KGI Bank and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2018 and 2017 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The Bank required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2018 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 "Consolidated Financial Statements". Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

KGI BANK

March 21, 2019

Deloitte.

勤業眾信

勤業眾信聯合會計師事務所
11073 台北市信義區松仁路100號20樓

Deloitte & Touche
20F, Taipei Nan Shan Plaza
No. 100, Songren Rd.,
Xinyi Dist., Taipei 11073, Taiwan

Tel :+886 (2) 2725-9988
Fax:+886 (2) 4051-6888
www.deloitte.com.tw

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 December 31, 2018 and 2017, the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of December 31, 2018 and 2017, and their consolidated financial performance and their consolidated cash flows for the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audits in accordance with 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 year ended December 31, 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.

The key audit matter for the consolidated financial statements of the Bank and its subsidiaries for the year ended December 31, 2018 is stated as follows:

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

Loans is the main business of the Bank, which is material to the consolidated financial statements as a whole as it accounts for 49% of the total assets of the consolidated financial statements. 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 flows based on past events, present status and future economic circumstances of the assets with similar credit risk, and (3) review periodically the methodology and assumptions adopted for both the expected future cash flows 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 year ended December 31, 2018.

Refer to Notes 4, 5 and 46 for the critical accounting policies, 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 the impairment model and parameters of the assumptions reflected past events, 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 years ended December 31, 2018 and 2017 on which we have issued an unmodified opinion for both years.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, the guidelines issued by the authorities International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, 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 year ended December 31, 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.

Mei Hui Wu   Cheng Hung Kuo

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 21, 2019

<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
DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018		2017	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 42)	$ 7,034,362	1	$ 14,332,827	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Notes 7 and 43)	26,431,383	4	33,829,034	6
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS(Notes 4, 8, 42 and 43)	81,922,752	12	54,441,219	9
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 9 and 43)	151,669,704	22	-	-
DEBT INVESTMENTS MEASURED AT AMORTIZED COST (Notes 4, 10 and 42)	11,965,807	2	-	-
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4 and 11)	15,164,692	2	18,829,142	3
RECEIVABLES, NET (Notes 4, 12, 42 and 43)	27,807,567	4	22,432,462	4
CURRENT TAX ASSETS (Notes 4 and 40)	16	-	16	-
ASSETS HELD FOR SALE, NET (Notes 4 and 17)	29,649	-	-	-
DISCOUNTS AND LOANS, NET (Notes 4, 13 and 42)	335,751,432	49	293,656,990	50
AVAILABLE-FOR-SALE FINANCIAL ASSETS (Notes 4, 14 and 43)	-	-	127,662,495	22
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 4 and 15)	789,208	-	888,863	-
OTHER FINANCIAL ASSETS, NET (Notes 4, 16 and 43)	1,477,248	-	7,863,747	1
PROPERTY AND EQUIPMENT, NET (Notes 4, 17 and 43)	6,183,951	1	6,244,550	1
INVESTMENT PROPERTIES, NET (Notes 4, 18 and 43)	1,014,721	-	889,989	-
INTANGIBLE ASSETS, NET	408,464	-	372,138	-
DEFERRED TAX ASSETS (Notes 4 and 40)	2,290,358	1	2,994,808	1
OTHER ASSETS, NET (Notes 19, 28, 42 and 43)	13,332,712	2	5,687,799	1
TOTAL	$ 683,274,026	100	$ 590,126,079	100
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from the Central Bank and banks (Notes 20 and 42)	$ 21,359,259	3	$ 28,330,692	5
Financial liabilities at fair value through profit or loss (Notes 4, 8 and 42)	73,866,749	11	43,284,681	7
Notes and bonds issued under repurchase agreements (Notes 4, 8, 9, 10, 14 and 21)	60,303,682	9	45,444,814	8
Payables (Notes 22 and 42)	7,037,664	1	6,871,991	1
Current tax liabilities (Notes 4, 40 and 42)	530,563	-	412,845	-
Deposits and remittances (Notes 23 and 42)	421,704,877	62	376,623,134	64
Bank debentures payable (Note 24)	7,350,000	1	1,000,000	-
Principal received on structured notes	24,020,358	3	20,147,989	4
Commercial paper payable, net (Note 25)	1,829,716	-	1,224,479	-
Other borrowings (Note 26)	1,811,543	-	2,905,082	1
Other financial liabilities	3,716	-	3,162	-
Provisions (Notes 4, 27 and 28)	348,043	-	230,129	-
Deferred tax liabilities (Notes 4 and 40)	24,413	-	243,838	-
Other liabilities (Note 29)	4,503,104	1	1,985,821	-
Total liabilities	624,693,687	91	528,708,657	90
EQUITY (Notes 4 and 30)				
Equity attributable to owners of parent				
Capital				
Common stock	46,061,623	7	46,061,623	8
Capital surplus				
Additional paid-in capital	7,245,723	1	7,245,723	1
Other capital surplus	5,450	-	4,830	-
Total capital surplus	7,251,173	1	7,250,553	1
Retained earnings				
Legal reserve	4,639,065	1	3,694,540	1
Special reserve	291,319	-	1,323,519	-
Unappropriated earnings	1,636,748	-	3,148,414	-
Total retained earnings	6,567,132	1	8,166,473	1
Other equity				
Exchange differences on translation of foreign financial statements	45,522	-	(32,228)	-
Unrealized loss on available-for-sale financial assets	-	-	(224,671)	-
Unrealized loss on equity instruments at fair value through other comprehensive income	(10,074)	-	-	-
Unrealized loss on debt instruments at fair value through other comprehensive income	(1,566,834)	-	-	-
Allowance for impairment loss of investments in debt instrument at fair value through other comprehensive income	25,933	-	-	-
Total other equity	(1,505,453)	-	(256,899)	-
Total equity of parent company	58,374,475	9	61,221,750	10
Non-controlling interests	205,864	-	195,672	-
Total equity	58,580,339	9	61,417,422	10
TOTAL	$ 683,274,026	100	$ 590,126,079	100

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

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
INTEREST REVENUES (Notes 4, 31 and 42)	$ 13,221,471	146	$ 10,510,091	92	26
INTEREST EXPENSES (Notes 4, 31 and 42)	(6,074,574)	(67)	(4,124,619)	(36)	47
NET INTEREST	7,146,897	79	6,385,472	56	12
NET REVENUES OTHER THAN INTEREST					
Service fee income, net (Notes 4, 32 and 42)	1,811,980	20	1,723,736	15	5
Gain on financial assets or liabilities measured at fair value through profit or loss, net (Notes 4 and 33)	609,744	7	3,163,361	27	(81)
Realized gain on available-for-sale financial assets, net (Notes 4 and 34)	-	-	738,074	6	(100)
Realized loss on financial assets measured at fair value through other comprehensive income (Notes 4 and 35)	(448,120)	(5)	-	-	-
Foreign exchange loss, net (Note 4)	(182,874)	(2)	(846,890)	(7)	(78)
Share of the profit (loss) of associates for using the equity method (Notes 4 and 15)	(72,623)	(1)	23,598	-	(408)
Impairment loss on assets, net (Notes 4 and 36)	(5,607)	-	(11,177)	-	(50)
Other non-interest income, net (Notes 17, 37 and 42)	209,819	2	316,863	3	(34)
Total net revenues other than interest	1,922,319	21	5,107,565	44	(62)
TOTAL NET REVENUE	9,069,216	100	11,493,037	100	(21)

