals by the Bank and its subsidiaries, please refer to Note 43.

19. OTHER ASSETS, NET

	June 30, 2018	December 31, 2017	June 30, 2017
Guarantee deposits paid	$ 16,657,410	$ 4,799,616	$ 5,673,826
Prepaid expenses	836,258	622,469	641,161
Operating guarantee deposits	57,100	57,100	57,100
Prepaid pension costs	106,652	100,330	131,760
Others	88,769	108,284	160,661
	$ 17,746,189	$ 5,687,799	$ 6,664,508

For the other assets pledged as collaterals by the Bank and its subsidiaries, please refer to Note 43.

20. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	June 30, 2018	December 31, 2017	June 30, 2017
Call loans from banks	$ 33,177,355	$ 27,438,170	$ 27,152,489
Deposits from Chunghwa Post Co., Ltd.	358,205	892,522	1,203,712
	$ 33,535,560	$ 28,330,692	$ 28,356,201

21. NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS

	June 30, 2018	December 31, 2017	June 30, 2017
Bank debentures	$ 15,433,831	$ 15,795,365	$ 21,270,005
Corporate bonds	30,740,512	24,317,973	20,547,064
Government bonds	14,897,164	5,331,476	24,924,996
Commercial paper	247,967	-	-
	$ 61,319,474	$ 45,444,814	$ 66,742,065
Repurchase amounts	$ 61,589,870	$ 45,611,130	$ 66,855,816
Last maturity date	November 2018	April 2018	September 2017

22. PAYABLES

	June 30, 2018	December 31, 2017	June 30, 2017
Accounts payable factoring	$ 1,635,740	$ 1,318,315	$ 675,633
Accrued interest	2,671,740	1,843,465	1,458,632
Accrued expenses	476,001	964,461	539,361
Funds for clearing	1,818,645	277,038	231,966
Checks for clearing	640,742	1,686,741	182,984
Payables for securities purchased	152,163	49,615	5,779,976
Others	634,029	732,356	832,468
	$ 8,029,060	$ 6,871,991	$ 9,701,020

23. DEPOSITS AND REMITTANCES

	June 30, 2018	December 31, 2017	June 30, 2017
Time deposits	$ 240,069,812	$ 207,904,432	$ 195,269,309
Savings deposits	96,321,286	99,318,877	99,811,390
Demand deposits	58,355,843	43,149,581	50,134,892
Checking deposits	3,607,132	3,600,607	3,395,775
Negotiable certificates of deposits	26,945,800	22,502,900	4,155,000
Remittances	35,025	146,737	54,888
	$ 425,334,898	$ 376,623,134	$ 352,821,254

24. BANK DEBENTURES PAYABLE

Name	June 30, 2018	December 31, 2017	June 30, 2017	Issuance Period	Method of Paying Principle and Interests	Interest Rate
P06 KGIB 1	$ 1,000,000	$ 1,000,000	$ 1,000,000	2017.05.19-2020.05.19	Interest payable annually; principal due on maturity	0.9%
04 KGIB 2	-	-	2,750,000	2008.01.09-2017.12.13	Principal due on maturity	0.0%
	1,000,000	1,000,000	3,750,000			
Unamortized discount	-	-	(30,125)			
Net amount	$ 1,000,000	$ 1,000,000	$ 3,719,875			

25. COMMERCIAL PAPER PAYABLE, NET

	June 30, 2018	December 31, 2017	June 30, 2017
Commercial paper payable	$ 1,300,000	$ 1,225,000	$ 1,880,000
Less: Unamortized discount	(467)	(521)	(923)
	$ 1,299,533	$ 1,224,479	$ 1,879,077
Interest rate	1.08%-1.12%	1.09%-1.57%	1.07%-1.88%
Last maturity date	September 2018	January 2018	October 2017

26. OTHER BORROWINGS

	June 30, 2018	December 31, 2017	June 30, 2017
Short-term credit borrowings	$ 730,536	$ 747,986	$ 1,391,774
Note issuance facility	1,599,485	1,599,564	1,199,537
Short-term secured borrowings	105,000	135,000	150,000
Long-term credit borrowings	315,830	422,532	305,942
	$ 2,750,851	$ 2,905,082	$ 3,047,253
Interest rate	1.10%-4.35%	1.10%-4.75%	1.10%-4.75%
Last maturity date	October 2020	October 2020	June 2020

27. PROVISIONS

	June 30, 2018	December 31, 2017	June 30, 2017
Provision for guarantee liabilities	$ 125,363	$ 96,271	$ 103,835
Provision for employee benefits	14,595	15,933	14,452
Provision for loan commitments	78,243	-	-
Others	117,617	117,925	118,635
	$ 335,818	$ 230,129	$ 236,922

28. RETIREMENT BENEFIT PLANS

The Bank and its subsidiaries' retirement plans consist of defined contribution and defined benefit plans. For defined benefit plans, employee benefit expenses for the six months ended June 30, 2018 and 2017 were calculated using the actuarially determined pension cost discount rates as of December 31, 2017 and 2016, respectively.

For the three and six months ended June 30, 2018 and 2017, the Bank and its subsidiaries (a) recognized their contributions under the defined benefit plans as pension expenses (recognized as employee benefits expense) of $921 thousand, $1,398 thousand, $1,899 thousand and $2,796 thousand, respectively, and (b) recognized under the defined contribution plans pension expenses (recognized as employee benefits expense) of $33,569 thousand, $31,757 thousand, $65,938 thousand and $63,136 thousand, respectively.

29. OTHER LIABILITIES

	June 30, 2018	December 31, 2017	June 30, 2017
Temporary receipts and suspense accounts	$ 253,217	$ 260,092	$ 1,865,304
Guarantee deposits received	4,289,434	1,613,427	1,324,420
Advance receipts	132,504	41,630	81,699
Others	70,014	70,672	72,251
	$ 4,745,169	$ 1,985,821	$ 3,343,674

30. EQUITY

a. Capital

Common stock

	June 30, 2018	December 31, 2017	June 30, 2017
Number of shares authorized (in thousands) (Note)	20,000,000	20,000,000	20,000,000
Shares authorized	$ 200,000,000	$ 200,000,000	$ 200,000,000
Number of shares issued and fully paid (in thousands) (Note)	4,606,162	4,606,162	4,606,162
Shares issued	$ 46,061,623	$ 46,061,623	$ 46,061,623

Note: Share par value NT$10.

b. Capital surplus

	June 30, 2018	December 31, 2017	June 30, 2017
Additional paid-in capital	$ 7,245,723	$ 7,245,723	$ 7,245,710
Issuance of employee share options	4,948	4,612	4,115
Change in capital surplus from investments in associates accounted for by using equity method	234	218	189
	$ 7,250,905	$ 7,250,553	$ 7,250,014

The premium of additional paid-in capital (share premium from issuance of common shares, treasury share transactions, and excess of the consideration received over the carrying amount of the subsidiaries' net assets during disposal or acquisition) and donations may be used to offset a deficit; in addition, when the Bank has no deficit, such capital surplus may be distributed as cash dividends or transferred to capital once a year within a certain percentage of the Bank's capital surplus.

The capital surplus from investments under the equity method may not be used for any purpose.

c. Legal and special reserves

Under the Company Act, the Bank may, under a resolution approved in a shareholders' meeting, capitalize the amount of its legal reserve that exceeds 25% of the capital by issuing new shares to shareholders or by distributing a cash dividend when it incurs no loss. In addition, under the Banking Act, the Bank should retain 30% of its after-tax earnings as legal reserve before distributing these earnings. Further, if the amount of legal reserve is less than the total amount of capital, the maximum amount of earnings that may be distributed in cash should not exceed 15% of the total capital. However, this restriction will not apply if the amount of legal reserve equals or exceeds the amount of the total capital or if the Bank is in sound financial condition and is in compliance with the Company Act.

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

Under Order No. 10510001510 issued by the FSC on May 25, 2016, the Public Bank shall appropriate 2016 to 2018 annual surplus which is based on 0.5% to 1% of net income for special reserve. From fiscal year of 2017, the Bank can reverse the amount of expenditure of employees' transfer arising from financial technology development within the amount of the above special reserve.

d. Appropriation of earnings and dividend policy

In order to expand the Bank's operations and consider the benefit of shareholders as well as comply with the Banking Act and relevant regulations, the Bank applies the residual dividend policy. In principle, the Bank pays dividends in the form of cash. The cash dividends should not be more than 15% of paid-in capital when legal reserve is less than paid-in capital.

The current year's earnings will be first applied to cover losses of the past years as well as settle all taxes payable. After covering losses and settling taxes, the balance will then be used to appropriate legal reserve and special reserve and to reverse a special reserve in accordance with relevant laws and regulations. The remainder will then be used to pay the accrued dividends of the past years and dividend of the current year.

When the Bank's legal reserve equals its paid-in capital, or when the Bank has complied with the FSC's financial soundness requirements and has provided a legal reserve based on the Company Act, the Bank is no longer subject to the requirement for legal reserve appropriation and to the 15%-of-paid-in capital limit on cash dividend distribution.

The appropriation of earnings should be presented for approval at the shareholders' meeting in the year following, and given effect to in the financial statements of the year following the year of earnings generation.

Under the Financial Holding Company Act, because the Bank has only one shareholder, CDFH, the Company Act provisions on shareholders' meetings do not apply to the Bank and the board of directors is thus entitled to exercise shareholders' meeting functions.

Appropriation of the 2017 and 2016 earnings for approved by board of directors which entitled to execute shareholders' meeting function on May 24, 2018 and May 18, 2017 respectively were as follows:

	2017	2016
Legal reserve	$ 944,525	$ 1,120,722
Special reserve (reversal on special reserve)	(1,032,200)	913,849
Cash dividends	3,236,089	1,701,168

Related information can be accessed through the Market Observation Post System on the Web site of the Taiwan Stock Exchange.

31. NET INTEREST

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Interest revenues				
Discounts and loans	$ 2,281,859	$ 1,826,006	$ 4,392,229	$ 3,548,098
Securities	623,322	475,823	1,204,758	755,832
Due from and call loans to banks	119,000	92,725	235,169	187,891
Others	254,047	202,952	455,221	414,583
	3,278,228	2,597,506	6,287,377	4,906,404
Interest expenses				
Deposits	1,056,358	689,907	1,972,859	1,333,607
Notes and bonds issued under repurchase agreements	218,539	134,226	395,451	265,551
Structured notes	30,286	30,740	60,945	60,046
Due to/borrowings from the other banks	112,675	66,274	190,935	117,053
Others	34,898	51,803	63,258	99,921
	1,452,756	972,950	2,683,448	1,876,178
	$ 1,825,472	$ 1,624,556	$ 3,603,929	$ 3,030,226

32. SERVICE FEE INCOME, NET

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Service fee revenues				
Insurance commission	$ 179,323	$ 155,280	$ 372,388	$ 297,620
Trust	116,810	98,295	267,783	194,413
Cash card	28,922	33,117	56,419	60,217
Credit card	38,598	44,281	75,520	87,952
Loans	75,475	76,556	145,514	170,849
Others	92,364	48,773	177,462	96,286
	531,492	456,302	1,095,086	907,337

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Service fee expenses				
Agency	$ 21,727	$ 23,624	$ 40,421	$ 46,296
Interbank	14,166	12,493	28,365	24,864
Others	32,516	31,986	77,053	60,476
	68,409	68,103	145,839	131,636
	$ 463,083	$ 388,199	$ 949,247	$ 775,701

(Concluded)

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Realized gain (loss)				
Bonds	$ (202,110)	$ 13,357	$ (377,553)	$ (114,593)
Derivative instruments	(461,024)	518,213	709,431	664,994
Stocks	(327,530)	(3,200)	(635,743)	(283)
Others	22,397	2,302	36,561	5,075
	(968,267)	530,672	(267,304)	555,193
Revaluation gain (loss)				
Bonds	476,124	(299,325)	1,724,458	313,796
Derivative instruments	785,823	601,929	2,622,342	2,114,061
Stocks	285,577	1,497	390,334	118
Others	(467,262)	(283,862)	(3,635,719)	(1,408,891)
	1,080,262	20,239	1,101,415	1,019,084
	$ 111,995	$ 550,911	$ 834,111	$ 1,574,277

For the three and six months ended June 30, 2018 and 2017, the realized gain or loss on the Bank and its subsidiaries financial assets or liabilities at FVTPL included (a) disposal loss of $784,911 thousand, gain of $519,002 thousand, gain of $68,587 thousand and gain of $411,511 thousand, respectively, (b) interest revenues of $126,117 thousand, $210,844 thousand, $226,570 thousand and $512,442 thousand, respectively, (c) dividend incomes of $20,840 thousand, $0 thousand, $28,340 thousand and $0 thousand, respectively, and (d) interest expenses of $330,313 thousand, $199,174 thousand, $590,801 thousand and $368,760 thousand, respectively.

34. REALIZED GAINS (LOSSES) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS- 2017

	For the Three Months Ended June 30, 2017	For the Six Months Ended June 30, 2017
Gain on bond disposal	$ 335,278	$ 165,387
Gain on stock disposal	-	12,357
Dividend income	34,885	45,326
	$ 370,163	$ 223,070

35. REALIZED LOSS ON FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME- 2018

	For the Three Months Ended June 30, 2018	For the Six Months Ended June 30, 2018
Loss on bond disposal	$ (330,829)	$ (565,592)
Dividend income	23,929	23,929
	$ (306,900)	$ (541,663)

36. REVERSAL OF IMPAIRMENT LOSS (IMPAIRMENT LOSS) ON ASSETS

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Debt instruments at fair value through other comprehensive income	$ 5,653	$ -	$ (3,872)	$ -
Debt investments measured at amortized cost	(159)	-	(1,773)	-
	$ 5,494	$ -	$ (5,645)	$ -

37. OTHER NON-INTEREST INCOME

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Rental income	$ 46,740	$ 34,323	$ 85,084	$ 59,642
Gain on disposal of investment property	-	-	69,047	-
Loss on debt restructuring	(6,936)	-	(14,532)	-
Net gains on financial assets at cost	-	10,191	-	10,191
Others	2,914	(2,497)	(2,873)	4,973
	$ 42,718	$ 42,017	$ 136,726	$ 74,806

38. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Employee benefit expense				
Salaries and wages	$ 727,214	$ 720,825	$ 1,444,441	$ 1,419,377
Employee insurance	53,550	53,002	119,049	117,832
Pension	34,490	33,155	67,837	65,932
Others	53,767	48,182	105,436	99,404
	$ 869,021	$ 855,164	$ 1,736,763	$ 1,702,545
Depreciation and amortization expenses	$ 105,099	$ 88,661	$ 208,289	$ 170,656

The Company's Articles of Incorporation stipulates to distribute compensation of employees at the rates no less than 0.01% and no higher than 3% of net profit before income tax and employees' compensation. However, if the Bank had incurred cumulative losses, the profit should be used to offset the losses first. For the three and six months ended June 30, 2018 and 2017, the employee's compensation were $1,027 thousand, $1,188 thousand, $1,666 thousand and $2,172 thousand, respectively.

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

There was no difference between the amounts of the employees' compensation resolved by the board of directors and the respective amounts recognized in the consolidated financial statements for the year ended December 31, 2017 and 2016.

If there is a change in the proposed amounts after the consolidated financial statements of the fiscal year were authorized for issue, the differences will be recorded as a change in the accounting estimate.

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

39. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Taxation	$ 113,562	$ 99,642	239,292	$ 201,074
Rental	91,379	87,540	180,223	174,149
Professional services	60,838	66,940	114,499	128,236
Computer information	45,886	35,391	97,682	96,428
Marketing	43,920	36,984	84,941	71,511
Others	150,759	143,060	282,096	273,864
	$ 506,344	$ 469,557	$ 998,733	$ 945,262

40. INCOME TAX

a. Income tax expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Current income tax				
Current year	$ (32,070)	$ 79,979	$ 118,327	$ 86,780
Prior year's adjustments	(5,736)	(26,465)	(5,736)	(26,465)
	(37,806)	53,514	112,591	60,315
Deferred income tax	197,891	284,432	13,112	396,855
Income tax expenses	$ 160,085	$ 337,946	$ 125,703	$ 457,170

In 2018, the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. The effect of the change in tax rate on deferred tax benefit to be recognized in profit is recognized in full in the current period. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%.