(Continued)

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
REVERSAL (PROVISION) OF ALLOWANCE FOR BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION (Note 4)	$ 49,299	1	$ (463,438)	(4)	111
OPERATING EXPENSES (Notes 28, 38, 39 and 42)					
Employee benefits expense	(3,683,847)	(40)	(3,595,271)	(31)	2
Depreciation and amortization expense	(422,486)	(5)	(357,699)	(3)	18
Other general and administrative expenses	(2,071,270)	(23)	(2,019,606)	(18)	3
Total operating expenses	(6,177,603)	(68)	(5,972,576)	(52)	3
INCOME BEFORE INCOME TAX	2,940,912	33	5,057,023	44	(42)
INCOME TAX EXPENSE (Notes 4 and 40)	(777,667)	(9)	(1,874,675)	(16)	(59)
NET INCOME	2,163,245	24	3,182,348	28	(32)
OTHER COMPREHENSIVE INCOME (Notes 4 and 40)					
Items that will not be reclassified subsequently to profit or loss, net of tax					
Remeasurement of defined benefit plans	(81,437)	(1)	(38,178)	-	113
Gain (loss) on equity instruments measured at fair value through other comprehensive income	(134,656)	(2)	-	-	-
Share of the other comprehensive loss of associates accounted for using the equity method	(36,235)	-	(15)	-	241,467
Income tax relating to items that will not be reclassified subsequently to profit or loss	3,653	-	6,220	-	(41)

(Continued)

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
Items that will be reclassified subsequently to profit or loss, net of tax					
Exchange differences on translation of foreign financial statements	$ 55,674	1	$ (19,135)	-	391
Unrealized gain on available-for-sale financial assets	-	-	922,726	8	(100)
Share of the other comprehensive income of associates accounted for using the equity method	22,076	-	144,351	1	(85)
Gain (loss) on debt instruments measured at fair value through other comprehensive income	(1,621,539)	(18)	-	-	-
Recognition of impairment loss on debt instruments measured at fair value through other comprehensive income	4,165	-	-	-	-
Other comprehensive income (loss), net of tax	(1,788,299)	(20)	1,015,969	9	(276)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	$ 374,946	4	$ 4,198,317	37	(91)
NET PROFIT ATTRIBUTABLE TO:					
Shareholders of the parent company	$ 2,145,454	24	$ 3,180,005	28	(33)
Non-controlling interests	17,791	-	2,343	-	659
	$ 2,163,245	24	$ 3,182,348	28	(32)
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Shareholders of the parent company	$ 357,452	4	$ 4,196,356	37	(91)
Non-controlling interests	17,494	-	1,961	-	792
	$ 374,946	4	$ 4,198,317	37	(91)
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 41)					
Basic	$ 0.47		$ 0.69		

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

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(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 Gain (Loss) on Financial Assets at Fair Value through Other Comprehensive Income	Unrealized Gain (Loss) 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 stock	-	-	-	-	(1,701,168)	-	-	-	(1,701,168)	-	(1,701,168)
Changes in equity of associates accounted for using the equity method	-	11	-	-	-	-	-	-	11	-	11
Net income for the year ended December 31, 2017	-	-	-	-	3,180,005	-	-	-	3,180,005	2,343	3,182,348
Other comprehensive income(loss) for the year ended December 31, 2017, net of income tax	-	-	-	-	(31,591)	(61,539)	-	1,109,481	1,016,351	(382)	1,015,969
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	3,148,414	(61,539)	-	1,109,481	4,196,356	1,961	4,198,317
Share-based payments	-	1,262	-	-	-	-	-	-	1,262	-	1,262
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(1,576)	(1,576)
BALANCE AT DECEMBER 31, 2017	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 stock	-	-	-	-	(3,236,089)	-	-	-	(3,236,089)	-	(3,236,089)
Changes in equity of associates accounted for using the equity method	-	24	-	-	-	-	-	-	24	-	24
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	102,128	-	(102,128)	-	-	-	-
Net income for the year ended December 31, 2018	-	-	-	-	2,145,454	-	-	-	2,145,454	17,791	2,163,245
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(65,155)	77,750	(1,800,597)	-	(1,788,002)	(297)	(1,788,299)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	2,080,299	77,750	(1,800,597)	-	357,452	17,494	374,946
Share-based payments	-	596	-	-	-	-	-	-	596	-	596
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(1,760)	(1,760)
BALANCE AT DECEMBER 31, 2018	$ 46,061,623	$ 7,251,173	$ 4,639,065	$ 291,319	$ 1,636,748	$ 45,522	$ (1,550,975)	$ -	$ 58,374,475	$ 205,864	$ 58,580,339

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

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,940,912	$ 5,057,023
Adjustments for:		
Depreciation expenses	322,446	263,025
Amortization expenses	100,040	94,674
(Reversal) provision of allowance for bad debts expense, commitments and guarantee liability provisions	(49,299)	463,438
Gain on financial assets or liabilities measured at fair value through profit or loss, net	(1,218,685)	(3,109,540)
Interest expense	6,074,574	4,124,619
Interest income	(13,221,471)	(10,510,091)
Dividend income	(183,315)	(310,724)
Share of profit (loss) of associates accounted for using the equity method	72,623	(23,598)
Gain on disposal of investment properties	(69,047)	-
Gain on disposal of assets held for sale	(8,494)	(8,344)
Loss on impairment of financial assets	5,607	-
Loss on impairment of non-financial assets	-	57,312
Gain on reversal of impairment of non-financial assets	-	(46,135)
Gain on disposal of collateral	-	(128,237)
Others	408	4,523
Changes in operating assets and liabilities		
Decrease in due from the Central Bank and call loans to banks	8,069,859	17,482,176
Decrease in financial assets at fair value through profit or loss	18,695,160	146,024,034
Increase in financial assets at fair value through other comprehensive income	(29,607,443)	-
Increase in debt investments measured at amortized cost	(6,446,000)	-
Decrease (increase) in securities purchased under resell agreements	595,974	(595,974)
Decrease (increase) in receivables	(4,437,871)	6,204,611
Increase in discounts and loans	(42,186,049)	(41,623,075)
Increase in available-for-sale financial assets	-	(38,017,723)
Decrease (increase) in other financial assets	607,452	(3,979,933)
Decrease (increase) in other assets	(7,879,277)	2,549,764
Decrease in deposits from the Central Bank and banks	(6,971,433)	(2,586,682)
Decrease in financial liabilities at fair value through profit or loss	(9,967,004)	(95,639,602)
Increase (decrease) in notes and bonds issued under repurchase agreements	14,858,868	(16,693,500)
Increase (decrease) in payables	(1,488,642)	1,813,988
Increase in deposits and remittances	45,081,743	33,175,628
Increase (decrease) in other financial liabilities	3,885,932	(1,725,140)
Increase (decrease) in other liabilities	2,551,737	(49,517)
Cash inflow (outflow) generated from operations	(19,870,695)	2,267,000
Interest received	12,200,125	10,565,697
Dividends received	204,915	323,683

(Continued)

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

	2018	2017
Interest paid	$ (4,413,959)	$ (3,276,844)
Income taxes refunded (paid)	(38,074)	12,017
Net cash flows generated from (used in) operating activities	(11,917,688)	9,891,553
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of assets held for sale	25,032	20,634
Acquisition of property and equipment	(433,243)	(507,822)
Proceeds from disposal of property and equipment	27,779	17,757
Acquisition of intangible assets	(132,299)	(198,898)
Disposal of collateral	-	174,372
Proceeds from disposal of investment properties	120,102	-
Net cash flows used in investing activities	(392,629)	(493,957)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(237,949)	(1,012,564)
(Decrease) increase in commercial paper payable	605,237	(1,332,830)
Issuance of bank debentures payable	6,350,000	1,000,000
Repayment in bank debentures payable	-	(2,750,000)
Proceeds from long-term borrowings	-	755,543
Repayments of long-term borrowings	(855,590)	-
Cash dividends paid	(3,236,089)	(1,701,168)
Changes in non-controlling interest	(1,760)	(1,576)
Net cash flows generated from (used in) financing activities	2,623,849	(5,042,595)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(8,265)	(2,491)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,694,733)	4,352,510
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	47,010,963	42,658,453
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 37,316,230	$ 47,010,963

(Continued)

KGI BANK AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)

Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets as of December 31, 2018 and 2017:

	December 31	
	2018	**2017**
Cash and cash equivalents in consolidated balance sheets	$ 7,034,362	$ 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	15,117,176	14,444,968
Securities purchased under agreements to resell qualifying as cash and cash equivalents under the definition of IAS 7 endorsed by FSC	15,164,692	18,233,168
Cash and cash equivalents in consolidated statements of cash flows	$ 37,316,230	$ 47,010,963

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

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 December 31, 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 directors approved the 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 approved by the board of directors and authorized for issue on March 21, 2019.

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 amounts under IAS 39 and the new measurement categories and carrying amounts 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 the 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, 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.

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 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 was recognized on January 1, 2018.

f) The Bank and its subsidiaries recognized under IFRS 9 impact on investments accounted for using the 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 with 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 from the initial application of 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 the Credit Loss Occurrence Model in the prior period with the balance of loss allowance recognized under IFRS 9 based on the Expected Credit Loss 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. The IFRSs and the Regulations Governing the Preparation of Financial Reports by Public Banks 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 provides a comprehensive model for the identification of lease arrangements and their accounting treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations.

Definition of a lease

Upon initial application of IFRS 16, the Bank and its subsidiaries will elect to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 will not be reassessed and will be accounted for in accordance with the transitional provisions under IFRS 16.

The Bank and its subsidiaries as lessee

Upon initial application of IFRS 16, the Bank and its subsidiaries will recognize right-of-use assets and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases will be recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Bank and its subsidiaries will present the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities will be classified within financing activities; cash payments for the interest portion will be classified within operating activities. Currently, payments under operating lease contracts are recognized as expenses on a straight-line basis. Cash flows for operating leases are classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables are recognized for contracts classified as finance leases.

The Bank and its subsidiaries anticipate applying IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized on January 1, 2019. Comparative information will not be restated.

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments. The Bank and its subsidiaries will apply IAS 36 to all right-of-use assets.

The Bank and its subsidiaries expects to apply the following practical expedients:

a) The Bank and its subsidiaries will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

b) The Bank and its subsidiaries will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.

c) The Bank and its subsidiaries will use hindsight, such as in determining lease terms, to measure lease liabilities.

The Bank and its subsidiaries as lessor

The Bank and its subsidiaries will not make any adjustments for leases in which it is a lessor and will account for those leases with the application of IFRS 16 starting from January 1, 2019.

Anticipated impact on assets, liabilities and equity

Application of IFRS 16 will result in an increase of $2,281,446 thousand on the right-of-use assets and an increase of $2,281,446 thousand on the lease liabilities of the Bank and its subsidiaries' consolidated assets and liabilities on January 1, 2019.

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 conclude 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 have 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 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
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
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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 Bank and its subsidiaries shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

Note 3: The Bank and its subsidiaries shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The accompanying consolidated financial statements have been prepared in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, and the IFRSs as endorsed by the FSC.

Basis of Preparation

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

The operating cycle in the banking industry cannot be reasonably identified; thus, asset and liability accounts were not classified as current or noncurrent. Nevertheless, these accounts were properly categorized in accordance with the nature of each account and sequenced according to their liquidity. Please refer to Note 46 for the maturity analysis of assets and liabilities.

Principles for Preparing Consolidated Financial Statements

The consolidated financial statements include the financial statements 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 (%)	
			December 31, 2018	December 31, 2017
The Bank	CDIB Management Consulting Corporation	Management and consulting	100.00	100.00
CDIB Management Consulting Corporation	CDC Finance & Leasing Corporation	Leasing	76.04	76.04
	CDIB International Leasing Corporation	Leasing	100.00	100.00

Foreign Currencies

The Bank recognizes foreign-currency transactions in the respective currencies in which they are denominated, while the Bank and its subsidiaries other than the Bank recognize the transactions at the rates of exchange prevailing at the dates of transactions. Foreign-currency gains or losses of the Bank are recorded in New Taiwan dollars using rates in effect at the time of the transactions.

At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences on monetary items arising from settlement or translation are recognized in profit or loss in the period in which they arise.

Non-monetary items measured at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Exchange differences arising on the retranslation of non-monetary items are included in profit or loss for the period except for exchange differences arising from the retranslation of non-monetary items in respect of which gains and losses are recognized directly in other comprehensive income, in which case, the exchange differences are also recognized directly in other comprehensive income.

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

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Bank and its subsidiaries' foreign operations are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the shareholders of the parent company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the shareholders of the parent company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Bank losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Cash and Cash Equivalents

Cash and cash equivalents include time deposits with maturities of three months or less from the date of acquisition and excess margin of futures classified as cash equivalents. Their carrying amounts are similar to their fair values.

Investments in Associates

An associate is an entity over which the Bank and its subsidiaries have significant influence and that is not a subsidiary.

The Bank and its subsidiaries uses the equity method to account for their investments in associates.