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Current income tax				
Gain or loss on equity instruments at fair value through other comprehensive income	$ -	$ -	$ 960	$ -
Income tax benefit	$ -	$ -	$ 960	$ -

c. The estimated receivables/payables resulting from the use of the linked-tax system on the Bank's consolidated tax returns were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Tax paid to the parent company	$ 435,483	$ 412,845	$ 352,595
Tax charge for the parent company	$ -	$ -	$ 13,230

d. Income tax assessments

Since 2015, the Bank used the linked-tax system in filing together its income tax and unappropriated earnings returns and those of its parent company and eligible subsidiaries.

The income tax returns of CDIB Management Consulting Corporation through 2016 had been examined by the tax authorities. Income tax returns of CDC Finance & Leasing Corp. through 2015 had been examined by the tax authorities. Income tax returns of the Corporation and formerly Cosmos Insurance Broker Co, Ltd through 2014 had been examined by the tax authorities.

41. EARNINGS PER SHARE

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Earnings used in the computation of the EPS	$ 857,344	$ 750,645	$ 1,549,547	$ 1,638,765
Weighted average outstanding common shares (shares in thousands)	4,606,162	4,606,162	4,606,162	4,606,162
Basic EPS (in dollars)	$0.19	$0.16	$0.34	$0.36

42. RELATED-PARTY TRANSACTIONS

The significant transactions and relationship with related parties (in addition to those disclosed in other notes) are summarized below:

Related Party	Relationship with the Bank and Its Subsidiaries
China Development Financial Holding Corporation	Parent company
CDIB Capital Group and its subsidiaries	Subsidiary of the parent company
KGI Securities Co., Ltd. and its subsidiaries	Subsidiary of the parent company
China Life Insurance Co., Ltd.	Subsidiary of the parent company (Note)
Others	Other related parties

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

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

	Amount	%
June 30, 2018	$ 235,943	3
December 31, 2017	262,228	2
June 30, 2017	167,135	2

For the three and six months ended June 30, 2018 and 2017, the interest revenue from due from banks were $0 thousand.

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

	Amount	%
June 30, 2018	$ 720,376	1
December 31, 2017	391,201	1
June 30, 2017	794,522	1

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

	Amount	%
June 30, 2018	$ 25,387	-
December 31, 2017	9,895	-

d. Credit card (recognized as receivables, net)

	Amount	%
June 30, 2018	$ 39,120	-
December 31, 2017	16,772	-
June 30, 2017	28,277	-

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

	Amount	%
June 30, 2018	$ 7,369	-
December 31, 2017	157,021	1

f. Receivables from parent (recognized as current tax assets)

	June 30, 2017	
	Amount	%
Parent company	$ 13,230	99

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

g. Discounts and loans, net

	Amount	%	Interest Rate (%)
June 30, 2018	$ 1,015,459	-	1.54-15.00
December 31, 2017	962,341	-	1.54-15.00
June 30, 2017	883,253	-	1.54-15.00

For the three and six months ended June 30, 2018 and 2017, the interest revenues from discounts and loans were $3,964 thousand, $3,534 thousand, $8,227 thousand and $7,217 thousand, respectively.

Balance as of June 30, 2018

Category	Number of Accounts or Name of Related Party	Highest Balance	Ending Balance	Normal	Overdue	Type of Collateral	Was the Transaction Conducted at Arm's Length
Consumer loans	37	$ 27,755	$ 21,250	$ 21,250	$ -	None	Yes
Residential mortgage loans	74	1,216,764	985,525	985,525	-	Real estate	Yes
Others	10	14,964	8,684	8,684	-	Real estate	Yes

Balance as of December 31, 2017

Category	Number of Accounts or Name of Related Party	Highest Balance	Ending Balance	Normal	Overdue	Type of Collateral	Was the Transaction Conducted at Arm's Length
Consumer loans	44	$ 36,768	$ 19,006	$ 19,006	$ -	None	Yes
Residential mortgage loans	78	1,183,655	933,659	933,659	-	Real estate	Yes
Others	16	30,209	9,676	9,676	-	Deposit/real estate	Yes

Balance as of June 30, 2017

Category	Number of Accounts or Name of Related Party	Highest Balance	Ending Balance	Normal	Overdue	Type of Collateral	Was the Transaction Conducted at Arm's Length
Consumer loans	31	$ 20,180	$ 15,958	$ 15,958	$ -	None	Yes
Residential mortgage loans	63	955,597	847,786	847,786	-	Real estate	Yes
Others	13	24,793	19,509	19,509	-	Deposit/real estate	Yes

h. Purchase and sale of bonds

	Purchase of Bonds	Sale of Bonds
For the six months ended June 30, 2018		
Subsidiary of the parent company	$ 3,431,410	$ 431,412
Other related parties	877,050	-
For the six months ended June 30, 2017		
Subsidiary of the parent company	2,332,059	1,845,381

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

	Amount	%
June 30, 2018	$ 23,374	-
December 31, 2017	23,099	-
June 30, 2017	21,137	-

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

	June 30, 2018		December 31, 2017		June 30, 2017	
	Amount	%	Amount	%	Amount	%
Other related parties	$ 4,457,500	13	$ 4,096,960	14	$ 4,500,000	16

For the three and six months ended June 30, 2018 and 2017, the interest expense for call loans from banks were $2,981 thousand, $4,675 thousand, $6,450 thousand and $6,382 thousand, respectively.

k. Payable on securities purchased (recognized as payables, net)

	Amount	%
June 30, 2018	$ 66,687	1

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

	June 30, 2018		December 31, 2017		June 30, 2017	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Parent company	$ 435,483	100	$ 412,845	100	$ 352,595	100

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

m. Accrued interest (recognized as payables)

	Amount	**%**
June 30, 2018	$ 4,760	-
December 31, 2017	5,865	-
June 30, 2017	25,575	-

n. Deposits

	Amount	**%**	**Interest Rate (%)**
June 30, 2018	$ 19,334,976	5	0-5.58
December 31, 2017	15,343,386	4	0-5.58
June 30, 2017	32,874,769	9	0-5.58

For the three and six months ended June 30, 2018 and 2017, the interest expenses for deposits were $24,410 thousand, $42,589 thousand, $48,824 thousand and $75,425 thousand, respectively.

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	**%**	**Amount**	**%**
2018				
Subsidiary of the parent company	$ 62,219	13	$ 120,284	13
Other related parties	45	-	83	-
2017				
Other related parties	2,617	1	3,726	-

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

p. Rental income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	**%**	**Amount**	**%**
2018	$ 825	2	$ 1,650	2
2017	731	2	1,556	3

The rent was based on market prices and receivable monthly.

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	**%**	**Amount**	**%**
2018	$ 605	-	$ 8,063	1
2017	2,982	1	2,982	-

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	**%**	**Amount**	**%**
2018	$ 25,483	5	$ 50,958	5
2017	23,486	5	46,971	5

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

s. Insurance expenses (recognized as employee benefits expenses)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	**%**	**Amount**	**%**
2018	$ 3,507	-	$ 7,318	-

t. Other general and administrative expenses (Note)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	**%**	**Amount**	**%**
2018	$ 22,186	4	$ 42,904	4
2017	18,315	4	39,445	4

Note: These expenses were for the use of the subsidiary of the parent company’s workplace, IT equipment and etc.

u. Outstanding derivative financial instruments

June 30, 2018

Related Party	Contract Type	Contract Period	Contract Amount	Valuation Gain (Loss)	Balance Sheet Account	Balance Sheet Balance
Other related parties	Interest rate swap contracts	March 17, 2017 - April 7, 2047	$ 12,165,962	$ 867,930	Financial assets at FVTPL	$ 377,791
					Financial liabilities at FVTPL	3,531
Subsidiaries of the parent company	Asset swap-interest rate swap contracts	April 6, 2016 - February 5, 2021	675,200	(2,072)	Financial assets at FVTPL	8,516
					Financial liabilities at FVTPL	176
	Asset swap-option contracts	April 6, 2016 - January 22, 2021	675,200	(19,465)	Financial liabilities at FVTPL	97,210
	Interest rate swap contracts	November 4, 2016 - November 6, 2020	1,088,850	(2,169)	Financial assets at FVTPL	204
					Financial liabilities at FVTPL	7,256
	Currency swap contracts	December 19, 2017 - September 21, 2018	13,877,500	487,002	Financial assets at FVTPL	426,635

December 31, 2017

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

June 30, 2017

Related Party	Contract Type	Contract Period	Contract Amount	Valuation Gain (Loss)	Balance Sheet Account	Balance Sheet Balance
Other related parties	Interest rate swap contracts	March 17, 2017 - April 7, 2047	$ 11,565,680	$ (119,769)	Financial liabilities at FVTPL	$ 119,769
Subsidiaries of the parent company	Asset swap-interest rate swap contracts	March 23, 2016 - March 10, 2019	576,540	11,983	Financial assets at FVTPL	16,325
	Asset swap-option contracts	March 23, 2016 - February 10, 2019	576,540	(49,218)	Financial liabilities at FVTPL	54,299
	Interest rate swap contracts	November 4, 2016 - January 24, 2020	973,952	2,112	Financial liabilities at FVTPL	2,573
					Financial assets at FVTPL	565

v. Compensation of key management personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	**2017**	**2018**	**2017**
Salary and short-term employee benefits	$ 29,794	$ 40,153	$ 61,201	$ 77,298
Post-employment benefits	447	590	924	1,166
Share-based payment	155	241	310	481
	$ 30,396	$ 40,984	$ 62,435	$ 78,945

In addition to the above, the Bank also paid housing rental, car rental and drivers' salaries, $1,261 thousand, $1,634 thousand, $2,620 thousand and $3,375 thousand for the three and six months ended June 30, 2018 and 2017, respectively.

The terms of transactions with related parties were similar to those for third parties, except for certain preferential interest rate on deposits for the Bank's employees with limited deposit amounts.

Based on Articles 32 and 33 of the Banking Act, except for consumer loans and government loans, credits extended by the Bank to any related party were fully secured, and the other terms for these credits were similar to those for third parties.

43. PLEDGED ASSETS

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

Assets	Object	Purpose	June 30, 2018	December 31, 2017	June 30, 2017
Due from the Central Bank and call loans to banks	Certificates of deposit issued by the Central Bank	As collaterals for day-term overdraft and U.S. dollar liquidation and other transactions of the guarantee	$ 3,500,000	$ 6,520,000	$ 10,830,000
Financial assets at fair value through profit or loss	Government bonds	Guarantees for provisional seizure	27,028	5,171	1,020
Lease receivables	Notes receivable	Commercial paper payable and short-term borrowing	2,305,826	2,541,307	2,568,792
Available-for-sale financial assets	Government bonds	Guarantees for provisional seizure	-	23,340	23,548
Available-for-sale financial assets	Government bonds	Guarantees and provisions	-	157,256	156,667
Available-for-sale financial assets	Negotiable certificates of deposits	As collaterals for day-term overdraft and U.S. dollar liquidation and other transactions of the guarantee	-	10,804,495	7,300,704
Property and equipment, net	Property	Commercial paper payable and short-term borrowing	12,775	12,931	13,087
Investment property, net	Investment property	Commercial paper payable and short-term borrowing	40,869	41,546	42,224
Other financial assets, net	Time deposits	Short-term borrowing	300	1,300	1,300
Other assets, net	Cash in banks - impound account	Commercial paper payable and short-term borrowing	49,315	62,258	45,595
Financial assets at fair value through other comprehensive income	Government bonds	Guarantees for provisional seizure	20,757	-	-
Financial assets at fair value through other comprehensive income	Government bonds	Guarantees and provisions	161,594	-	-
Financial assets at fair value through other comprehensive income	Negotiable certificates of deposits	As collaterals for day-term overdraft and U.S. dollar liquidation and other transactions of the guarantee	15,529,159	-	-

44. COMMITMENTS AND CONTINGENCIES

a. In response to rapid business development, changes in external regulations and IT demands for innovative products and enhanced IT service levels, the Bank planned to outsource its IT operations. Thus, in their meeting held on October 30, 2012, the board of directors approved the plan to outsource the Bank's IT operations to International Business Machines Corp., Taiwan (IBM Taiwan) for the next 10 years, starting from October 31, 2012. Throughout the validity period of the IT outsourcing contract, in addition to paying for extra services in accordance with professional rates, the Bank has to pay, starting from June 30, 2018, annual service fees for the basic framework, support service, IT application service and integration and transformation of its server and so on, with the service fees totaling $645,459 thousand for the remaining years.

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

45. FAIR VALUE AND HIERARCHY INFORMATION

a. The fair value hierarchy of financial instruments is defined as follows:

   1) Level I fair values are quoted prices in active markets for financial instruments.

   2) Level II fair values are those directly or indirectly observable inputs other than Level I quoted prices, such as the quoted prices of similar financial instruments in less active markets or price estimates arrived at through pricing models that use inputs such as interest rates, which are derived from or can be corroborated by observable market data.

   3) Level III refers to inputs that are not based on observable market data.

b. Financial instrument measured at fair value

   1) The fair value hierarchy of financial instruments measured at fair value is as follows:

June 30, 2018

	Level I	Level II	Level III	Total
Measured on a recurring basis				
Non-derivative financial instruments				
Assets				
Financial assets at FVTPL				
Financial assets mandatorily classified as at FVTPL				
Bond investments	$ 3,233,034	$ -	$ -	$ 3,233,034
Commercial paper payable	-	16,816,178	-	16,816,178
Others	1,040,205	610,144	-	1,650,349
Financial assets designated as at FVTPL	3,550,919	28,739,554	-	32,290,473
Financial assets at FVTOCI				
Stock investments	2,146,485	-	417,068	2,563,553
Debt investments	42,860,100	59,795,686	-	102,655,786
Others	-	40,365,608	-	40,365,608

(Continued)

	Level I	Level II	Level III	Total
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	$ -	$ 29,283,675	$ -	$ 29,283,675
Derivative financial instruments				
Assets				
Financial assets at FVTPL	169,767	43,732,106	221,080	44,122,953
Liabilities				
Financial liabilities at FVTPL	-	62,621,504	223,468	62,844,972

(Concluded)

December 31, 2017

	Level I	Level II	Level III	Total
Measured on a recurring basis				
Non-derivative financial instruments				
Assets				
Financial assets at FVTPL				
Financial assets held for trading				
Bond investments	$ 5,279,614	$ -	$ -	$ 5,279,614
Commercial paper payable	-	8,775,184	-	8,775,184
Others	330,903	40	-	330,943
Financial assets designated as at FVTPL	-	23,650,076	-	23,650,076
Available-for-sale financial assets				
Stock investments	5,330,674	-	-	5,330,674
Bond investments	46,170,117	45,327,178	-	91,497,295
Negotiable certificates of deposit	-	30,834,526	-	30,834,526
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	-	17,417,983	-	17,417,983
Derivative financial instruments				
Assets				
Financial assets at FVTPL	305,466	15,956,740	143,196	16,405,402
Liabilities				
Financial liabilities at FVTPL	-	25,726,204	140,494	25,866,698

June 30, 2017

	Level I	Level II	Level III	Total
Measured on a recurring basis				
Non-derivative financial instruments				
Assets				
Financial assets at FVTPL				
Financial assets held for trading				
Bond investments	$ 5,274,420	$ -	$ -	$ 5,274,420
Commercial paper investments	-	5,157,706	-	5,157,706
Others	148,995	-	-	148,995
Financial assets designated as at FVTPL	182,744	38,906,514	-	39,089,258

(Continued)

	Level I	Level II	Level III	Total
Available-for-sale financial assets				
Stock investments	$ 5,682,852	$ -	$ -	$ 5,682,852
Bond investments	56,265,012	56,690,722	-	112,955,734
Negotiable certificates of deposit	-	25,802,540	-	25,802,540
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	-	17,405,435	-	17,405,435
Derivative financial instruments				
Assets				
Financial assets at FVTPL	337,692	18,074,746	64,708	18,477,146
Liabilities				
Financial liabilities at FVTPL	-	24,500,900	138,547	24,639,447

(Concluded)

2) Basis of fair value determination

For financial assets and liabilities at fair value through profit or loss, available-for-sale financial assets, and financial assets at fair value through other comprehensive income, fair value is determined at quoted market prices. When market prices of the Bank's various financial instruments are not readily available, fair values are estimated by using appropriate valuation models or other banks' transaction prices. The information used by the Bank for fair value estimation is consistent with that generally used in the market, and the pricing models used are commonly recognized by the industry as helpful tools in determining fair value. Related framework of the methodology can be outlined as analytical solution model (such as Black-Scholes model) and numeric model (such as Monte Carlo simulation).