Under the equity method, an investment in an associate is initially recognized at cost and adjusted thereafter to recognize the Bank and its subsidiaries' share of profit or loss and other comprehensive income of the associate. The Bank and its subsidiaries also recognize the changes in the Bank and its subsidiaries' share of equity of associates.

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

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

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

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Bank and its subsidiaries discontinue the use of the equity method from the date on which it ceases to have significant influence over the associate. Any retained investment is measured at fair value at that date. The difference between the previous carrying amount of the associate attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate. The Bank and its subsidiaries account for all amounts previously recognized in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities.

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

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 fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Financial assets and liabilities

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

2018

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

1) Financial assets at FVTPL

A 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 the 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 with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

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.

<u>2017</u>

Financial assets are classified into the following categories: Financial assets at FVTPL, available-for-sale financial assets, and loans and receivables.

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

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

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

a) Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

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

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

Financial assets or liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividend or interest earned on the financial asset. Other financial liabilities are measured at amortized cost using the effective interest method. Fair value is determined in the manner described in Note 45.

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

2) Available-for-sale financial assets

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

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

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

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment loss at the end of each reporting period and are recognized in a separate line item as financial assets measured at cost. If, in a subsequent period, the fair value of the financial assets can be reliably measured, the financial assets are remeasured at fair value. The difference between carrying amount and fair value is recognized in profit or loss or other comprehensive income on financial assets. Any impairment loss is recognized in profit and loss.

3) Loans and receivables

Loans and receivables are initially recognized at its fair value, which is usually the transaction price, plus significant transaction costs, service fees paid or received, premiums or discounts, etc. After initial recognition, loans and receivables shall be measured subsequently using the effective interest method in accordance with related rules. If the effect of discounting is not significant, the loans and receivables can be measured at initial undiscounted value in accordance with Regulations Governing the Preparation of Financial Reports by Public Banks.

b. Impairment of financial assets

2018

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

The Bank and its subsidiaries measure the loss allowance for accounts receivable, installment accounts and lease receivables using the Expected Credit Losses (i.e. ECLs) model. For the other financial assets, the Bank and its subsidiaries recognize lifetime ECLs 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 measure the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of a default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs 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 recognize 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 the Regulations Governing Institutions Engaging In Credit Card Business. The above is listed the minimum allowance for credit assets on or off balance sheet.

Based on Order No. 10300329440 issued by the FSC, for the Bank to have an enhanced risk coverage towards collateral and exposure to 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. Based on 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, which includes short-term trade financing that were granted to companies based in Mainland China and classified as normal assets.

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

2017

1) Financial assets measured at amortized cost

The Bank and its subsidiaries' discounts and loans, accounts receivable, interest receivable, and other receivables are assessed for impairment at each balance sheet date and considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the above credit losses, the estimated future cash flows of the asset have been affected. Loans and receivables that are assessed as not impaired individually are further assessed for impairment on a collective basis.

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

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 above is listed the minimum allowance for credit assets on or off balance sheet.

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. 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 and classified as normal assets.

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

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

2) Available-for-sale financial assets

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

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

3) Financial assets measured at cost

When objective evidences indicate that financial assets measured at cost are impaired, the amount of the loss is recognized as “loss on asset impairment’’ and cannot be reversed.

c. Derecognition of financial assets or liabilities

2018

Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2017

The Bank and its subsidiaries derecognize a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party; and derecognize a financial liability when obligations are discharged, cancelled or they expire.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss; and the difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

d. Equity instruments

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

Equity instruments issued by the Bank and its subsidiaries are recognized at the proceeds received, net of direct issue costs.

The repurchase of the Bank’s own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issuance or cancellation of the Bank’s own equity instruments.

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

Securities Purchased and Sold Under Resell and Repurchase Agreements

For securities purchased or sold under resell or repurchase agreements, the payment to or by a counter-party is treated as a financing transaction and the related interest revenue or interest expense are recognized on the accrual basis.

Property and Equipment

Property and equipment are stated at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss.

Depreciation on property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Non-current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification.

Investment Properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties also include land held for a currently undetermined future use.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss. Depreciation is recognized using the straight-line method.

On derecognition of an investment property, the difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss.

Nonfinancial Asset Impairment

The Bank and its subsidiaries evaluate the possibility of impairment loss on nonfinancial assets as of the balance sheet date. If there is sufficient objective evidence of asset impairment, the Bank and its subsidiaries recognizes impairment whenever the recoverable amount of the asset or the cash-generating unit is below the carrying amount of an asset, and this impairment loss either is charged to accumulated impairment or reduces the carrying amount of an asset directly. After the recognition of an impairment loss, the depreciation (amortization) charged to the assets should be adjusted in future years at the revised asset carrying amount (net of accumulated impairment), less its salvage value, on a systematic basis over its remaining service life. If asset impairment loss (excluding goodwill) is reversed, the increase in the carrying amount resulting from reversal is credited to current income and debited to accumulated impairment or is used to increase the carrying amount of the asset. However, loss reversal should not be more than the carrying amount (net of depreciation) had the impairment not been recognized.

Provisions and Contingent Liabilities

Provisions are recognized when the Bank and its subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that the Bank and its subsidiaries will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

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

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the control of the entity, or a present obligation that arises from past events but is not recognized because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or because the amount of the obligation cannot be measured with sufficient reliability.

Employee Benefits

a. Short-term employee benefits

   The undiscounted amount of benefits expected to be paid in respect of service rendered by employees in an accounting period is recognized in that period.

b. Retirement benefits

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

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

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

c. Other long-term employee benefits

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

Taxation

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

a. Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

Since 2015, the Bank has used the linked-tax system for income tax filings. Under this system, the Bank adjusts the current/deferred income tax assets (liabilities), income tax payable (receivable) and income tax expense (profit) on a systematic and consistent basis. Related payables and receivables are recorded in each book of the CDFH's qualified subsidiaries.

Based on the "Basic Income Tax Act," if the basic income tax is greater than the amount of regular income tax, the income tax payable should be the basic income tax. The incremental tax payable is recorded as current income tax expense.

b. Deferred tax

Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry forward and unused tax credits acquisition to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank and its subsidiaries expect, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the period

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred taxes are also recognized in other comprehensive income or directly in equity respectively.

Revenue Recognition

Interest revenue arose from credits are estimated on an accrual basis. All interest accrued shall be suspended from the date the loans are classified as nonperforming loans. Interest earned from nonperforming loans shall be recognized as interest income when collected.

Service fee income is recognized when collected or when the majority of project is completed. Service fee income is received when loans and receivables are recognized. The service fee income which is caused by loans or receivables shall be recognized as interest revenue when they meet a suggested policy announced by the Bankers Association of the Republic of China. This policy requires an individual loan that meets the materiality criteria to have its effective interest rate be consistent with its interest revenue. Overall, the service fees shall be adjusted from the original agreed interest rate to the effective interest rate.