3) Fair value adjustment

a) The limitation of valuation techniques and uncertain inputs

Valuation techniques incorporate assumptions that depend on the instrument type and available market data. However, certain inputs used in valuation techniques may be less readily determinable. In these circumstances, a valuation model would use additional parameters and/or model assumptions-model risk, liquidity risk, and so on to make fair value adjustments. Thus, on the basis of its valuation management policies and relevant control procedures, the Bank's management considers valuation adjustments as necessary and appropriate. For the Bank to make appropriate valuation adjustments, all parameters and price information are evaluated thoroughly and market conditions are taken into consideration.

b) Credit risk valuation adjustment

Credit risk valuation adjustment consists of credit valuation adjustment and debit valuation adjustment.

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that the Corporation may not receive the full market value of the transactions.

The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the Corporation may default, and that the Corporation may not pay full market value of the transactions.

The Bank does credit valuation adjustment using probability of default (PD) multiplied by loss given default (LGD) multiplied by exposure at default (EAD).

To estimate the PD to be used as basis for the allowance for doubtful accounts, the Bank refers to the ratings published by international credit rating institutions, valuation models and valuation method specified in IFRS 9.

For EAD calculation, the market values of OTC derivative instruments are estimated in calculating EAD. The Bank uses PD no lower than 60%.

The above parameters used in risk valuation adjustment that is based on the fair values of financial instruments reflect the credit risks of counterparties and the credit quality of the Bank.

4) Transfer between Level I and Level II

	For the Six Months Ended June 30, 2018		For the Six Months Ended June 30, 2017	
	Transfer from Level I to Level II	**Transfer from Level II To Level I**	**Transfer from Level I to Level II**	**Transfer from Level II to Level I**
Bond investments				
Financial assets at FVTOCI	$ 5,186,315	$ -	$ -	$ -
Available-for-sale financial assets	-	-	8,225,907	1,330,449

Because of changes in market liquidity, evaluation sources applied by some NTD government bonds will change. It makes the applicable level of bonds' fair value change from Level I into Level II or from Level II into Level I.

5) Reconciliation of Level III items of financial instruments

The movements of Level III financial assets were as follows:

For the Six Months Ended June 30, 2018

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Current Income (Loss) or Other Comprehensive Income	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Issue	Transfer to Level III	Sale, Disposal or Settlement	Transfer from Level III	
Financial assets at FVTPL	$ 143,196	$ 77,884	$ -	$ -	$ -	$ -	$ 221,080
Financial assets at FVTOCI	426,330	(55)	-	-	9,207	-	417,068

For the Six Months Ended June 30, 2017

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Current Income (Loss) or Other Comprehensive Income	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Issue	Transfer to Level III	Sale, Disposal or Settlement	Transfer from Level III	
Financial assets at FVTPL	$ 177,705	$ (112,997)	$ -	$ -	$ -	$ -	$ 64,708

The movements of Level III financial liabilities were as follows:

For the Six Months Ended June 30, 2018

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Current Income (Loss) or Other Comprehensive Income	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Issue	Transfer to Level III	Sale, Disposal or Settlement	Transfer from Level III	
Financial liabilities at FVTPL	$ 140,494	$ 82,648	$ 326	$ -	$ -	$ -	$ 223,468

For the Six Months Ended June 30, 2017

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Current Income (Loss) or Other Comprehensive Income	Amount of Increase		Amount of Decrease		Ending Balance
			Purchase or Issue	Transfer to Level III	Sale, Disposal or Settlement	Transfer from Level III	
Financial liabilities at FVTPL	$ 234,417	$ (95,870)	$ -	$ -	$ -	$ -	$ 138,547

The total gains and losses were gain of $40,743 thousand, loss of $4,792 thousand, gain of $30,655 thousand and loss of $12,265 thousand on the assets and liabilities held for the three and six months ended June 30, 2018 and 2017 respectively.

6) Quantitative information about significant unobservable inputs (Level III) used in the fair value measurement

The table below lists quantitative unobservable inputs of Level III financial instruments:

	Fair Value at June 30, 2018	Valuation Technique(s)	Significant Unobservable Inputs	Interval	The Relationship Between Inputs and Fair Value
Measured on a recurring basis					
Non-derivative financial Instruments					
Financial assets at FVTOCI	$ 417,068	Market approach, net asset method	P/B, P/E, Lack of liquidity discount and control discount	1.24-14.10, 11%-27.2%	Multiplier is proportional to fair value, fair value is inversely proportional to discount for lack of marketability and control
Derivative financial instruments					
Financial assets at FVTPL	221,080	HullWhite, Libor market model, discounted cash flow	Quality/factor/ FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.
Financial liabilities at FVTPL	223,468	HullWhite, Libor market model, discounted cash flow	Quality/factor/ FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.

	Fair Value at December 31, 2017	Valuation Technique(s)	Significant Unobservable Inputs	Interval	The Relationship Between Inputs and Fair Value
Measured on a recurring basis					
Derivative financial instruments					
Financial assets at FVTPL	$ 143,196	HullWhite, Libor market model, discounted cash flow	Quality/factor/ FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.
Financial liabilities at FVTPL	140,494	HullWhite, Libor market model, discounted cash flow	Quality/factor/ FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.

	Fair Value at June 30, 2017	Valuation Technique(s)	Significant Unobservable Inputs	Interval	The Relationship Between Inputs and Fair Value
Measured on a recurring basis					
Derivative financial instruments					
Financial assets at FVTPL	$ 64,708	HullWhite, Libor market model, discounted cash flow	Quality/factor/ FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.
Financial liabilities at FVTPL	138,547	HullWhite, Libor market model, discounted cash flow	Quality/factor/ FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.

7) Pricing process of Level III fair value

The Bank’s risk management department is responsible for the pricing process of Level III fair value. The pricing models and conditions assumed are conform to market practice; the basis of the theory are commonly recognized by the industry as a basis of valuation in conducting measurement of fair value. Further, the department confirms whether the sources of the information are independent or not, reasonably reflecting the prices in normal circumstances, and examines and adjusts fair value periodically to insure results of the valuation is reasonable.

c. Fair value of the instruments not carried at fair value

1) Assets and liabilities measured at cost, excluding debt investments measured at amortized cost, investment properties, bank debentures payable and debt instruments with no active market, have carrying amounts that are reasonably close to their fair value or their fair value cannot be measure reliably; thus, their fair values are not disclosed.

2) Information of fair value hierarchy

June 30, 2018

	Level I	Level II	Level III	Total
Financial assets				
Debt investments measured at amortized cost	$ -	$ 11,884,343	$ -	$ 11,884,343
Non-financial assets				
Investment properties	-	-	962,001	962,001
Financial liabilities				
Bank debentures payable	-	1,002,794	-	1,002,794

December 31, 2017

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

June 30, 2017

	Level I	Level II	Level III	Total
Financial assets				
Debt instruments with no active market	$ -	$ -	$ 2,526,188	$ 2,526,188
Non-financial assets				
Investment properties	-	-	990,999	990,999
Financial liabilities				
Bank debentures payable	-	3,715,655	-	3,715,655

3) Valuation techniques

a) Because the maturity date is close to the balance sheet date, the fair value of the financial assets can be reasonably estimated by referring to their book value in the balance sheet. The technique applies to cash and cash equivalent, due from the Central Bank and call loans to banks, securities purchased under resell agreements, receivables, other financial assets, guarantee deposits paid, deposits from the Central Bank and banks, notes and bonds issued under repurchase agreements, payables, deposits and remittances, other financial liabilities and guarantee deposits received, etc.

b) Investments accounted for using equity method - unlisted stocks are unlisted financial assets, which have no quoted market prices in an active market owing to the variation interval of the estimate of the fair value is not quite small and the possibilities of the estimates in the interval cannot be assessed reasonably. The fair value cannot be reliably measured; thus, the Bank does not disclose their fair value.

c) The floating rates are usually adopted as the interest of the loan, which reflects market interest; thus, it is reasonable to estimate the fair value of a loan by referring to its book value together with the consideration in the collectability.

d) The fair value of debt investments measured at amortized cost is estimated by referring to quote price of Taipei Exchange and Bloomberg.

e) The fair value of the payables of the Bank debenture is estimated by referring to the discounted expected cash flow, of which the discount rate is reference to interest rates with similar maturity date.

f) For valuation technique of investment property, refer to Note 18.

46. FINANCIAL RISK MANAGEMENT

a. Risk management policies and framework

The Bank has an appropriate risk management system covering market, credit and operating risks and follows risk management procedures.

The Bank also analyzes, monitors and prepares reports on overall risk management. These reports are submitted to senior managements and to committees or board members with risk management functions. Updates on actual risks encountered when there are significant changes in macroeconomic conditions or in the financial market are generated for more effective risk monitoring and handling.

The Bank's risk management focuses not only on individual departments but also the overall impact of risks on a corporate level.

The Bank identifies risks using consistent standard asset portfolio classifications, with classifications correlating with each other, and establishes a consistent measure applicable to the different types of exposure.

The Bank's risk management groupings are as follows:

1) Board of directors

The Bank's board of directors supervises the operation of a risk management structure and promotes a risk management culture, ensures the efficiency of risk management, reviews important risk control reports and bears the ultimate responsibility for risk management.

2) Risk management committee

The risk management committee supervises the implementation of risk management policies, inspects risk control reports and deals with related issues.

3) Business and management department

The department is responsible for ensuring compliance with risk management regulations while conducting operations to control daily risks.

4) Risk management department

The risk management department is a unit independent from operating departments and is in charge of risk management planning and system operation and providing overall risk management information to senior management and the board of directors.

5) Audit department

The department is in charge of establishing all risk mechanisms and auditing the implementation of and compliance with these mechanisms.

Risk management is a joint duty of all the Bank's departments - business, legal, regulatory compliance, finance, accounting, administration, operating, audit department and so on, that should be done diligently through interdepartmental coordination in overall risk management.

b. Credit risk

1) Definition and source of credit risk

Credit risk is the risk of financial loss to the Bank if a creditor or counterparty fails to meet its contractual obligations or has negative changes in its credit quality. Credit risk management covers all operating activities that involve credit risk, including loans, call loans to banks, banking book securities investment, financial derivatives, repurchase agreement transactions and other operating activities.

2) Credit risk management policy

The Bank has standard control procedures for credit risk identification, measurement, and generation of disclosures and reports to be used for a rational identification, measurement, disclosure, and effective control of credit risk. These procedures include applying standard screening criteria for target clients, credit investigations for credit approval or rejection, careful deliberation of applications for certain exceptions, credit review, management of non-performing loans and requests, and control over all related documents and information. The Bank also adjusts the credit risk structure accordingly so that credit portfolios are within the Bank's risk appetite. Further, the Bank assesses the changes in the economy to adjust risk structure and develops strategies in response to these changes to alleviate shareholders' value and ensure the risk is bearable.

Based on the risk management policies, the management process is carried out as follows:

a) Credit investigation

In screening target clients, the Bank asks for all the necessary documents from the clients in order to get their backgrounds accurately and control credit portfolios within the acceptable range.

b) Credit approval

Cases that have passed the credit investigation are reviewed by the credit authority of each level. The credit authorities approve credits in accordance with the Bank's credit limit structure and authorization policies. The Bank's credit approval structure and policies are based not only on the Banking Act and other government rules for credit extended to the same person or affiliated enterprises/groups, industry and country, but also on the professionalism of the Bank's credit authorities and the quality of asset control. The amounts of credit authorized are reviewed by the credit authorities occasionally.

c) Post-lending loan review

The corporate banking segment of the Bank tracks the borrowers' financial and business conditions, generates risk assessment reports on credit asset portfolios regularly, operates a risk warning system and adjusts business development strategies as needed to cope with economic conditions and changes in asset quality through the use of an account management scheme and a regular-reassessment system. For delinquent loans, the Bank uses the concentration management method, together with information systems and analysis models, to conduct regular loan reviews for the enhanced management of overdue loans and expedite the collection of nonperforming loans.

d) Risk report and information disclosures

The risk management department is responsible for measuring risk, preparing quarterly risk report, including all risk management index and risk capital requirement assessment and reporting to risk management committee and board of directors.

3) Mitigation of risks or hedging of credit risk

Considering the asset hedge market and liquidity, the Bank takes the necessary risk reduction strategies, mainly on loan objects and hedge transactions involving assets with doubtful collectability or a long period of duration, including methods for increasing appropriate collaterals with good liquidity, or transferring to credit guarantee institutions such as the Small and Medium Credit Guarantee Fund to maximize the collateral. For determining the value of foreclosed collaterals, liquid securities will be evaluated at their market value; other collaterals will be subject to field surveys by appraisal firms for their fair value assessment, which will be used as a basis for demanding additional collaterals or adjusting the credit amount to ensure that risks are within the Bank's tolerance range.

If clients are found to have bad credit features, the Bank will strengthen the monitoring of the credit of borrower and guarantor and take measures, such as demanding an early repayment or additional collateral in mitigating the Bank's credit risk. In addition, the Bank sets different credit limits for counterparties involved in derivative transactions and enters into collateral support agreements with counterparties to ensure that risks are under control.

4) Maximum exposure to credit risk

Without taking collateral or other credit enhancements mitigation effect into account, the maximum exposure to credit risk from on-balance sheet financial assets was equal to their carrying values; the maximum exposure of credit risk from off-balance sheet financial instruments was as follows:

Items	June 30, 2018	December 31, 2017	June 30, 2017
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 97,817,029	$ 93,355,823	$ 95,331,346

The Bank believes that stringent selection processes and conducting regular review afterwards are the reasons why they can continuously control and minimize the credit risk exposure from their off-balance sheet items.

The Bank and its subsidiaries' book value of maximum exposure credit risk for major credit assets were as follows:

	Discounts And Loans						
	June 30, 2018						
	Stage 1	Stage 2	Stage 3				
	12 months Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Asset	Recognition of Impairment/ Adjustment	Total	June 30, 2017 Total
Short-term loans	$ 70,572,268	$ 1,203,311	$ 737,988	$ -		$ 72,513,567	$ 59,121,402
Short-term secured loans	17,968,663	4,750	154,648	-		18,128,061	11,864,367
Medium-term loans	131,521,646	223,262	349,906	-		132,094,814	112,310,299
Medium-term secured loans	51,779,052	71,980	10,271	-		51,861,303	50,759,686
Long-term loans	1,150,251	258,231	381,199	-		1,789,681	1,627,470
Long-term secured loans	57,010,794	135,118	1,006,484	-		58,152,396	43,909,258
Loans reclassified to nonperforming loans	-	-	486,955	-		486,955	628,991
Export negotiations	80,694	-	-	-		80,694	141,489
Total book values	330,083,368	1,896,652	3,127,451	-		335,107,471	280,362,962
Impairment allowance	(1,334,475)	(104,186)	(541,647)	-		(1,980,308)	(3,773,595)
Impairment recognized in accordance with Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (2,263,284)	(2,263,284)	
Adjusting for discounts and loans premium					(111,511)	(111,511)	(67,512)
Total	$ 328,748,893	$ 1,792,466	$ 2,585,804	$ -	$ (2,374,795)	$ 330,752,368	$ 276,521,855

	Receivables						
	June 30, 2018						
	Stage 1	Stage 2	Stage 3				
	12 months Expected Credit Losses	Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Asset	Recognition of Impairment/ Adjustment	Total	June 30, 2017 Total
Credit card business	$ 2,909,705	$ 203,812	$ 90,829	$ -		$ 3,204,346	$ 2,874,142
Accounts receivable - forfaiting	8,119,096	-	-	-		8,119,096	5,468,843
Accounts receivable factoring - without recourse	9,748,678	276	223	-		9,749,177	8,916,524
Acceptances	150,268	-	-	-		150,268	330,659
Lease receivables	3,387,736	8,243	147,252	-		3,543,231	4,709,393
Total book value	24,315,483	212,331	238,304	-		24,766,118	22,299,561
Impairment allowance	(80,395)	(18,326)	(86,953)	-		(185,674)	(378,444)
Impairment recognized in accordance with Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (200,236)	(200,236)	
Total	$ 24,235,088	$ 194,005	$ 151,351	$ -	$ (200,236)	$ 24,380,208	$ 21,921,117

Maximum exposure credit risk of financial instrument not applicable to impairment were as follows:

	June 30, 2018
	Maximum Exposure Credit Risk
Financial assets at FVTPL	
Debt instruments	$ 31,299,133
Derivatives instruments	44,122,953

5) Collaterals and credit enhancement

The Bank and its subsidiaries' pledged collaterals associated with credit include discounts, loans and receivables which contain real estate, properties (e.g.: Machinery), rights certificates and securities (e.g.: Certificates of deposit, stocks), notes receivable arose from borrowing of business transactions, deposits guaranteed by authorities of treasury department of government, banks or guarantee institutions authorized by government (e.g.: SME credit guarantee fund and letter of credit guaranteed) and mortgages set in accordance with the laws including registration of land rights. Financial assets held by The Bank are part of corporate bonds guaranteed by financial institutions as credit enhancement.