Leasing

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

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Bank and its subsidiaries' net investment in the installment accounts and leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Bank and its subsidiaries' net investment outstanding in respect of the leases.

Rental income (expense) from operating leases is recognized on a straight-line basis over the term of the relevant lease unless another systematic basis is representative of the time pattern of the lessee's benefit from the use (consumption) of the leased asset. Contingent rents arising under operating leases are recognized as an expense in the period in which they are incurred.

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

	December 31	
	2018	**2017**
Due from banks	$ 3,922,906	$ 10,532,178
Cash on hand	1,728,250	1,394,261
Cash in banks	381,763	597,498
Checks for clearing	751,499	1,686,741
Excess margin of futures	249,944	122,149
	$ 7,034,362	$ 14,332,827

Reconciliations of cash and cash equivalents between the consolidated statements of cash flows and the consolidated balance sheets as of December 31, 2018 and 2017 are shown in the consolidated statements of cash flows.

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

	December 31	
	2018	**2017**
Due from the Central Bank	$ -	$ 6,520,000
Call loans to banks	6,643,433	13,846,833
Deposit reserve - demand accounts	8,854,579	7,670,687
Deposit reserve - checking accounts	9,467,197	5,053,887
Due from the Central Bank - interbank settlement funds	1,300,216	600,326
Deposit reserve - foreign currencies	165,958	137,301
	$ 26,431,383	$ 33,829,034

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 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

	December 31	
	2018	**2017**
Financial assets mandatorily classified as at FVTPL		
Derivative instruments		
Interest rate swap contracts	$ 13,779,444	$ -
Currency swap contracts	7,036,560	-
Option contracts	2,291,406	-
Others	752,977	-
Non-derivative financial assets		
Bank debentures	252,316	-
Convertible (exchangeable) corporate bonds	1,397,847	-
Corporate bonds	262,706	-
Commercial papers	7,020,871	-
Stocks	425,169	-
Others	20,917	-
	33,240,213	-
Financial assets held for trading		
Derivative instruments		
Interest rate swap contracts	-	7,965,579
Currency swap contracts	-	6,409,790
Option contracts	-	620,875
Others	-	1,409,158
Non-derivative financial assets		
Bank debentures	-	3,006,792
Convertible (exchangeable) corporate bonds	-	1,950,536
Corporate bonds	-	322,286
Commercial papers	-	8,775,184
Others	-	330,943
	-	30,791,143
Financial assets designated as at FVTPL		
Government bonds	20,515,907	12,808,586
Corporate bonds	3,571,791	-
Bank debentures	2,598,117	-
Others	21,996,724	10,841,490
	48,682,539	23,650,076
Financial assets at FVTPL	$ 81,922,752	$ 54,441,219

(Continued)

	December 31	
	2018	2017
Financial liabilities held for trading		
Derivative instruments		
Interest rate swap contracts	$ 16,511,192	$ 9,107,790
Currency swap contracts	6,623,550	6,315,597
Option contracts	20,949,956	9,629,101
Others	735,272	814,210
	44,819,970	25,866,698
Financial liabilities designated as at FVTPL		
Bank debentures payable	27,131,475	17,417,983
Others	1,915,304	-
	29,046,779	17,417,983
Financial liabilities at FVTPL	$ 73,866,749	$ 43,284,681

(Concluded)

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

Name	December 31 2018	December 31 2017	Issuance Period	Method of Paying Principal and Interests	Interest Rate
15KGIB1	$ 3,257,698	$ 3,163,888	2015.03.24-2045.03.24 (Note 1)	Principal due on maturity	0%
P16KGIB1	3,380,630	3,283,280	2016.05.03-2046.05.03 (Note 2)	Principal due on maturity	0%
P16KGIB2	3,380,630	3,283,280	2016.05.27-2046.05.27 (Note 2)	Principal due on maturity	0%
P16KGIB3	2,458,640	2,387,840	2016.11.08-2046.11.08 (Note 1)	Principal due on maturity	0%
P17KGIB1	6,146,600	5,969,600	2017.01.23-2047.01.23 (Note 1)	Principal due on maturity	0%
P18KGIB1	6,146,600	-	2018.01.30-2048.01.30 (Note 3)	Principal due on maturity	0%
P18KGIB2	4,917,280	-	2018.02.27-2048.02.27 (Note 3)	Principal due on maturity	0%
	29,688,078	18,087,888			
Valuation adjustments	(2,556,603)	(669,905)			
	$ 27,131,475	$ 17,417,983			

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 December 31, 2018 and 2017 are summarized as follows:

	Contract Amount	
	December 31	
	2018	2017
Currency swap contracts	$ 1,460,383,307	$ 1,420,861,044
Interest rate swap contracts	1,148,356,086	904,748,596
Option contracts	651,774,332	315,452,631
Forward exchange contracts	48,505,833	26,220,926
Cross-currency swap contracts	32,681,055	27,978,819
Asset swap contracts	1,236,314	1,355,180
Non-deliverable forward contracts	185,593	2,282,220
Commodity swap contracts	964,180	695,444
Futures contracts	14,003,511	17,963,103

As of December 31, 2018 and 2017, financial assets at fair value through profit or loss with aggregate carrying values of $7,844,863 thousand and $4,582,517 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

	December 31, 2018
Investments in equity instruments at FVTOCI	$ 2,667,879
Investments in debt instruments at FVTOCI	149,001,825
	$ 151,669,704

a. Investments in equity instruments at FVTOCI

	December 31, 2018
Listed and OTC stocks	$ 2,286,483
Unlisted stocks	381,396
	$ 2,667,879

For the year ended December 31, 2018, the Bank and its subsidiaries sold its shares in order to manage its investment portfolio. The sold shares had a fair value of $1,076,919 thousand and the Bank and its subsidiaries transferred gain of $102,128 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 year ended December 31, 2018, were $138,758 thousand, which were related to investments held, $126,666 thousand, and derecognition, $12,092 thousand, respectively.

b. Investments in debt instruments at FVTOCI

	December 31, 2018
Government bonds	$ 59,624,096
Negotiable certificates of deposit	48,698,585
Corporate bonds	27,544,694
Bank debentures	13,134,450
	$ 149,001,825

As of December 31, 2018, investments in debt instruments at FVTOCI, with aggregate carrying values of $52,166,855 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 $25,933 thousand of loss allowance on December 31, 2018.

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

	December 31, 2018
Domestic bank debentures	$ 1,536,650
Foreign bank debentures	10,432,738
	11,969,388
Accumulated for impairment	(3,581)
Net amount	$ 11,965,807

As of December 31, 2018, debt investments measured at amortized cost, with aggregate carrying values of $291,964 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 $3,581 thousand of loss allowance on December 31, 2018.

11. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	December 31	
	2018	2017
Commercial papers	$ 10,244,264	$ 11,184,033
Corporate bonds	2,885,400	-
Bank debentures	200,006	893,492
Government bonds	785,022	50,022
Negotiable certificates of deposits	1,050,000	6,701,595
	$ 15,164,692	$ 18,829,142
Agreed-upon resell amounts	$ 15,167,241	$ 18,835,223
Last maturity date	January 2019	April 2018

12. RECEIVABLES, NET

	December 31	
	2018	2017
Accounts receivable - forfaiting	$ 8,122,872	$ 4,400,120
Installment accounts and lease receivables	3,703,463	4,164,820
Credit cards	2,788,881	2,684,731
Interest receivable	2,791,521	1,698,986
Accounts receivables factoring without recourse	8,180,472	8,498,843
Rental deposits	467,748	467,748
PEM receivable	910,033	859,377
Others	2,559,930	1,327,154
	29,524,920	24,101,779
Less: Unrealized interest	(198,107)	(213,786)
Allowance for bad debts	(1,519,246)	(1,455,531)
Net amount	$ 27,807,567	$ 22,432,462

As of December 31, 2018 and 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. The third party filed a new appeal and the Supreme Court ordered the Higher Court to conduct a new trial on November 9, 2018. 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 December 31, 2018, the PEM receivable amounting to $910,033 thousand (US$29,611 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)

	December 31, 2018	
	USD	**TWD**
Life insurance policies	$ 14,037	$ 431,415
Non-life insurance policies	15,574	478,618
	29,611	910,033
Less: Allowance for bad debts	(16,212)	(498,244)
Net amount	$ 13,399	$ 411,789

	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

The Change in Loss Allowance on Receivables

The reconciliation statement of loss allowance for receivables for the year ended December 31, 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:								
Transferred to lifetime ECL	(1,470)	3,480	7	(2,017)	-	-		-
Transferred to credit - impaired financial assets	(1,097)	(3,257)	-	4,354	-	-		-
Transferred to 12 months ECL	1,827	(144)	-	(1,683)	-	-		-
Derecognized financial assets in the current period	(70,020)	(8,390)	-	(25,076)	-	(103,486)		(103,486)
Purchased or originated new financial assets	58,357	11,876	-	5,698	-	75,931		75,931
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with nonperforming/nonaccrual loans							102,608	102,608
Write-off	-	(6,237)	-	(54,463)	-	(60,700)		(60,700)
Recovery of written-off	-	-	-	92,128	-	92,128		92,128
Effect of exchange rate changes and others	(26,159)	(1,312)	(2)	(68,367)	-	(95,840)		(95,840)
Balance at December 31	$ 69,740	$ 28,458	$ 5	$ 1,183,155	$ -	$ 1,281,358	$ 237,888	$ 1,519,246

Changes in total book values of receivables for the year ended December 31, 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	-	(18)	18	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	-	(2)	-	2	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Receivables based on collective assessment	(134,140)	56,284	-	77,856	-	-
Purchased or originated new receivables	14,723,867	44,146	-	35,620	-	14,803,633
Write-off	-	(6,237)	-	(75,492)	-	(81,729)
Derecognition	(9,484,059)	(94,266)	(1)	(78,006)	-	(9,656,332)
Effect of exchange rate changes and others	380,760	(82)	-	(7,430)	-	373,248
Balance at December 31	$ 27,184,310	$ 251,010	$ 17	$ 1,891,476	$ -	$ 29,326,813

The changes in the Bank and its subsidiaries' allowance for bad debts of receivables for the year ended December 31, 2017 were as follows:

	For the Year Ended December 31, 2017
Balance, January 1	$ 1,699,854
Provisions	177,879
Write-offs	(390,315)
Recovery of written-off credits	41,238
Effects of exchange rate changes	(73,125)
Balance, December 31	$ 1,455,531

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

	December 31	
	2018	2017
Short-term loans	$ 82,152,934	$ 72,264,667
Medium-term loans	191,489,940	171,175,807
Long-term loans	66,094,609	53,761,759
Overdue loans	420,512	455,444
Export negotiations	56,079	17,155
	340,214,074	297,674,832
Less: Allowance for bad debts	(4,334,342)	(3,924,531)
Less: Discounts on loans	(128,300)	(93,311)
Net amount	$ 335,751,432	$ 293,656,990

The Change in Loss Allowance on Discounts and Loans

The reconciliation statement of loss allowance for discounts and loans for the year ended December 31, 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:								
Transferred to lifetime ECL	(2,902)	(1,908)	12,440	(7,630)	-	-		-
Transferred to credit-impaired financial assets	(4,120)	(25,452)	-	29,572	-	-		-
Transferred to 12 months ECL	13,868	(2,306)	-	(11,562)	-	-		-
Derecognized financial assets in the current period	(1,179,605)	(7,625)	(3,739)	(336,104)	-	(1,527,073)		(1,527,073)
Purchased or originated new financial assets	1,452,967	782	-	11,621	-	1,465,370		1,465,370
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with nonperforming/nonaccrual loans							368,504	368,504
Write-off	-	-	-	(442,684)	-	(442,684)		(442,684)
Recovery of written-off	-	-	-	725,908	-	725,908		725,908
Effect of exchange rate changes and others	(180,910)	2,501	(1,616)	(4,574)	-	(184,599)	-	(184,599)
Balance at December 31	$ 1,415,427	$ 95,618	$ 7,085	$ 495,451	$ -	$ 2,013,581	$ 2,320,761	$ 4,334,342

Changes in total book values of discounts and loans for the year ended December 31, 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)	Total
Balance at January 1	$ 292,239,778	$ 1,977,828	$ -	$ 3,457,226	$ -	$ 297,674,832
Conversion from individual financial instruments to lifetime ECL	-	(33,735)	33,735	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	-	(13,113)	-	13,113	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Discounts and loans based on collective assessment	(578,304)	191,268	-	387,036	-	-
Purchased or originated new discounts and loans	565,156,755	38,185	-	419,378	-	565,614,318
Write-off	-	-	-	(442,684)	-	(442,684)
Derecognition	(517,905,049)	(265,401)	(9,917)	(797,154)	-	(518,977,521)
Effect of exchange rate changes and others	(3,278,645)	(165,282)	(202)	(210,742)	-	(3,654,871)
Balance at December 31	$ 335,634,535	$ 1,729,750	$ 23,616	$ 2,826,173	$ -	$ 340,214,074

The changes in the Bank's allowance for bad debts of discounts and loans for the year ended December 31, 2017 were as follows:

	For the Year Ended December 31, 2017
Balance, January 1	$ 3,429,672
Provisions	343,077
Recovery of written-off credits	797,261
Write-offs	(548,559)
Reduction and exemption	(31,253)
Effects of exchange rate changes	(65,667)
Balance, December 31	$ 3,924,531

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

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	December 31, 2017
Government bonds	$ 50,899,335
Bank debentures	14,277,692
Corporate bonds	26,320,268
Stocks	5,330,674
Negotiable certificates of deposits	30,834,526
	$ 127,662,495

As of December 31, 2017, available-for-sale financial assets with aggregate carrying values of $40,043,756 thousand, 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 THE EQUITY METHOD, NET

Immaterial associates:

	December 31			
	2018		2017	
	Carrying Amount	%	Carrying Amount	%
CDIB & Partners Investment Holding Corporation	$ 789,000	4.95	$ 888,387	4.95
Others	208		476	
	$ 789,208		$ 888,863	

Aggregate information of associates that are not individually material.

	For the Year Ended December 31	
	2018	2017
The Bank and its subsidiaries' share of:		
Net income	$ (72,623)	$ 23,598
Other comprehensive income	(14,159)	144,336
Total comprehensive income	$ (86,782)	$ 167,934

The above investments accounted for using the 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

	December 31	
	2018	2017
Financial assets measured at cost, net	$ -	$ 255,659
Due from banks (original maturities over three months)	1,476,948	2,083,400
Debt instruments with no active market	-	5,523,388
Overdue receivables	10,498	12,697
Pledged time deposits	300	1,300
	1,487,746	7,876,444
Less: Allowance for bad debts - overdue receivables	(10,498)	(12,697)
Net amount	$ 1,477,248	$ 7,863,747

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

17. PROPERTY AND EQUIPMENT, NET

	December 31	
	2018	2017
Land	$ 3,310,707	$ 3,465,361
Buildings and facilities	1,601,481	1,683,562
Machinery and computer equipment	275,528	194,542
Leased assets	658,309	571,396
Leasehold improvement	247,663	248,429
Transportation equipment	113	316
Miscellaneous equipment	40,737	41,940
Prepayments for acquisition of properties	49,413	39,004
	$ 6,183,951	$ 6,244,550

The changes in the Bank and its subsidiaries’ property and equipment were as follows:

	Land	Buildings and Facilities	Machinery and Computer Equipment	Leased Assets	Leasehold Improvement	Transportation Equipment	Miscellaneous Equipment	Prepayments for Acquisition of Properties	Total
Cost									
Balance at January 1, 2017	$ 3,677,310	$ 2,558,491	$ 194,409	$ 323,075	$ 225,033	$ 6,947	$ 40,782	$ 3,280	$ 7,029,327
Additions	-	43,677	86,623	139,696	129,593	-	21,695	86,538	507,822
Deduction	-	(1,490)	(21,742)	(38,847)	(6,731)	(52)	(4,438)	(2,207)	(75,507)
Reclassification	(207,692)	(37,843)	41,137	291,547	14,732	-	3,304	(48,551)	56,634
Effect of exchange rate changes	-	-	(106)	-	(144)	-	(27)	(56)	(333)
Balance at December 31, 2017	3,469,618	2,562,835	300,321	715,471	362,483	6,895	61,316	39,004	7,517,943
Accumulated depreciation and impairment									
Balance at January 1, 2017	(4,257)	(839,637)	(72,804)	(82,772)	(71,954)	(6,426)	(13,872)	-	(1,091,722)
Depreciation	-	(62,479)	(46,550)	(90,736)	(47,840)	(205)	(9,962)	-	(257,772)
Deduction	-	1,429	21,626	21,337	5,650	52	4,438	-	54,532
Reclassification	-	21,414	(8,096)	8,096	-	-	-	-	21,414
Effect of exchange rate changes	-	-	45	-	90	-	20	-	155
Balance at December 31, 2017	(4,257)	(879,273)	(105,779)	(144,075)	(114,054)	(6,579)	(19,376)	-	(1,273,393)
Balance at December 31, 2017, net	$ 3,465,361	$ 1,683,562	$ 194,542	$ 571,396	$ 248,429	$ 316	$ 41,940	$ 39,004	$ 6,244,550
Cost									
Balance at January 1, 2018	$ 3,469,618	$ 2,562,835	$ 300,321	$ 715,471	$ 362,483	$ 6,895	$ 61,316	$ 39,004	$ 7,517,943
Additions	-	61,484	90,605	144,864	62,039	-	11,448	62,803	433,243
Deduction	-	(1,943)	(32,301)	(83,062)	(3,092)	(2,315)	(882)	-	(123,595)
Reclassification	(154,654)	(105,395)	51,638	77,538	605	-	690	(52,394)	(181,972)
Effect of exchange rate changes	-	-	(247)	-	(345)	-	(66)	-	(658)
Balance at December 31, 2018	3,314,964	2,516,981	410,016	854,811	421,690	4,580	72,506	49,413	7,644,961
Accumulated depreciation and impairment									
Balance at January 1, 2018	(4,257)	(879,273)	(105,779)	(144,075)	(114,054)	(6,579)	(19,376)	-	(1,273,393)
Depreciation	-	(69,409)	(61,122)	(108,015)	(63,752)	(203)	(13,337)	-	(315,838)
Deduction	-	1,944	32,299	55,498	3,607	2,315	882	-	96,545
Reclassification	-	31,238	(112)	112	(162)	-	-	-	31,076
Effect of exchange rate changes	-	-	226	(22)	334	-	62	-	600
Balance at December 31, 2018	(4,257)	(915,500)	(134,488)	(196,502)	(174,027)	(4,467)	(31,769)	-	(1,461,010)
Balance at December 31, 2018, net	$ 3,310,707	$ 1,601,481	$ 275,528	$ 658,309	$ 247,663	$ 113	$ 40,737	$ 49,413	$ 6,183,951

The board of directors held in July 2018 approved selling three building located in Miaoli Gongguan, Tainan Canal and Yongle, 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 located in Miaoli Gongguan and Tainan Canal were sold in December 2018, and the building located in Sanchong was sold in August 2017, and the gain on disposal of assets held for sale was $8,494 thousand and $8,344 thousand, respectively, which were 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	1-10 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 PROPERTIES, NET

	December 31	
	2018	2017
Land	$ 816,754	$ 751,262
Buildings and facilities	197,967	138,727
	$ 1,014,721	$ 889,989

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

	For the Year Ended December 31	
	2018	**2017**
Cost		
Beginning balance	$ 1,147,771	$ 902,137
Disposal	(52,109)	-
Reclassification	211,464	245,634
Ending balance	1,307,126	1,147,771
Accumulated depreciation		
Beginning balance	(106,866)	(80,199)
Depreciation	(6,608)	(5,253)
Disposal	1,054	-
Reclassification	(29,069)	(21,414)
Ending balance	(141,489)	(106,866)
Accumulated impairment		
Beginning balance	(150,916)	(150,916)
Impairment	-	-
Ending balance	(150,916)	(150,916)
Carrying amount, net	$ 1,014,721	$ 889,989

Investment properties were depreciated on a straight-line basis over their estimated useful lives as follows:

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

The fair value of the Bank and its subsidiaries' investment properties 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 2018 and 2017 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 December 31, 2018 and 2017 were $1,099,813 thousand and $1,016,815 thousand, respectively.