The Bank and its subsidiaries observe collateral's value of financial instrument closely, and consider recognizing impairment for financial assets with credit impairment. The Bank and its subsidiaries' financial assets with impairment, and collateral's values for mitigation of potential losses for the six months ended June 30, 2018 were as follows:

	Total Book Value	Credit Impairment	Amount of Risk Exposure (Amortized Cost)	Collaterals Value
Impaired asset:				
Accounts receivable				
Credit card business	$ 90,829	$ 33,796	$ 57,033	$ -
Accounts receivable factoring	223	53	170	-
Lease receivables	147,252	53,104	94,148	99,139
Discounts and loans	3,127,451	541,647	2,585,804	9,618,603
Total amount of impaired asset	$ 3,365,755	$ 628,600	$ 2,737,155	$ 9,717,742

The amount of the Bank and its subsidiaries' financial assets which has been written off and still has recourse activities of outstanding contract amount is $272,064 thousand for the six months ended June 30, 2018.

6) Concentration of credit risk

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

Credit risk concentration can arise in a bank's assets, liabilities, or off-balance sheet items through the execution or processing of transactions (either product or service), or through a combination of exposures across these broad categories. It includes credits, due from and call loans to banks, investments, receivables and derivatives. To manage credit risk concentration, the Bank maintains a diversified portfolio and monitors its exposure continually. The Bank's most significant concentrations of credit risk are summarized as follows:

a) By industry

	June 30, 2018		December 31, 2017		June 30, 2017	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Public and private enterprises	$ 226,380,146	67.56	$ 197,705,315	66.42	$ 191,474,950	68.30
Natural persons	108,419,285	32.35	99,643,651	33.47	88,463,112	31.55
Non-profit organizations	308,040	0.09	325,866	0.11	424,900	0.15
Total	$ 335,107,471	100.00	$ 297,674,832	100.00	$ 280,362,962	100.00

b) By region

	June 30, 2018		December 31, 2017		June 30, 2017	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Domestic	$ 248,785,645	74.24	$ 225,941,825	75.90	$ 216,552,179	77.24
Overseas	86,321,826	25.76	71,733,007	24.10	63,810,783	22.76
Total	$ 335,107,471	100.00	$ 297,674,832	100.00	$ 280,362,962	100.00

c) By collateral

	June 30, 2018		December 31, 2017		June 30, 2017	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Credit	$ 207,808,096	62.01	$ 178,769,206	60.06	$ 174,223,298	62.14
Secured						
Financial collaterals	8,140,229	2.43	6,857,650	2.30	6,959,447	2.48
Real estate	101,189,177	30.20	89,144,353	29.95	75,942,543	27.09
Guarantees	12,433,091	3.71	16,997,483	5.71	17,172,576	6.13
Other	5,536,878	1.65	5,906,140	1.98	6,065,098	2.16
Total	$ 335,107,471	100.00	$ 297,674,832	100.00	$ 280,362,962	100.00

7) Credit quality and impairment assessment - 2017

Some financial assets such as cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under resell agreement, parts of receivables, parts of other financial assets, guarantee deposits paid, deposits for business operations and clearing and settlement fund are regarded as having very low credit risk because of the counterparties' good credit ratings.

In addition to the above, the credit analysis of other financial assets was as follows:

a) Credit quality analysis of discounts, loans and receivables

December 31, 2017	Neither Overdue Nor Impaired Amount (A)	Overdue But Not Yet Impaired Amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
					With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables							
Credit card and credit business	$ 15,698,179	$ 43,486	$ 64,953	$ 15,806,618	$ 37,122	$ 194,872	$ 15,574,624
Others	5,978,176	23,637	1,726,487	7,728,300	1,187,957	48,277	6,492,066
Discounts and loans	295,523,731	1,215,585	935,516	297,674,832	486,258	3,438,273	293,750,301

June 30, 2017	Neither Overdue Nor Impaired Amount (A)	Overdue But Not Yet Impaired Amount (B)	Impairment Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)		Net Total (A)+(B)+(C)-(D)
					With Objective Evidence of Impairment	With No Objective Evidence of Impairment	
Receivables							
Credit card and credit business	$ 17,487,053	$ 43,796	$ 59,943	$ 17,590,792	$ 36,597	$ 227,979	$ 17,326,216
Others	9,077,101	81,314	1,806,046	10,964,461	1,175,588	59,240	9,729,633
Discounts and loans	278,010,677	1,285,948	1,066,337	280,362,962	527,767	3,245,828	276,589,367

Note: The total of discounts and loans is the original amount without adjustments for premiums or discounts.

b) The credit analysis of discounts and loans and receivables that were neither overdue nor impaired as shown by rating standards was as follows:

December 31, 2017	Neither Overdue Nor Impaired Amount				
	Excellent	Good	Normal	No Ratings	Total (A)
Consumer banking					
Mortgage loans	$ 27,762,808	$ 12,031,615	$ 158,841	$ -	$ 39,953,264
Cash card	8,177,519	2,800,191	571,461	2,313,105	13,862,276
Micro credit	18,203,312	2,402,956	131,530	87,718	20,825,516
Other - secured	18,557,903	1,612,323	75,362	77,038	20,322,626
Other - unsecured	36,502	-	-	-	36,502
Corporate banking					
Secured	13,679,272	19,220,389	23,656,679	2,300,147	58,856,487
Unsecured	34,207,906	67,845,728	33,107,571	6,505,855	141,667,060
Total	$ 120,625,222	$ 105,913,202	$ 57,701,444	$ 11,283,863	$ 295,523,731

June 30, 2017	Neither Overdue Nor Impaired Amount				
	Excellent	Good	Normal	No Ratings	Total (A)
Consumer banking					
Mortgage loans	$ 22,290,424	$ 10,009,638	$ 107,393	$ -	$ 32,407,455
Cash card	8,310,077	2,459,605	604,522	2,602,167	13,976,371
Micro credit	17,076,874	2,271,340	147,207	80,034	19,575,455
Other - secured	16,485,188	1,611,503	74,363	47,696	18,218,750
Other - unsecured	39,205	-	-	2,269	41,474
Corporate banking					
Secured	15,334,282	19,307,300	18,909,477	1,799,945	55,351,004
Unsecured	30,728,316	75,703,835	29,474,197	2,533,820	138,440,168
Total	$ 110,264,366	$ 111,363,221	$ 49,317,159	$ 7,065,931	$ 278,010,677

December 31, 2017	Neither Overdue Nor Impaired Amount				
	Excellent	Good	Normal	No Ratings	Total (A)
Credit card and credit business					
Credit card	$ 747,269	$ 530,405	$ 623,286	$ 643,356	$ 2,544,316
Accounts receivable - forfaiting	803,084	1,399,341	-	2,197,695	4,400,120
Accounts receivable - factoring without recourse	5,220,381	2,545,856	414,862	313,992	8,495,091
Acceptances	-	233,900	24,752	-	258,652
Total	$ 6,770,734	$ 4,709,502	$ 1,062,900	$ 3,155,043	$ 15,698,179

June 30, 2017	Neither Overdue Nor Impaired Amount				
	Excellent	Good	Normal	No Ratings	Total (A)
Credit card and credit business					
Credit card	$ 953,794	$ 598,325	$ 663,904	$ 555,081	$ 2,771,104
Accounts receivable - forfaiting	1,817,626	811,719	-	2,839,499	5,468,844
Accounts receivable - factoring without recourse	5,391,896	3,410,653	71,424	42,473	8,916,446
Acceptances	-	259,296	71,363	-	330,659
Total	$ 8,163,316	$ 5,079,993	$ 806,691	$ 3,437,053	$ 17,487,053

c) Credit analysis of marketable securities

December 31, 2017	Neither Overdue Nor Impaired				Overdue but Not Yet Impaired Amount (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)	Net Amount (A)+(B)+ (C)-(D)
	Excellent	Good	Normal	Total (A)					
Available-for-sale financial assets									
- investment in bonds	$ 91,497,295	$ -	$ -	$ 91,497,295	$ -	$ -	$ 91,497,295	$ -	$ 91,497,295
- negotiable certificates of deposits	30,834,526	-	-	30,834,526	-	-	30,834,526	-	30,834,526
Debt instruments with no active market	5,523,388	-	-	5,523,388	-	-	5,523,388	-	5,523,388

Note 1: Available-for-sale financial assets other than the above investment have an initial cost of $5,865,555 thousand, loss on valuation of $534,881 thousand and accumulated impairment of $0 thousand.

Note 2: Financial assets measured at cost have an initial cost of $296,423 thousand and accumulated impairments of $40,764 thousand.

June 30, 2017	Neither Overdue Nor Impaired				Overdue but Not Yet Impaired Amount (B)	Impaired Amount (C)	Total (A)+(B)+(C)	Loss Recognized (D)	Net Amount (A)+(B)+ (C)-(D)
	Excellent	Good	Normal	Total (A)					
Available-for-sale financial assets									
- investment in bonds	$ 112,955,734	$ -	$ -	$ 112,955,734	$ -	$ -	$ 112,955,734	$ -	$ 112,955,734
- others	25,802,540	-	-	25,802,540	-	-	25,802,540	-	25,802,540
Debt instruments with no active market	2,526,188	-	-	2,526,188	-	-	2,526,188	-	2,526,188

Note 1: Available-for-sale financial assets other than the above investment have an initial cost of $6,080,490 thousand, loss on valuation of $397,638 thousand and accumulated impairment of $0 thousand.

Note 2: Financial assets measured at cost have an initial cost of $296,423 thousand and accumulated impairments of $40,764 thousand.

8) Analysis of overdue but not yet impaired financial assets - 2017

Delays in processing borrowers' repayments and other administrative reasons could result in financial assets becoming overdue but not impaired. Based on the Bank's assessment of credits, financial assets overdue within 90 days are not considered impaired unless other evidence proves otherwise.

Items	December 31, 2017		
	1 Month	Over 1 Month - 3 Months	Total
Credit card	$ 22,548	$ 20,938	$ 43,486
Discounts and loans			
Consumer banking			
Mortgage loans	224,158	41,454	265,612
Cash card	264,761	58,552	323,313
Micro credit	303,909	92,686	396,595
Other - secured	116,562	41,731	158,293
Other - unsecured	654	-	654
Corporate banking			
Secured	46,112	625	46,737
Unsecured	24,172	209	24,381

Items	June 30, 2017		
	1 Month	Over 1 Month - 3 Months	Total
Credit card	$ 24,401	$ 19,395	$ 43,796
Discounts and loans			
Consumer banking			
Mortgage loans	269,707	37,025	306,732
Cash card	288,170	76,130	364,300
Micro credit	339,420	72,411	411,831
Other - secured	149,849	30,260	180,109
Other - unsecured	150	-	150
Corporate banking			
Secured	796	5,991	6,787
Unsecured	416	15,623	16,039

9) Analysis of impairment for financial assets - 2017

Analysis of impairment for discounts, loans and receivables and accumulated impairments were as follows:

Items		Discounts and Loans		Allowance for Bad Debts	
		December 31, 2017	June 30, 2017	December 31, 2017	June 30, 2017
With objective evidence of impairment	Assessment of individual impairment	$ 184,525	$ 341,638	$ 42,374	$ 101,888
	Assessment of collective impairment	750,991	724,699	443,884	425,879
With no objective evidence of impairment	Assessment of collective impairment	296,739,316	279,296,625	3,438,273	3,245,828
Total		297,674,832	280,362,962	3,924,531	3,773,595

Items		Receivables		Allowance for Bad Debts	
		December 31, 2017	June 30, 2017	December 31, 2017	June 30, 2017
With objective evidence of impairment	Assessment of individual impairment	$ 1,707,936	$ 1,791,993	$ 1,173,526	$ 1,164,358
	Assessment of collective impairment	83,504	73,996	51,553	47,827
With no objective evidence of impairment	Assessment of collective impairment	21,743,478	26,689,264	243,149	287,219
Total		23,534,918	28,555,253	1,468,228	1,499,404

10) Management policies on foreclosed collaterals

Foreclosed collaterals are recorded at cost, using lower-at-cost or market approach as of the balance sheet date. If collaterals were not disposed of within the statutory period, the Bank should apply for an extension of the disposal period and increase its provision for possible losses, if necessary.

Foreclosed collateral will be sold when it is actually available for sale. The foreclosed collateral is classified as other assets in balance sheet. The difference amount between the disposition price and the book value is recognized as gain (loss) on foreclosed collateral disposal under net other noninterest profit and gain.

The Bank's foreclosed collaterals were mainly securities, land and buildings. As of June 30, 2018, December 31, 2017 and June 30, 2017, the carrying amounts of the collaterals were $0 thousand. Foreclosed collaterals assumed are classified as other assets in the balance sheets.

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

a) Asset quality of non-performing loans and overdue receivable

Item			June 30, 2018				
			Non-performing Loan (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Loan Loss Reserves (LLR)	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 138,038	$ 59,539,652	0.23%	$ 753,801	546.08%
	Unsecured		156,918	170,137,202	0.09%	1,950,026	1,242.71%
Consumer banking	Mortgage (Note 4)		33,727	46,179,692	0.07%	697,313	2,067.50%
	Cash card		147,738	14,117,658	1.05%	286,430	193.88%
	Micro credit (Note 5)		158,908	22,527,211	0.71%	319,886	201.30%
	Others (Note 6)	Secured	23,642	22,572,011	0.10%	232,343	982.77%
		Unsecured	254	34,045	0.75%	3,793	1,490.66%
Total			659,225	335,107,471	0.20%	4,243,592	643.72%
			Overdue Receivables	Accounts Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio
Credit card			19,498	3,204,346	0.61%	59,724	306.31%
Accounts receivable - factoring without recourse (Note 7)			10	9,749,177	0.00%	133,076	1,386,932.12%

Item			June 30, 2017				
			Non-performing Loan (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Loan Loss Reserves (LLR)	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 114,384	$ 55,463,521	0.21%	$ 661,106	577.97%
	Unsecured		295,647	138,746,663	0.21%	1,701,396	575.48%
Consumer banking	Mortgage (Note 4)		33,462	32,775,994	0.10%	438,644	1,310.87%
	Cash card		163,335	14,678,548	1.11%	419,356	256.75%
	Micro credit (Note 5)		150,680	20,233,132	0.74%	306,047	203.11%
	Others (Note 6)	Secured	22,475	18,421,707	0.12%	246,465	1,096.60%
		Unsecured	1,772	43,397	4.08%	581	32.79%
Total			781,755	280,362,962	0.28%	3,773,595	482.71%
			Overdue Receivables	Accounts Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio
Credit card			19,317	2,874,142	0.67%	55,143	285.47%
Accounts receivable - factoring without recourse (Note 7)			28	8,916,524	0.00%	130,457	459,159.92%

Note 1: Non-performing loans are reported in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" issued by Ministry of Finance. Overdue credit card receivables are regulated by Order No. 0944000378 announced by the FSC on July 6, 2005.

Note 2: NPL ratio = NPL/Total loans. For credit card business: Delinquency ratio = Overdue credit card receivables/Credit card receivables balance.

Note 3: Coverage ratio = LLR/NPL. Coverage ratio of credit receivables: Allowance for credit losses/Overdue credit card receivables.

Note 4: Household mortgage refers to financing obtained to buy, build, or fix houses owned by the borrower or the borrower's spouse or children, with the house used as loan collateral.

Note 5: Micro credit is covered by a Banking Bureau pronouncement dated December 19, 2005 (Order No. 09440010950) and is excluded from credit card and cash card loans.

Note 6: "Others" under consumer loans refers to secured or unsecured loans other than mortgage loans, cash cards, micro credit, and credit cards.

Note 7: As required by the Banking Bureau in its letter dated July 19, 2005 (Order No. 0945000494), allowance for bad debt is recognized once no compensation is made by a factor or insurance company within three months for accounts receivable - factoring without recourse.

b) Exemption on non-performing loans and overdue receivables

Items	June 30, 2018		June 30, 2017	
	Excluded NPL	**Excluded Overdue Receivables**	**Excluded NPL**	**Excluded Overdue Receivables**
Amounts of executed contracts on negotiated debts not reported (Note 1)	$ 12,063	$ 124	$ 15,417	$ 193
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	46,602	4,813	33,441	4,790
Total	$ 58,665	$ 4,937	$ 48,858	$ 4,983

Note 1: The disclosure of excluded NPLs and excluded overdue receivables resulting from debt negotiations and loan agreements is based on the Banking Bureau letter dated April 25, 2006 (Order No. 09510001270).

Note 2: The disclosure of excluded NPLs and excluded overdue receivables resulting from consumer debt clearance is based on the Banking Bureau letters dated September 15, 2008 (Order No. 09700318940) and dated September 20, 2016 (Order No. 10500134790).

c) Concentration of credit risk

June 30, 2018

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth
1	A Group - 012711 manufacture of computers	$ 7,210,016	12.38
2	B Group - 011850 manufacture of man-made fibers	6,935,855	11.91
3	C Group - 012613 packaging and testing of semiconductors	5,318,459	9.14
4	D Group - 012411 smelting and refining of iron and steel	4,562,167	7.84
5	E Group - 016700 real estate development activities	4,447,305	7.64
6	F Group - 016700 real estate development activities	4,240,000	7.28
7	G Group - 012729 manufacture of other communication equipment	3,516,911	6.04
8	H Group - 016700 real estate development activities	3,485,947	5.99
9	I Group - 012711 manufacture of computers	3,472,616	5.96
10	J Group - 015100 air transport	3,059,429	5.26

June 30, 2017

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth
1	B Group - 011850 manufacture of man-made fibers	$ 5,159,530	8.64
2	G Group - 012711 manufacture of computers	4,484,775	7.51
3	D Group - 012411 smelting and refining of iron and steel	3,729,592	6.25
4	A Group - 012641 manufacture of liquid crystal panel and components	3,726,978	6.24
5	J Group - 015100 air transport	3,601,954	6.03
6	K Group - 012641 manufacture of liquid crystal panel and components	3,520,487	5.90
7	L Group - 016611 securities firms	3,479,466	5.83
8	H Group - 016700 real estate development activities	3,413,737	5.72
9	M Group - 012740 manufacture of magnetic and optical media	3,400,000	5.70
10	N Group - 014510 wholesale on a fee or contract basis	3,043,600	5.10

12) Judgements of a significant increase in credit risk since initial recognition

Credit business

The Bank assesses changes in credit quality during the expected lifetime of various types of credit assets on each reporting date to determine if there has been a significant increase in credit risk since the initial recognition, primarily consideration of indicators and supporting information (including prospective information) were the following:

a) Quantitative index

When the contractual payments are overdue for more than 30 days, the credit risk of the credit assets has been significantly increased since the initial recognition.

b) Qualitative index

i. Changing in current or predicted operating, financial, or economic conditions that are expected to cause a significant change in the ability of the borrower to perform debt obligations.

ii. Actual or expected significant changes in borrower's operating results.

iii. The credit risk of other credit contracts of the same borrower has increased significantly.

iv. Individual credit assets, if the client did not suffer from financial difficulties at the time of the agreement can be included after assessment.

The various types of credit assets of the Bank which do not be regarded as low credit risk can be assumed that the credit risk has not increased significantly since the initial recognition.

13) Definition of default and impaired credit of financial assets

The definition of default of the financial assets of the Bank is the same as that of the impaired credit assets. If one or more of the following conditions are met, the Bank determines that the financial asset has defaulted and the credit is impaired:

a) Quantitative index

i. When the borrower's overdue payment of the contract is more than 90 days.

ii. Changes in external rating of guarantor or issuer of the notes or bonds.

b) Qualitative index

In credit assets, if there is evidence that the borrower will be unable to settle the loan, or has significant financial difficulties, such as:

i. Borrower has been bankrupt or may file a petition for bankruptcy or financial restructuring.

ii. Borrower's loan contract has been reclassified to non-performing loans or has been written off as bad debts by the Bank.

iii. Due to financial or contractual reasons related to the financial difficulties of the borrower, the creditor of the borrower gives the borrower concessions that would not have been considered or agreed (agreements).

iv. For cases involving the sale of non-performing loans and suits.

v. Payment by the bank to fulfill off-balance sheet financial contracts (e.g., guarantee advances).

The aforementioned definition of default and credit impairment applied to the credit assets held by the Bank is consistent with the definition of credit assets used for internal credit risk management purposes, and is used the relevant impairment assessment model.

The credit asset will be restore to the state of compliance and is not considered a credit assets of default and impairment if it no longer meets the definition of default and credit impairment.

The debt instrument investment may also be deemed to have a credit impairment on the financial asset if the rating of the notes or bonds of the guarantor or issuer downgrade significantly, for example, from an investment grade to a junk bond rating, or if one or more of the following conditions are met:

i. The guarantor or issuer cannot repay the principal or interest on the maturity date of the note or bond.

ii. Before the maturity of the note or bond, it can be objectively determined that the guarantor or issuer may not be able to repay the principal and interest on time.

iii. Before the maturity of the note or bond, the guarantor or issuer is in bankruptcy or in reorganization or taken over due to financial difficulties.

iv. Before the maturity of the note or bond, the guarantor or issuer close down or perform other financial restructuring.

14) Write-off policy

The Bank shall write off bad debts for non-performing loans and overdue receivables that meet one of the following requirements:

a) When the statutory write-off is reached.

b) There is a need to expedite the reduction of non-performing loans or for certain businesses that needs to comply with the requirements of the competent authority.

c) Written off by the competent authority or the financial inspection authority.

d) If it is difficult to dispose the collateral or it may take long time to recover the loan, the creditor's balance shall be written off as bad debt within the period which specified in a).

e) Acquiring the documentary evidence or supporting documents with the assessments of no hope to recover the loan.

15) Amendment of financial assets contract cash flow

The Bank may amend financial assets contract cash flow as a result of financial difficulties negotiation of borrowers, improvement of problematic debtors' recovery rate and etc. The contract cash flow amendment include extension of contract period, interest payment time modification, contract interest modification, or exempt part of the debts.

16) Measurement of expected credit losses

For the purpose of measuring the expected credit losses, the Bank divides credit assets into the following combinations according to scale characteristics of corporate banking and product characteristics of consumer banking, listed as follows:

Business	Combination	Definition
Corporate banking	Large corporation + Stage 1	Credit risk has not increased significantly
	Small and medium enterprises + Stage 1	
	Large corporation + Stage 2	Credit risk has increased significantly
	Small and medium enterprises + Stage 2	
	Large corporation + Stage 3	Impaired credits
	Small and medium enterprises + Stage 3	
Consumer banking	Product + Stage 1	Credit risk has not increased significantly
	Product + Stage 2	Credit risk has increased significantly
	Product + Stage 3	Impaired credits

The Bank measures the allowance for the financial instruments based on the 12-month expected credit losses for financial instruments that do not have a significant increase in credit risk since the initial recognition. For the financial instruments that has been recognized significant increase of credit risk or credit impairment since the initial recognition are measured as lifetime expected credit losses.

To measure the expected credit losses, the Bank take into account the borrower's probability of default ("PD") for the next 12 months and the period of existence, and include the loss given default ("LGD"). Multiply by the Exposure at default ("EAD") and taking into account the impact of the time value of money, the expected credit losses for 12 months and duration are calculated.

Probability of default is the default probability of a borrower (or counterparty) over a period of time; the loss given default is caused by default of the borrower (or counterparty) through the reminder procedure, and cannot recover after the end of the procedure. The probability of default and loss given default are used in the impairment assessment of the Bank credit business are based on internal historical information (such as credit loss experience, etc.) of each group, and adjust the history data based on the current observable data and forward-looking general economic information (such as GDP and employment rate, etc.) to calculate the expected losses probability of default.

The exposure at default mean that the Bank can claim compensation for the book value held by borrowers (or the counterparty) after borrowers defaulted. The Bank's exposure at default has taken into account the amount of credits that have been used and the amounts that may not be used in the future. The amount of credits are used as assessment of exposure at default on balance sheet or part of credits being used; off-balance sheet or committed credits that not be used are based on the corresponding credit conversion factor (CCF) which considered the credits expected to use after the 12 months and expected lifetime to calculate exposure at default of expected credit loss.

The initial adoption of IFRS 9 was used to assess the expected credit losses in 2018. The estimation techniques or major assumptions used to assess the expected credit losses were all reasonably evaluated.

17) Considerations of forward-looking information

The Bank incorporates forward-looking information when measuring expected credit losses on loans and receivables. Based on the business characteristics, the Bank selected the overall indicators that are highly relevant to lending as an adjustment parameter for default probability of lending. Based on type of business, the Bank used different overall indicator. The Corporate banking business takes an economic growth rate (GDP) as an adjustment parameter; the consumer banking business takes employment rate variation as adjustment parameter. The Bank will make reference to external information (predicted value of internationally renowned economic forecasting institutions) or group expert assessments to provide forecasting information on economic factors (basic economic conditions) quarterly; it contains the best estimate of the economic situation in the next five years, and for more than five years until the duration of the relevant financial instruments, it assumes a forecast that is equal to the fifth year.

The measurement of the Bank's credit impairment forecast adopts an external credit migration matrix method to calculate Probability of default (PD), and incorporates the information of forward-looking factors.

18) Changes of provisions for off-balance-sheet guarantees and loan commitments

The provisions for off-balance-sheet guarantees and loan commitments for the six months ended June 30, 2018 are adjusted as follows:

	Stage 1	Stage 2		Stage 3				
	12 months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	Impairment in Accordance With IFRS 9	The Adjustments Under Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans	Total
Balance at January 1	$ 161,030	$ 633	$ -	$ 1,726	$ -	$ 163,389	$ 27,441	$ 190,830
Changes due to financial instruments that have been identified at the beginning of the period:								
To lifetime ECL	(52)	42	-	10	-	-		-
From conversion to credit-impaired financial assets	-	-	-	-	-	-		-
To 12 months ECL	-	-	-	-	-	-		-
Derecognizing financial assets during the current period	(12,916)	(15)	-	-	-	(12,931)		(12,931)
Purchased or originated new financial assets	22,891	-	-	-	-	22,891		22,891
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							23,674	23,674
Write-off	-	-	-	-	-	-		-
Recovery of written-off	-	-	-	-	-	-		-
Effect of exchange rate changes and others	(20,025)	(52)	-	213	-	(19,864)		(19,864)
Balance at June 30	$ 150,928	$ 608	$ -	$ 1,949	$ -	$ 153,485	$ 51,115	$ 204,600

The Bank and its subsidiaries had no significant increase in off-balance-sheet guarantees, letter of credit, and irrevocable contractual commitment credit risk for the six months ended June 30, 2018. Net increase of $4,435,187 thousand change in total book value resulted in abovementioned provisions increased by $13,770 thousand in comparison to the prior period.

c. Liquidity risk

1) Definition and source of liquidity risk

Liquidity risk of the Bank refers to the risks of bearing financial loss because of the inability to liquidate assets or obtain financing to provide funds to meet the financial obligation, such as early termination of deposits, deteriorating of the source and condition of financing from banks influenced by specific market, abnormal recover of funds due to default from borrowers, inability to liquidate financial instruments and early exertion of rights of rescission of interest sensitive product by the assured. The aforementioned situation may reduce cash source of loan, transactions and investment. In some extreme cases, the lack of liquidity may result in a decrease in the overall position of the balance sheet, sale of assets and failure to perform loan commitments.

2) Management policies of liquidity risk

To control liquidity risk, the Bank calculates the maximum cumulative cash outflow (MCO) to monitor the daily funding gap by each major currency. The Bank also actively deconcentrates funding sources, due dates of funding settlement, and the counterparties to the due from other banks and call loans to other banks, as well as maintains an adequate amount of corporate cash in banks to enhance its liquidity position.

3) Maturity gap analysis of financial assets and non-derivative financial liabilities held for liquidity purposes

a) Financial assets held for liquidity management

The Bank holds cash and highly liquid and high-grade assets to pay off obligations and meet any potential emergency funding needs. The assets held for liquidity management include cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, discounts and loans, and available-for-sale financial assets.

b) Maturity analysis of non-derivative financial liabilities

The following tables show the cash outflows on the Bank's non-derivative financial liabilities based on contract maturities. However, because the amounts disclosed were based on contractual cash flows, some of them will not match the amounts shown in the balance sheets.

Maturity analysis of non-derivative financial liabilities (NTD)

June 30, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 17,014,885	$ 119,978	$ 187,547	$ 25,795	$ -	$ 17,348,205
Notes and bonds issued under repurchase agreements	10,561,101	3,460,394	-	-	-	14,021,495
Deposits and remittances	42,894,159	71,527,720	52,801,734	82,643,933	26,083,489	275,951,035
Bank debentures payable	-	-	-	-	1,000,000	1,000,000
Other capital outflow on maturity	1,463,807	734,328	1,075,876	744,897	261,596	4,280,504
Total	$ 71,933,952	$ 75,842,420	$ 54,065,157	$ 83,414,625	$ 27,345,085	$ 312,601,239

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

June 30, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 16,724,885	$ 119,978	$ 498,736	$ 560,113	$ -	$ 17,903,712
Notes and bonds issued under repurchase agreements	19,576,028	2,763,882	-	-	-	22,339,910
Deposits and remittances	44,009,486	71,946,953	41,999,441	55,650,323	25,678,859	239,285,062
Bank debentures payable	-	-	2,750,000	-	1,000,000	3,750,000
Other capital outflow on maturity	2,190,375	211,978	292,954	739,661	469,505	3,904,473
Total	$ 82,500,774	$ 75,042,791	$ 45,541,131	$ 56,950,097	$ 27,148,364	$ 287,183,157

Maturity analysis of non-derivative financial liabilities (USD)

(In Thousands of U.S. Dollars)

June 30, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 130,000	$ 285,000	$ 70,000	$ 20,000	$ -	$ 505,000
Notes and bonds issued under repurchase agreements	240,690	608,257	258,939	-	-	1,107,886
Deposits and remittances	1,808,418	885,453	503,661	896,518	55	4,094,105
Bank debentures payable	-	-	-	-	960,120	960,120
Other capital outflow on maturity	37,732	27,402	9,604	1,882	191,705	268,325
Total	$ 2,216,840	$ 1,806,112	$ 842,204	$ 918,400	$ 1,151,880	$ 6,935,436

(In Thousands of U.S. Dollars)

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

(In Thousands of U.S. Dollars)

June 30, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 150,000	$ 159,000	$ 30,000	$ -	$ -	$ 339,000
Notes and bonds issued under repurchase agreements	665,065	793,805	-	-	-	1,458,870
Deposits and remittances	982,972	899,980	606,728	777,591	10,068	3,277,339
Bank debentures payable	-	-	-	-	571,870	571,870
Other capital outflow on maturity	211,885	14,894	3,113	1,090	60,099	291,081
Total	$ 2,009,922	$ 1,867,679	$ 639,841	$ 778,681	$ 642,037	$ 5,938,160

4) Maturity analysis of derivative instruments

Contractual maturities were assessed to have an understanding of derivative instruments presented in the consolidated balance sheet. Amounts disclosed in the table were based on contractual cash flows; however, some of these amounts did not match those in the balance sheets.

Maturity analysis of derivative instruments (NTD)

June 30, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	$ (259,164,818)	$ (288,757,543)	$ (157,187,649)	$ (71,768,060)	$ (2,390,280)	$ (779,268,350)
Cash inflow	244,684,325	267,409,155	157,018,044	73,252,673	929,302	743,293,499
Interest rate derivatives instruments						
Cash outflow	(184,077)	(342,879)	(17,953)	-	(14,201,108)	(14,746,017)
Cash inflow	167,520	356,187	18,384	-	-	542,091
Cash outflow subtotal	(259,348,895)	(289,100,422)	(157,205,602)	(71,768,060)	(16,591,388)	(794,014,367)
Cash inflow subtotal	244,851,845	267,765,342	157,036,428	73,252,673	929,302	743,835,590
Net cash flow	$ (14,497,050)	$ (21,335,080)	$ (169,174)	$ 1,484,613	$ (15,662,086)	$ (50,178,777)

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	$ (199,409,025)	$ (277,117,930)	$ (135,180,509)	$ (91,264,010)	$ (4,671,300)	$ (707,642,774)
Cash inflow	189,405,927	255,970,080	133,687,744	88,661,268	4,671,300	672,396,319
Interest rate derivatives instruments						
Cash outflow	(192,636)	(414,702)	(318,008)	(2,424)	(14,701,217)	(15,628,987)
Cash inflow	176,526	430,372	14,089	-	-	620,987
Cash outflow subtotal	(199,601,661)	(277,532,632)	(135,498,517)	(91,266,434)	(19,372,517)	(723,271,761)
Cash inflow subtotal	189,582,453	256,400,452	133,701,833	88,661,268	4,671,300	673,017,306
Net cash flow	$ (10,019,208)	$ (21,132,180)	$ (1,796,684)	$ (2,605,166)	$ (14,701,217)	$ (50,254,455)

June 30, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	$ (183,469,810)	$ (266,453,053)	$ (150,605,151)	$ (63,298,001)	$ (5,296,770)	$ (669,122,785)
Cash inflow	181,198,011	251,154,510	142,079,740	64,459,972	4,969,770	643,862,003
Interest rate derivatives instruments						
Cash outflow	(211,259)	(441,835)	(324,610)	(907,974)	(16,214,873)	(18,100,551)
Cash inflow	184,581	431,040	17,479	-	-	633,100
Cash outflow subtotal	(183,681,069)	(266,894,888)	(150,929,761)	(64,205,975)	(21,511,643)	(687,223,336)
Cash inflow subtotal	181,382,592	251,585,550	142,097,219	64,459,972	4,969,770	644,495,103
Net cash flow	$ (2,298,477)	$ (15,309,338)	$ (8,832,542)	$ 253,997	$ (16,541,873)	$ (42,728,233)

Maturity analysis of derivative instruments (USD)

(In Thousands of U.S. Dollars)

June 30, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	$ (9,413,531)	$ (9,717,821)	$ (5,643,969)	$ (2,684,781)	$ (80,860)	$ (27,540,962)
Cash inflow	9,847,698	10,491,360	5,551,793	2,667,508	129,660	28,688,019
Interest rate derivatives instruments						
Cash outflow	(51,781)	(97,383)	(62,445)	(63,467)	(41,576)	(316,652)
Cash inflow	59,817	101,177	55,364	584	71	217,013
Others						
Cash outflow	(44)	-	-	-	-	(44)
Cash inflow	27	-	-	-	-	27
Cash outflow subtotal	(9,465,356)	(9,815,204)	(5,706,414)	(2,748,248)	(122,436)	(27,857,658)
Cash inflow subtotal	9,907,542	10,592,537	5,607,157	2,668,092	129,731	28,905,059
Net cash flow	$ 442,186	$ 777,333	$ (99,257)	$ (80,156)	$ 7,295	$ 1,047,401

(In Thousands of U.S. Dollars)

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	$ (7,089,091)	$ (9,185,379)	$ (4,702,153)	$ (3,255,039)	$ (174,400)	$ (24,406,062)
Cash inflow	7,808,458	9,763,212	4,716,875	3,294,657	174,400	25,757,602
Interest rate derivatives instruments						
Cash outflow	(27,159)	(61,388)	(54,912)	(6,757)	(22,015)	(172,231)
Cash inflow	28,842	61,674	35,369	550	-	126,435
Others						
Cash outflow	(2)	-	-	-	-	(2)
Cash inflow	15	-	-	-	-	15
Cash outflow subtotal	(7,116,252)	(9,246,767)	(4,757,065)	(3,261,796)	(196,415)	(24,578,295)
Cash inflow subtotal	7,837,315	9,824,886	4,752,244	3,295,207	174,400	25,884,052
Net cash flow	$ 721,063	$ 578,119	$ (4,821)	$ 33,411	$ (22,015)	$ 1,305,757

(In Thousands of U.S. Dollars)

June 30, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Derivative financial instruments at FVTPL						
Foreign exchange derivatives instruments						
Cash outflow	$ (6,925,338)	$ (8,996,633)	$ (5,081,788)	$ (2,542,234)	$ (302,916)	$ (23,848,909)
Cash inflow	7,304,286	9,412,674	5,295,807	2,447,784	305,435	24,765,986
Interest rate derivatives instruments						
Cash outflow	(22,536)	(45,947)	(33,185)	(21,770)	(22,734)	(146,172)
Cash inflow	24,445	51,299	34,365	583	-	110,692
Others						
Cash outflow	(812)	-	-	-	-	(812)
Cash inflow	908	-	-	-	-	908
Cash outflow subtotal	(6,948,686)	(9,042,580)	(5,114,973)	(2,564,004)	(325,650)	(23,995,893)
Cash inflow subtotal	7,329,639	9,463,973	5,330,172	2,448,367	305,435	24,877,586
Net cash flow	$ 380,953	$ 421,393	$ 215,199	$ (115,637)	$ (20,215)	$ 881,693

5) Maturity analysis of off-balance sheet items

The following table shows the Bank's off-balance sheet items by period from the balance sheet dates to contract maturity dates. Amounts disclosed in the table were based on contractual cash flows; thus, some amounts will not match those in the balance sheets.

June 30, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 8,709,166	$ 7,221,815	$ 8,710,865	$ 29,235,927	$ 43,939,256	$ 97,817,029

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 5,439,604	$ 7,515,960	$ 7,969,697	$ 28,447,836	$ 43,982,726	$ 93,355,823

June 30, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 3,838,808	$ 6,456,332	$ 10,234,109	$ 28,574,157	$ 46,227,940	$ 95,331,346

6) Maturity analysis of lease commitments

The Bank and its subsidiaries' lease commitments included operating leases and finance leases. Operating lease commitments referred to future minimum payments under noncancelable operating leases where the Bank or its subsidiaries are the lessees or lessors. Financial lease commitments referred to future gross payments under financial leases where the Bank or its subsidiaries are the lessees. The maturity analysis of lease commitments was as follows:

June 30, 2018	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Lease agreement				
Financial lease gross income (lessor)	$ 1,759,196	$ 1,984,313	$ -	$ 3,743,509
Financial lease present value income (lessor)	1,641,273	1,901,958	-	3,543,231
Operating lease payment (lessee)	329,454	455,822	96,090	881,366
Operating lease income (lessor)	15,638	57,047	12,222	84,907
Present value of financial lease payment (lessee)	-	4,078	-	4,078

December 31, 2017	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Lease agreement				
Financial lease gross income (lessor)	$ 2,111,269	$ 2,053,551	$ -	$ 4,164,820
Financial lease present value income (lessor)	1,994,828	1,956,206	-	3,951,034
Operating lease payment (lessee)	324,587	577,781	73,273	975,641
Operating lease income (lessor)	11,481	11,466	-	22,947
Present value of financial lease payment (lessee)	8	3,154	-	3,162

June 30, 2017	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Lease agreement				
Financial lease gross income (lessor)	$ 2,560,547	$ 2,423,591	$ -	$ 4,984,138
Financial lease present value income (lessor)	2,398,947	2,310,446	-	4,709,393
Operating lease payment (lessee)	287,723	585,168	-	872,891
Operating lease income (lessor)	15,695	15,441	-	31,136
Present value of financial lease payment (lessee)	222	1,268	-	1,490

7) Summary of required disclosures under the Regulations Governing the Preparation of Financial Reports by Public Banks:

a) Maturity analysis of assets and liabilities of the Bank (NTD)

June 30, 2018	0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 148,385,453	$ 268,909,633	$ 314,786,939	$ 193,315,808	$ 120,213,979	$ 114,775,078	$ 1,160,386,890
Main capital outflow on maturity	115,333,933	228,095,177	388,652,005	240,631,160	225,877,663	203,920,048	1,402,509,986
Gap	33,051,520	40,814,456	(73,865,066)	(47,315,352)	(105,663,684)	(89,144,970)	(242,123,096)

June 30, 2017	0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 137,938,731	$ 214,777,075	$ 293,719,412	$ 171,894,040	$ 101,072,928	$ 108,408,141	$ 1,027,810,327
Main capital outflow on maturity	129,430,978	147,099,296	362,209,198	222,417,985	185,861,848	202,168,258	1,249,187,563
Gap	8,507,753	67,677,779	(68,489,786)	(50,523,945)	(84,788,920)	(93,760,117)	(221,377,236)

b) Maturity analysis of assets and liabilities of the Bank (USD)

(In Thousands of U.S. Dollars)

June 30, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 11,382,381	$ 11,733,096	$ 6,055,393	$ 3,099,234	$ 3,356,197	$ 35,626,301
Main capital outflow on maturity	11,898,742	12,054,407	7,089,803	4,628,468	2,844,074	38,515,494
Gap	(516,361)	(321,311)	(1,034,410)	(1,529,234)	512,123	(2,889,193)

(In Thousands of U.S. Dollars)

June 30, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 9,004,995	$ 10,556,366	$ 5,831,939	$ 2,701,281	$ 2,409,522	$ 30,504,103
Main capital outflow on maturity	9,215,268	11,423,578	6,416,036	4,544,043	2,968,822	34,567,747
Gap	(210,273)	(867,212)	(584,097)	(1,842,762)	(559,300)	(4,063,644)

d. Market risk

1) Definition and source of market risk

Market risk is defined as an unfavorable change in macroeconomic and financial market variables (such as interest rates, exchange rates, stock prices and commodity prices), which may cause a potential loss on financial assets held for trading.

2) Risk management policies

In order to have a common-language of market risk management, definition, communication and measurement, the Bank has developed "Market Risk Policy" based on Regulations Governing the Capital Adequacy Ratio of Banks (the CAR Regulations) and on market risk calculation tables announced by the FSC, international standards, and CDFH's market risk management policy framework.

The "Market Risk Policy" is applicable to "Trading Book" positions defined by the Regulations Governing the Capital Adequacy Ratio of the Bank related market risk calculation tables and the Bank's book management approach to financial instrument handling.

Following the "Market Risk Policy", the Bank sets up the "Market Risk Management Procedure to Trading Activities" to manage market risk. This procedure includes risk identification and assessment, risk measurement, risk monitoring and response, risk reporting and contingency management processes.

3) Procedures for market risk measuring, monitoring, and reporting

The Bank’s market risk limits include position sensitivities, stop-loss limits and value-at-risk (VaR).

Risk factors analyzed through the Bank’s risk measurement systems are sufficient to determine all market risks on trading positions shown in the balance sheet, including interest rate risk, foreign exchange risk, equity risk, and commodity risks, as well as volatility risks on option transactions which arise out of the option transactions.

The Bank’s market risk reports include profit or loss on trading positions, limit usage, stress testing, and trading portfolio risk assessment, as well as significant exceptions if any.

The risk management department of the Bank independently performs daily market risk limit controls, and makes regularly reports to both the Risk Management Committee and CDFH’s Risk Management Committee. Besides, the above reports are quarterly presented to the Board for reference.

4) Mitigation of risks or hedging of market risk

The Bank’s market risk positions or hedging positions are marked to market on a daily base through techniques such as model valuation. All market parameters are updated at least daily in accordance with changes in market conditions. Market Risk Limits are regularly reviewed and controlled based on the valuation results.

5) Valuation techniques of market risk

The Bank uses the VaR model and/or stress testing to evaluate the potential and/or extreme risk on trading portfolios. Through variations of the assumptions on market conditions, these techniques are used to assess the market risk of positions held and the maximum expected loss.

VaR is calculated using a one-day time horizon with a 95% confidence level.

	For the Six Months Ended June 30, 2018			For the Year Ended December 31, 2017			For the Six Months Ended June 30, 2017		
	Average	Highest	Lowest	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	$ 182,367	$ 263,393	$ 108,589	$ 98,810	$ 187,181	$ 29,201	$ 76,331	$ 136,332	$ 29,201
Equity risk	14,251	22,137	6,541	8,254	13,354	4,918	7,461	10,929	4,918
Foreign exchange risk	6,447	34,521	3,159	10,860	44,645	2,060	11,262	44,645	2,682

6) Interest rate risk in banking book

The scope of interest rate risk in banking book includes interest rate sensitivity of assets and liabilities, but do not include risk management of trading book. Interest rate risk in banking book measures the adverse effects on net interest income of assets, liabilities and off-balance sheet as a result of adverse fluctuations in interest. Risk assessment not only builds the sensitivity gap between assets and liabilities, but also quantifies through the dimension of retained earnings and economic value perspectives.

7) Interest rate risk management of the banking book

The interest rate risk management strategy involving the Bank's banking book is to minimize the negative impact of changes in interest rates on net interest income and the net economic value of equity. The asset-liability management committee (ALMCO) approves the annual banking book interest rate risk limits and monitors the Bank's interest rate risk exposures every day. The interest rate risk management processes include risk identification, risk measurement, risk control, risk monitoring and others. The unit monitoring the banking book interest rate risks reports interest rate risk exposures regularly to ALMCO, and adjusts the structure of assets and liabilities according to the reports, lowering the amount of exposure. For risk monitoring, the asset and liability management system outputs and analysis reports, which is provided to the interest rate risk execution units and top management. If risk missing or excess of limit occur from monitor, written notices will be passed to the interest rate risk assessment units to adjust and improve the program reported to ALMCO.

8) Foreign currency risk information

The financial assets and liabilities denominated in foreign currency and with material influence on the Bank and its subsidiaries were as follows:

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	June 30, 2018		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 8,047,684	30.50	$ 245,454,348
EUR	579,178	35.48	20,549,228
HKD	2,527,039	3.89	9,822,600
RMB	1,499,509	4.60	6,898,339
JPY	15,176,873	0.28	4,184,264
SGD	19,826	22.37	443,499
ZAR	152,656	2.22	339,202
GBP	8,340	40.01	333,692
AUD	8,197	22.54	184,761
Financial liabilities			
Monetary items			
USD	9,024,960	30.50	275,261,278
RMB	3,474,495	4.60	15,984,068
EUR	437,832	35.48	15,534,268
JPY	16,014,162	0.28	4,415,104
ZAR	1,652,731	2.22	3,672,367
AUD	133,611	22.54	3,011,597
HKD	177,897	3.89	691,484
NZD	16,751	20.65	345,910
GBP	2,859	40.01	114,375

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	December 31, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 5,914,373	29.85	$ 176,532,206
RMB	2,382,398	4.58	10,908,763
EUR	191,275	35.67	6,822,783
HKD	1,338,076	3.82	5,110,111
JPY	6,663,892	0.26	1,765,265
GBP	41,090	40.21	1,652,217
SGD	20,243	22.32	451,818
ZAR	180,741	2.42	437,031
Non-monetary items			
HKD	568,390	3.82	2,170,682
Financial liabilities			
Monetary items			
USD	7,027,583	29.85	209,759,297
RMB	3,032,704	4.58	13,886,450
ZAR	1,594,860	2.42	3,856,371
EUR	88,468	35.67	3,155,661
AUD	63,370	23.26	1,473,986
JPY	4,329,719	0.26	1,146,943
HKD	178,360	3.82	681,156
NZD	16,677	21.20	353,544
GBP	2,665	40.21	107,141

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	June 30, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 6,089,621	30.44	$ 185,343,708
RMB	2,066,134	4.49	9,275,910
EUR	116,377	34.73	4,041,772
HKD	622,290	3.90	2,426,308
JPY	2,198,897	0.27	597,220
AUD	17,382	23.36	406,039
ZAR	90,777	2.33	211,329
Non-monetary items			
HKD	579,386	3.90	2,259,025

(Continued)

	June 30, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
<u>Financial liabilities</u>			
Monetary items			
USD	$ 6,726,337	30.44	$ 204,722,795
RMB	2,570,726	4.49	11,541,275
ZAR	1,473,167	2.33	3,429,532
AUD	62,703	23.36	1,464,753
EUR	39,237	34.73	1,362,688
JPY	2,890,886	0.27	785,165
HKD	115,440	3.90	450,101
NZD	15,843	22.29	353,142

(Concluded)

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

a) Analysis of interest rate-sensitive assets and liabilities (NTD)

June 30, 2018

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 288,383,901	$ 15,407,278	$ 6,422,453	$ 78,612,298	$ 388,825,930
Interest rate-sensitive liabilities	140,418,138	108,258,015	49,902,474	6,134,963	304,713,590
Interest rate sensitivity gap	147,965,763	(92,850,737)	(43,480,021)	72,477,335	84,112,340
Net worth					58,504,709
Ratio of interest rate-sensitive assets to liabilities (%)					127.60
Ratio of interest rate-sensitive gap to net worth (%)					143.77

June 30, 2017

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 231,791,093	$ 16,245,837	$ 4,188,623	$ 103,691,548	$ 355,917,101
Interest rate-sensitive liabilities	147,364,851	105,591,219	22,529,186	4,397,547	279,882,803
Interest rate sensitivity gap	84,426,242	(89,345,382)	(18,340,563)	99,294,001	76,034,298
Net worth					58,876,410
Ratio of interest rate-sensitive assets to liabilities (%)					127.17
Ratio of interest rate-sensitive gap to net worth (%)					129.14

Note 1: The above amounts included only New Taiwan dollar amounts held by the Bank (excluded contingent assets and contingent liabilities).

Note 2: Interest rate-sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities with revenues or costs affected by interest rate changes.

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

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

b) Analysis of interest rate-sensitive assets and liabilities (USD)

June 30, 2018

(In Thousands of U.S. Dollars)

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 3,642,720	$ 160,429	$ 47,585	$ 1,504,996	$ 5,355,730
Interest rate-sensitive liabilities	4,486,278	700,485	520,173	883,216	6,590,152
Interest rate sensitivity gap	(843,558)	(540,056)	(472,588)	621,780	(1,234,422)
Net worth					(9,431)
Ratio of interest rate-sensitive assets to liabilities (%)					81.27
Ratio of interest rate-sensitive gap to net worth (%)					-

June 30, 2017

(In Thousands of U.S. Dollars)

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 2,957,844	$ 374,019	$ 184,465	$ 1,486,201	$ 5,002,529
Interest rate-sensitive liabilities	4,012,231	553,326	499,585	581,938	5,647,080
Interest rate sensitivity gap	(1,054,387)	(179,307)	(315,120)	904,263	(644,551)
Net worth					26,696
Ratio of interest rate-sensitive assets to liabilities (%)					88.59
Ratio of interest rate-sensitive gap to net worth (%)					(2,414.41)

Note 1: The above amounts included only U.S. dollar amounts held by the Bank (excluded contingent assets and contingent liabilities).

Note 2: Interest rate-sensitive assets and liabilities refer to interest-earning assets and interest-bearing liabilities with revenues or costs affected by interest rate changes.

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

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

e. Transfers of financial assets

Transferred financial assets not qualifying for full derecognition

Among daily operations of the Bank, most of the transactions of transferred financial assets not qualifying for full derecognition are debt securities under repurchase agreements. As the Bank's right to receive cash flows of the financial assets transferred to the counterparties, and reflecting the obligation to repurchase the transferred financial assets for a fixed price at a future date, the transferred financial assets cannot be used, sold or pledged in the duration of the transaction. The Bank does not derecognize it entirely because the Bank remains exposed to interest rate risk and credit risk on these pledged instruments.

Related information of financial assets and liabilities not qualifying for full derecognition are listed below:

June 30, 2018					
Category	Transferred Financial Assets - Book Value	Related Financial Liabilities - Book Value	Transferred Financial Assets - Fair Value	Related Financial Liabilities - Fair Value	Net Position - Fair Value
Notes and bonds issued under repurchase agreements					
Debt Investments measured at amortized cost	$ 305,000	$ 268,400	$ 305,000	$ 268,400	$ 36,600
Financial assets at fair value through profit or loss	4,613,327	4,331,458	4,613,327	4,331,458	281,869
Financial assets at fair value through other comprehensive income	57,959,850	53,750,242	57,959,850	53,750,242	4,209,608

December 31, 2017					
Category	Transferred Financial Assets - Book Value	Related Financial Liabilities - Book Value	Transferred Financial Assets - Fair Value	Related Financial Liabilities - Fair Value	Net Position - Fair Value
Notes and bonds issued under repurchase agreements					
Financial assets at fair value through profit or loss	$ 4,824,192	$ 4,582,517	$ 4,824,192	$ 4,582,517	$ 241,675
Available-for-sale financial assets	43,558,559	40,043,756	43,558,559	40,043,756	3,514,803

June 30, 2017					
Category	Transferred Financial Assets - Book Value	Related Financial Liabilities - Book Value	Transferred Financial Assets - Fair Value	Related Financial Liabilities - Fair Value	Net Position - Fair Value
Notes and bonds issued under repurchase agreements					
Financial assets at fair value through profit or loss	$ 5,444,352	$ 5,180,974	$ 5,444,352	$ 5,180,974	$ 263,378
Available-for-sale financial assets	63,960,770	59,731,319	63,960,770	59,731,319	4,229,451

f. Offsetting financial assets and financial liabilities

The Bank and its subsidiaries have no transactions of financial instruments that correspond to the provisions of IAS 32-42, but there are enforceable master netting arrangements or similar agreements signed with counterparty, and the financial assets and financial liabilities can be offset when both sides of the transaction have decided to, but gross settlements if not. One can choose net settlement if the other side of the transaction is in the breach of contract.

Related information of offsetting of financial assets and financial liabilities are as follows:

June 30, 2018						
Financial Assets Under Offsetting, Net Settlement Contracts or Similar Agreements						
Financial Assets	**Recognized Financial Assets - Gross Amount (a)**	**Netted Financial Liabilities Recognized on the Balance Sheet - Gross Amount (b)**	**Recognized Financial Assets - Net Amount (c)=(a)-(b)**	**Related Amount Not Netted on the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Received**	
Securities purchased under resell agreements	$ 21,240,195	$ -	$ 21,240,195	$ 21,240,195	$ -	$ -
Derivative financial instruments	44,122,953	-	44,122,953	11,878,176	4,011,578	28,233,199
Total	$ 65,363,148	$ -	$ 65,363,148	$ 33,118,371	$ 4,011,578	$ 28,233,199

June 30, 2018						
Financial Liabilities Under Offsetting, Net Settlement Contracts or Similar Agreements						
Financial Liabilities	**Recognized Financial Liabilities - Gross Amount (a)**	**Netted Financial Assets Recognized on the Balance Sheet - Gross Amount (b)**	**Recognized Financial Liabilities - Net Amount (c)=(a)-(b)**	**Related Amount Not Netted on the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Pledged**	
Notes and bonds issued under repurchase agreements	$ 61,319,474	$ -	$ 61,319,474	$ 61,097,592	$ 221,882	$ -
Derivative financial instruments	62,844,972	-	62,844,972	11,878,176	14,250,669	36,716,127
Total	$ 124,164,446	$ -	$ 124,164,446	$ 72,975,768	$ 14,472,551	$ 36,716,127

December 31, 2017						
Financial Assets Under Offsetting, Net Settlement Contracts or Similar Agreements						
Financial Assets	**Recognized Financial Assets - Gross Amount (a)**	**Netted Financial Liabilities Recognized on the Balance Sheet - Gross Amount (b)**	**Recognized Financial Assets - Net Amount (c)=(a)-(b)**	**Related Amount Not Netted on the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Received**	
Securities purchased under resell agreements	$ 18,829,142	$ -	$ 18,829,142	$ 18,829,142	$ -	$ -
Derivative financial instruments	16,405,402	-	16,405,402	5,634,398	1,327,598	9,443,406
Total	$ 35,234,544	$ -	$ 35,234,544	$ 24,463,540	$ 1,327,598	$ 9,443,406

December 31, 2017						
Financial Liabilities Under Offsetting, Net Settlement Contracts or Similar Agreements						
Financial Liabilities	**Recognized Financial Liabilities - Gross Amount (a)**	**Netted Financial Assets Recognized on the Balance Sheet - Gross Amount (b)**	**Recognized Financial Liabilities - Net Amount (c)=(a)-(b)**	**Related Amount Not Netted on the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Pledged**	
Notes and bonds issued under repurchase agreements	$ 45,444,814	$ -	$ 45,444,814	$ 45,251,592	$ 193,222	$ -
Derivative financial instruments	25,866,698	-	25,866,698	5,634,398	3,709,337	16,522,963
Total	$ 71,311,512	$ -	$ 71,311,512	$ 50,885,990	$ 3,902,559	$ 16,522,963

June 30, 2017						
Financial Assets Under Offsetting, Net Settlement Contracts or Similar Agreements						
Financial Assets	**Recognized Financial Assets - Gross Amount (a)**	**Netted Financial Liabilities Recognized on the Balance Sheet - Gross Amount (b)**	**Recognized Financial Assets - Net Amount (c)=(a)-(b)**	**Related Amount Not Netted on the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Received**	
Securities purchased under resell agreements	$ 908,096	$ -	$ 908,096	$ 908,096	$ -	$ -
Derivative financial instruments	18,477,146	-	18,477,146	7,723,048	1,007,327	9,746,771
Total	$ 19,385,242	$ -	$ 19,385,242	$ 8,631,144	$ 1,007,327	$ 9,746,771

June 30, 2017						
Financial Liabilities Under Offsetting, Net Settlement Contracts or Similar Agreements						
Financial Liabilities	**Recognized Financial Liabilities - Gross Amount (a)**	**Netted Financial Assets Recognized on the Balance Sheet - Gross Amount (b)**	**Recognized Financial Liabilities - Net Amount (c)=(a)-(b)**	**Related Amount Not Netted on the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Pledged**	
Notes and bonds issued under repurchase agreements	$ 66,742,065	$ -	$ 66,742,065	$ 66,742,065	$ -	$ -
Derivative financial instruments	24,639,447	-	24,639,447	7,723,048	4,397,185	12,519,214
Total	$ 91,381,512	$ -	$ 91,381,512	$ 74,465,113	$ 4,397,185	$ 12,519,214

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

47. CAPITAL MANAGEMENT

a. Objects of capital management

The calculation methods of self-owned capital should be conducted according to the regulations of authorities. The basic management objective includes sufficient capital to meet the requirements of the regulation and achieve the minimum capital adequacy ratio so as to control all risks within the risk appetite.

In order to undertake all kinds of risk, the Bank conducts risk management based on the risk portfolio and the assessment of risk characteristics to design the best capital allocation.

b. Capital management procedures

The Bank had met the authorities' minimum requirements for capital adequacy ratio and reported to the authority quarterly. Eligible capital is calculated according to the "Regulations Governing the Capital Adequacy and Capital Category of Banks"

c. Capital adequacy ratio

<table>
<tr><th colspan="3">Items / Year</th><th>June 30, 2018</th><th>December 31, 2017</th><th>June 30, 2017</th></tr>
<tr><td rowspan="4">Eligible capital</td><td colspan="2">Common equity Tier 1 capital</td><td>$ 54,493,309</td><td>$ 56,977,566</td><td>$ 54,152,597</td></tr>
<tr><td colspan="2">Additional Tier 1 capital</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Tier 2 capital</td><td>1,953,467</td><td>742,210</td><td>388,127</td></tr>
<tr><td colspan="2">Eligible capital</td><td>56,446,776</td><td>57,719,776</td><td>54,540,724</td></tr>
<tr><td rowspan="9">Risk-weighted assets</td><td rowspan="3">Credit risk</td><td>Standardized approach</td><td>414,190,395</td><td>343,689,959</td><td>348,387,151</td></tr>
<tr><td>Internal rating-based approach</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Securitization</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="3">Operational risk</td><td>Basic indicator approach</td><td>18,011,674</td><td>18,011,674</td><td>17,971,561</td></tr>
<tr><td>Standardized approach/ alternative standardized approach</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td>Advanced measurement approach</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td rowspan="2">Market risk</td><td>Standardized approach</td><td>54,620,525</td><td>45,449,650</td><td>56,762,538</td></tr>
<tr><td>Internal model approach</td><td>-</td><td>-</td><td>-</td></tr>
<tr><td colspan="2">Total risk-weighted assets</td><td>486,822,594</td><td>407,151,283</td><td>423,121,250</td></tr>
<tr><td colspan="3">Capital adequacy ratio</td><td>11.59%</td><td>14.18%</td><td>12.89%</td></tr>
<tr><td colspan="3">Ratio of common equity to risk-weighted assets</td><td>11.19%</td><td>13.99%</td><td>12.80%</td></tr>
<tr><td colspan="3">Ratio of Tier 1 capital to risk-weighted assets</td><td>11.19%</td><td>13.99%</td><td>12.80%</td></tr>
<tr><td colspan="3">Leverage ratio</td><td>7.25%</td><td>8.94%</td><td>8.46%</td></tr>
</table>

Note 1: The table was prepared in accordance with the "Regulations Governing the Capital Adequacy and Capital Category of Banks" and the "Methods for Calculating Banks' Regulatory Capital and Risk-Weighted Assets".

Note 2: The Bank should disclose the capital adequacy ratios of the current and previous periods in annual financial reports. For semiannual financial reports, the Bank should disclose the capital adequacy ratios of the current and previous periods, and of the previous year-end.

Note 3: The formulas used in calculating the above table entries were as follows:

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

2) Total risk-weighted asset = Risk-weighted assets for credit risk + (Capital requirement for operational risk + Capital requirements for market risk) × 12.5.

3) Capital adequacy ratio = Eligible capital/Total risk-weighted assets.

4) Ratio of common equity capital to risk-weighted assets = Common equity/Total risk-weighted assets.

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

6) Leverage ratio = Tier 1 capital/Exposure measurement.

48. TRUST BUSINESS OPERATIONS UNDER THE TRUST ENTERPRISES ACT

The balance sheets and income statements of the trust accounts and trust property accounts were as follows:

Balance Sheets of Trust Accounts

(In Thousands of New Taiwan Dollars)

Trust Assets	**June 30, 2018**	**December 31, 2017**	**June 30, 2017**	**Trust Liabilities**	**June 30, 2018**	**December 31, 2017**	**June 30, 2017**
Bank deposits	$ 806,202	$ 371,243	$ 370,953	Payables	$ 150,401	$ 152,685	$ 152,313
Short-term investment	29,716,127	29,283,250	29,831,549	Account payable on securities			
Financial assets at FVTPL	11,640	241,655	2,482,227	under custody	8,072,287	2,571,397	4,897,697
Receivables	63,819	193	81,686	Other liabilities	70,815	5,730	19,109
Other financial assets	10,450	7,650	7,650	Donations	1,811	1,811	1,811
Real estate, net	534,259	534,259	417,202	Trust capital	31,235,451	30,555,629	33,135,608
Intangible assets - surface rights	984,534	984,534	984,534	Accumulated earnings	672,794	707,034	866,960
Securities under custody	8,072,287	2,571,397	4,897,697				
Others	4,241	105	-				
Total	$ 40,203,559	$ 33,994,286	$39,073,498	Total	$ 40,203,559	$ 33,994,286	$ 39,073,498

Income Statements of Trust Accounts

(In Thousands of New Taiwan Dollars)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	**2017**	**2018**	**2017**
Trust income and gains				
Dividend income	$ 1,200	$ 60,313	$ 1,901	$ 71,274
Interest income	364,662	313,538	728,989	626,414
Rental income	7,090	7,495	14,185	15,232
Gain on financial assets at FVTPL, net	(44,327)	182,447	-	615,790
Properties transaction gains	(41,818)	-	-	-
Other income	7,670	3,692	10,031	7,819
Total trust income and gains	294,477	567,485	755,106	1,336,529
Trust expenses				
Administrative expenses	(8,552)	(8,789)	(19,072)	(16,272)
Interest expenses	(1,453)	-	(1,453)	-
Service fee	-	(10)	-	(25)
Loss on financial assets at FVTPL, net	(3,753)	-	(3,753)	-
Other expenses	(1,263)	(4,532)	(3,841)	(7,210)
Property transaction losses	(139,262)	(74,783)	(139,262)	(187,079)
Total trust expenses	(154,283)	(88,114)	(167,381)	(210,586)
Net income	$ 140,194	$ 479,371	$ 587,725	$ 1,125,943

The above income from trust operations were excluded from the Banks' income.

Trust Property Accounts

(In Thousands of New Taiwan Dollars)

Investment Portfolio	**June 30, 2018**	**December 31, 2017**	**June 30, 2017**
Bank deposits	$ 806,202	$ 371,243	$ 370,953
Short-term investments			
Funds	28,119,632	27,956,024	28,173,912
Bonds	1,264,727	1,013,666	1,375,465
Common shares	75,900	75,900	76,400
Structured notes	93,766	93,766	93,766
ETF	162,102	143,894	112,006
Financial assets at FVTPL	11,640	241,655	2,482,227
Other financial assets	10,450	7,650	7,650
Real estate, net	534,259	534,259	417,202
Intangible assets - surface rights	984,534	984,534	984,534
Securities under custody	8,072,287	2,571,397	4,897,697
Other assets	68,060	298	81,686
Total	$ 40,203,559	$ 33,994,286	$ 39,073,498

49. ALLOCATION OF REVENUE, COST AND EXPENSE RESULTING FROM INTERCOMPANY COOPERATION AND RESOURCE SHARING

For the cooperation and resource sharing between CDFH, the Bank's parent, and CDFH's subsidiaries, please refer to Note 42 to the consolidated financial statements.

50. PROFITABILITY

(%)

Items		June 30, 2018	June 30, 2017
Return on total assets	Before income tax	0.52	0.72
	After income tax	0.48	0.56
Return on net worth	Before income tax	5.64	7.07
	After income tax	5.22	5.53
Profit margin		33.29	31.22

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

Note 2: Return on net worth = Income before (after) income tax/Average net worth.

Note 3: Profit margin = Income after income tax/Total net revenues.

Note 4: Income before (after) income tax means income accumulated from January of the current period to the current period.

Note 5: The above profitability ratios are expressed annually.

51. ADDITIONAL DISCLOSURES

a. Information about significant transactions:

1) Financing provided: The Bank: Not applicable. For subsidiaries' information: None.

2) Collaterals/guarantees provided: The Bank: Not applicable. For subsidiaries' information: Table 1 (attached).

3) Marketable securities held: The Bank: Not applicable. For subsidiaries' information: Table 2 (attached).

4) Derivative transactions: The Bank: Not applicable. For subsidiaries' information: None.

5) Acquired and disposed of, at cost or price of at least NT$300 million or 10% of the issued capital (for subsidiaries acquiring and disposing of marketable securities, at cost or price of at least NT$300 million or 10% of the issued capital): None.

6) Acquisition of individual real estate at cost of at least NT$300 million or 10% of the issued capital: None.

7) Disposal of individual real estate at price of at least NT$300 million or 10% of the issued capital: None.

8) Discount on service fees received from related parties amounting to NT$5 million: None.

9) Receivables from related parties amounting to NT$300 million or 10% of the issued capital: None.

10) Sold nonperforming loans: None.

11) Financial asset securitization: None.

12) Other significant transactions which may affect the decisions of the consolidated financial statements users: None.

b. Related information and proportionate share in investees: Table 3 (attached).

c. Information on investments in Mainland China: Table 4 (attached).

d. Business relationships and significant transactions among the Bank and its subsidiaries. Table 5 (attached).

52. SEGMENT INFORMATION

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

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

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

c. Global markets segment: The segment's services include the distribution of funds, issuance of bank debentures, handling money market and bond market transactions, foreign exchange handling, and dealing with other financial market-related products (such as derivative instruments) and transactions.

d. Others: Mainly include the administration segment of head office and summarized of other non-independent segments.

The accounting policies of the operating segments are the same as the accounting policies described in Note 4. The Bank and its subsidiaries use income before income tax as the measurement for segment profit and the basis of performance assessment. The net revenue, income before income tax, assets and liabilities are composed of revenues and expenses directly attributable to an operating segment.

Segment revenues and results

The following is an analysis of the Bank and its subsidiaries' revenue and results of operations by reportable segment:

	Retail Banking Segment	Corporate Banking Segment	Global Markets Segment	Others	Total
For the three months ended June 30, 2018					
Interest revenue, net	$ 782,257	$ 619,470	$ 390,553	$ 33,192	$ 1,825,472
Net revenue (loss) - intersegment	227,750	103,708	(507,106)	175,648	-
Non-interest profits and gains (losses), net	359,872	102,697	120,645	(4,329)	578,885
Net revenue	1,369,879	825,875	4,092	204,511	2,404,357
Reversal of allowance (allowance) for bad debts expense, commitments, and guarantee liability provision, net	135,946	(87,846)	(8)	48,366	96,458
Operating expenses	(786,886)	(167,844)	(85,561)	(440,173)	(1,480,464)
Income (loss) before income tax	718,939	570,185	(81,477)	(187,296)	1,020,351
Income tax expense	-	-	-	(160,085)	(160,085)
Net income (loss)	$ 718,939	$ 570,185	$ (81,477)	$ (347,381)	$ 860,266
For the three months ended June 30, 2017					
Interest revenue, net	$ 772,131	$ 490,499	$ 317,250	$ 44,676	$ 1,624,556
Net revenue (loss) - intersegment	104,051	132,825	(304,754)	67,878	-
Non-interest profits and gains, net	321,900	83,332	609,566	70,335	1,085,133
Net revenue	1,198,082	706,656	622,062	182,889	2,709,689
Allowance for bad debts expense and guarantee liability provision, net	(17,880)	(95,901)	(1,134)	(91,279)	(206,194)
Operating expenses	(720,883)	(161,801)	(76,584)	(454,114)	(1,413,382)
Income (loss) before income tax	459,319	448,954	544,344	(362,504)	1,090,113
Income tax expense	-	-	-	(337,946)	(337,946)
Net income (loss)	$ 459,319	$ 448,954	$ 544,344	$ (700,450)	$ 752,167
For the six months ended June 30, 2018					
Interest revenue, net	$ 1,583,696	$ 1,161,058	$ 797,399	$ 61,776	$ 3,603,929
Net revenue (loss) - intersegment	345,538	276,925	(759,874)	137,411	-
Non-interest profits and gains, net	761,067	187,518	6,468	142,923	1,097,976
Net revenue	2,690,301	1,625,501	43,993	342,110	4,701,905
Reversal of allowance (allowance) for bad debts expense, commitments, and guarantee liability provision, net	182,084	(322,159)	(32)	72,873	(67,234)
Operating expenses	(1,571,155)	(336,878)	(164,376)	(871,376)	(2,943,785)
Income (loss) before income tax	1,301,230	966,464	(120,415)	(456,393)	1,690,886
Income tax expense	-	-	-	(125,703)	(125,703)
Net income (loss)	$ 1,301,230	$ 966,464	$ (120,415)	$ (582,096)	$ 1,565,183
For the six months ended June 30, 2017					
Interest revenue, net	$ 1,510,852	$ 961,220	$ 468,785	$ 89,369	$ 3,030,226
Net revenue (loss) - intersegment	197,625	301,140	(338,451)	(160,314)	-
Non-interest profits and gains, net	631,087	189,289	1,299,302	113,749	2,233,427
Net revenue	2,339,564	1,451,649	1,429,636	42,804	5,263,653
Reversal of allowance (allowance) for bad debts expense and guarantee liability provision, net	44,081	(277,631)	(8,123)	(102,971)	(344,644)
Operating expenses	(1,421,475)	(327,275)	(176,286)	(893,427)	(2,818,463)
Income (loss) before income tax	962,170	846,743	1,245,227	(953,594)	2,100,546
Income tax expense	-	-	-	(457,170)	(457,170)
Net income (loss)	$ 962,170	$ 846,743	$ 1,245,227	$ (1,410,764)	$ 1,643,376

KGI BANK AND SUBSIDIARIES

COLLATERALS/GUARANTEE PROVIDED
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(In Thousands of New Taiwan Dollars)

No.	Collaterals/Guarantee Provider	Counter-party		Limits on Each Counter-party's Collateral/ Guarantee Amounts	Maximum Balance for the Period	Ending Balance	Actual Amount Drawn Down	Carrying Value (as of Balance Sheet Date) of Properties Guaranteed by Collateral	Ratio of Accumulated Amount of Collateral to Net Worth Shown in the Provider's Latest Financial Statements	Maximum Collateral/ Guarantee Amounts Allowable	Provision of Endorsements by Parent Company to Subsidiary	Provision of Endorsements by Subsidiary to Parent Company	Provision of Endorsements to the Company in Mainland China
		Name	Nature of Relationship										
1	CDIB Management Consulting Corporation	CDIB International Leasing Corporation	Note 1	$ 4,517,805	$ 1,372,500	$ 1,220,000	$ 610,000	$ -	135.02%	$ 4,517,805 (Note 2)	No	No	Yes

Note 1: The Bank and its subsidiary own directly over 50% ownership of the investee company.

Note 2: The total amount of guarantee provided should not exceed 5 times of the net asset value shown in the latest financial report of CDIB Management Consulting Corporation.

KGI BANK AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
JUNE 30, 2018
(In Thousands of New Taiwan Dollars)

Holding Company	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2018 Shares/Face Value/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 2)	Note
CDIB Management Consulting Corporation	Stock							
	CDC Finance & Leasing Corporation	Subsidiary	Investments accounted for using the equity method	58,328,460	$ 646,937	76.04	$ 646,937	
	CDIB International Leasing Corporation	Subsidiary	Investments accounted for using the equity method	-	222,739	100.00	222,739	
CDC Finance & Leasing Corporation	Stock							
	Hwahong Corporation	Associate	Investments accounted for using the equity method	23,750	346	19.00	346	
	Pacific Electric Wire and Cable Co., Ltd.	-	Financial assets at fair value through other comprehensive income	496,574	3	0.07	3	

Note 1: The Bank and its subsidiaries recognized the related income or loss of investees as required by regulations. For decline in value that was other than temporary, investment loss was recognized.

Note 2: The net asset value of unlisted stocks, on which the Bank recognized its investment incomes in the current year, were calculated on the basis of the investees' audited financial statements for the same reporting period as that of the holding company, or on the basis of the net asset values of the investees, market values of emerging stocks, or the cost of acquiring an investee's newly issued shares or book value of the investees. However, the net asset values of investees do not represent the value of unlisted stocks on the balance sheet date.

Note 3: No securities were treated as collaterals or warrants.

Note 4: The above companies which are the subsidiaries of the Bank were eliminated from the consolidated financial statements.

KGI BANK AND SUBSIDIARIES

INFORMATION ON INVESTED ENTERPRISES
JUNE 30, 2018
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business	Balance as of June 30, 2018			Consolidated Investment (Note 1)				Note
			Percentage of Ownership	Carrying Value	Investment Gain (Loss)	Present Shares	Virtual Shares (Note 2)	Shares	Percentage of Ownership	
Financial industry-related										
Taipei Foreign Exchange Inc.	Taiwan	Foreign exchange trading, financial derivatives trading	0.40	$ 3,120	$ 360	80,000	-	80,000	0.40	
Taiwan Futures Exchange	Taiwan	Futures exchange and settlement	0.51	93,363	-	19,296,975	-	19,296,975	6.12	
Financial Information Service Co., Ltd.	Taiwan	Telecommunication service; information system service	1.23	120,105	-	6,410,160	-	6,410,160	1.23	
Taiwan Asset Management Co., Ltd.	Taiwan	Evaluating, auctioning and managing financial institutions' loans	0.57	86,010	4,854	7,500,000	-	7,500,000	0.57	
Reliance Securities Investment Trust Co., Ltd.	Taiwan	Issue beneficiary certificates; raise investment funds	12.31	38,766	-	3,840,175	-	3,840,175	12.31	
Sunlight Asset Management Co., Ltd.	Taiwan	Purchasing for financial institutions' loans	5.74	3,919	447	344,476	-	344,476	5.74	
Taiwan Financial Asset Service Company	Taiwan	Other activities auxiliary to financial service activities	2.94	47,150	-	5,000,000	-	5,000,000	2.94	
Taiwan Mobile Payment	Taiwan	Communication and IT service	1.00	3,820	-	600,000	-	600,000	1.00	
CDIB Management Consulting Corporation	Taiwan	Management consultancy activities	100.00	911,166	90,573	153,171,873	-	153,171,873	100.00	
Euroc II Venture Capital Corp.	Taiwan	Venture capital corporation	7.50	12,014	99	1,570,800	-	1,570,800	7.50	
Euroc III Venture Capital Corp.	Taiwan	Venture capital corporation	5.00	7,039	1,257	742,500	-	742,500	5.00	
Non-financial industry-related										
Cosmos Construction Management Corporation	Taiwan	Valuation on real estate, contract evaluation	9.39	-	-	6,991,000	-	6,991,000	9.39	
Lieu-An Service Co.	Taiwan	ATM cash cartridge replacement and service provision	5.00	1,759	-	125,000	-	125,000	5.00	
CDIB & Partners Investment Holding Corp.	Taiwan	General investment corporation	4.95	850,857	(19,511)	367,200,000	-	367,200,000	33.66	

Note 1: All present shares or virtual shares of the Bank, directors, supervisors, the Bank's managers, and affiliates should be included.

Note 2: (1) virtual shares refer to equity-type securities and derivative financial instrument contracts that are transferred to common shares. Based on the transaction terms or the holding purposes of the Bank, the two types of instruments are linked to the equity of investees and are recognized as investments accounted, in accordance with Article 74 of the Securities and Exchange Act. (2) equity-type securities, such as convertible bonds and warrants, are regulated by Article 11 Paragraph 1 of the Securities and Exchange Act Enforcement Rules. (3) financial instrument contracts are those defined under IFRS 9, such as stock options.

Note 3: The above companies which are the subsidiaries of the Bank were eliminated from the consolidated financial statements.

KGI BANK AND SUBSIDIARIES

INFORMATION ON INVESTMENT IN MAINLAND CHINA
JUNE 30, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2018	Net Loss of the investee (Note 2)	% Ownership of Direct or Indirect Investment	Investment Loss (Note 2)	Carrying Value as of June 30, 2018	Accumulated Inward Remittance of Earnings as of June 30, 2018
					Outflow	Inflow						
CDIB International Leasing Corporation	Financial leasing and management business consulting	RMB 187,750 thousand	Note 1 (a)	US$ 30,000 thousand	$ -	$ -	US$ 30,000 thousand	$ 45,938	100	$ 45,938	$ 222,739	$ -

Accumulated Investment in Mainland China as of June 30, 2018	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investment
$915,000 (US$30,000 thousand)	US$30,000 thousand	$546,661

Note 1: The investment types are as follows:

a. Direct investments.
b. Reinvested through an investee company at a third place.
c. Others.

Note 2: Financial statements audited by an international CPA firm having a cooperative relation with CPA firms in the Republic of China.

Note 3: Exchange rate as of reporting date of the financial statement was used in translating foreign currency.

KGI BANK AND SUBSIDIARIES

BUSINESS RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2018
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Trader Company	Related Party	Flow of Transactions (Note 2)	Content of Transaction (Note 5)			
				Financial Statement Accounts	Amounts	Trading Terms	Transaction Amount/Total Consolidated Revenue or Total Consolidated Assets (Note 3)
0	KGI Bank	CDC Finance & Leasing Corporation	1	Deposit and remittances	$ 12,984	Note 4	-
1	CDC Finance & Leasing Corporation	KGI Bank	2	Cash and cash equivalents	12,984	Note 4	-

Note 1: The consolidated entities are identified in the No. column as follows: Parent company - “0”; subsidiaries - numbered from 1 by company.

Note 2: Transaction flows are as follows: (1) from parent to subsidiary; (2) from subsidiary to parent; and (3) between subsidiaries.

Note 3: The ratio is calculated as follows: For asset and liability accounts - Transaction amount in the ending period/Total consolidated assets; for income and expense accounts - Transaction amount in the annual/Total consolidated net profit.

Note 4: The transaction criteria for related parties are similar to those for third parties.

Note 5: Transactions each amounted to at least NT$10 million.

Note 6: The above transactions and balances were not included in the consolidated financial statements.