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

19. OTHER ASSETS, NET

	December 31	
	2018	2017
Guarantee deposits paid	$ 12,340,430	$ 4,799,616
Prepaid expenses	815,358	622,469
Operating guarantee deposits	57,100	57,100
Prepaid pension costs	31,909	100,330
Others	87,915	108,284
	$ 13,332,712	$ 5,687,799

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

20. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	December 31	
	2018	2017
Call loans from banks	$ 21,166,613	$ 27,438,170
Deposits from Chunghwa Post Co., Ltd.	192,646	892,522
	$ 21,359,259	$ 28,330,692

21. NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS

	December 31	
	2018	2017
Bank debentures	$ 14,788,077	$ 15,795,365
Corporate bonds	29,294,737	24,317,973
Government bonds	15,641,443	5,331,476
Commercial paper	579,425	-
	$ 60,303,682	$ 45,444,814
Repurchase amounts	$ 60,652,969	$ 45,611,130
Last maturity date	May 2019	April 2018

22. PAYABLES

	December 31	
	2018	2017
Accounts payable factoring	$ 1,038,451	$ 1,318,315
Accrued interest	3,534,393	1,843,465
Accrued expenses	897,568	964,461
Checks for clearing	751,499	1,686,741
Others	815,753	1,059,009
	$ 7,037,664	$ 6,871,991

23. DEPOSITS AND REMITTANCES

	December 31 2018	December 31 2017
Time deposits	$ 248,719,544	$ 207,904,432
Savings deposits	93,330,058	99,318,877
Demand deposits	58,703,189	43,149,581
Checking deposits	3,689,070	3,600,607
Negotiable certificates of deposits	17,211,000	22,502,900
Remittances	52,016	146,737
	$ 421,704,877	$ 376,623,134

24. BANK DEBENTURES PAYABLE

Name	December 31 2018	December 31 2017	Issuance Period	Method of Payment of Principal and Interest	Interest Rate
P06 KGIB 1	$ 1,000,000	$ 1,000,000	2017.05.19-2020.05.19	Interest payable annually; principal due on maturity	0.9%
P07 KGIB 1	3,000,000	-	2018.12.27, no maturity date	Interest payable annually	2.35%
P07 KGIB 2	3,350,000	-	2018.12.27-2033.12.27	Interest payable annually; principal due on maturity	1.68%
	7,350,000	1,000,000			
Unamortized discount	-	-			
Net amount	$ 7,350,000	$ 1,000,000			

The Bank has the right to redeem the bonds after 5 years and 1 month from the issue date if its self-owned capital adequacy ratio is still in accordance with the requirements set by the competent authority. The Bank is allowed to redeem the bonds based on the carrying value of each bond plus interest after approved by the competent authority.

25. COMMERCIAL PAPER PAYABLE, NET

	December 31 2018	December 31 2017
Commercial paper payable	$ 1,830,000	$ 1,225,000
Less: Unamortized discount	(284)	(521)
	$ 1,829,716	$ 1,224,479
Interest rate	1.02%-1.09%	1.09%-1.57%
Last maturity date	March 2019	January 2018

26. OTHER BORROWINGS

	December 31	
	2018	2017
Short-term credit borrowings	$ 430,037	$ 747,986
Note issuance facility	1,039,821	1,599,564
Short-term secured borrowings	215,000	135,000
Long-term credit borrowings	126,685	422,532
	$ 1,811,543	$ 2,905,082
Interest rate	1.10%-4.35%	1.10%-4.75%
Last maturity date	July 2021	October 2020

27. PROVISIONS

	December 31	
	2018	2017
Provision for guarantee liabilities	$ 134,756	$ 96,271
Provision for loan commitments	79,477	-
Provision for employee benefits	14,907	15,933
Others	118,903	117,925
	$ 348,043	$ 230,129

28. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Bank and domestic subsidiaries adopted a pension plan under the Labor Pension Act (the LPA), which is a state-managed defined contribution plan. Under the LPA, the Bank and its subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. The total pension expenses recognized were $130,974 thousand and $123,817 thousand for the years ended December 31, 2018 and 2017, respectively.

The Bank's foreign subsidiaries recognized their contributions as pension expenses in accordance with their local laws and regulations amounting to $2,349 thousand and $3,237 thousand for the years ended December 31, 2018 and 2017, respectively.

b. Defined benefit plan

The Bank and its domestic subsidiaries adopted a defined benefit pension plan for all formal employees based on the Labor Standards Act. Pension benefits are calculated on the bases of the length of service and average monthly salaries and wages of employees at the time of retirement.

The Bank places its monthly contributions to the non-managers' pension fund at authorized ratios, which is deposited in the Bank of Taiwan and administered by the pension fund monitoring committee. Managers' pension funds are managed by the Employee Retirement Fund Management Committee and deposited in KGI's Chungho Branch in the committee's name. Before the end of each year, the Bank assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Bank is required to fund the difference in one appropriation that should be made before the end of March of the next year.

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

	December 31	
	2018	2017
Present value of defined benefit obligation	$ 1,060,662	$ 983,038
Fair value of plan assets	(1,077,664)	(1,067,435)
Net defined benefit assets	$ (17,002)	$ (84,397)

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Balance at January 1, 2017	$ 971,968	$ (1,082,632)	$ (110,664)
Service cost			
Current service cost	7,241	-	7,241
Net interest expense (income)	13,357	(15,006)	(1,649)
Recognized in profit or loss	20,598	(15,006)	5,592
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	8,074	8,074
Actuarial (gain) loss - changes in demographic assumptions	42,502	-	42,502
Actuarial (gain) loss - changes in financial assumptions	1,232	-	1,232
Actuarial (gain) loss - experience adjustments	(13,630)	-	(13,630)
Recognized in other comprehensive income	30,104	8,074	38,178
Contributions from the employer	-	(17,503)	(17,503)
Benefits paid	(39,632)	39,632	-
Balance at December 31, 2017	983,038	(1,067,435)	(84,397)
Service cost			
Current service cost	5,145	-	5,145
Net interest expense (income)	13,397	(14,744)	(1,347)
Recognized in profit or loss	18,542	(14,744)	3,798
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(8,341)	(8,341)
Actuarial (gain) loss - changes in demographic assumptions	37,711	-	37,711

(Continued)

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability (Asset)
Actuarial (gain) loss - changes in financial assumptions	$ 16,515	$ -	$ 16,515
Actuarial (gain) loss - experience adjustments	35,552	-	35,552
Recognized in other comprehensive income	89,778	(8,341)	81,437
Contributions from the employer	-	(17,840)	(17,840)
Benefits paid	(30,696)	30,696	-
Balance at December 31, 2018	$ 1,060,662	$ (1,077,664)	$ (17,002)

(Concluded)

Through the defined benefit plans under the Labor Standards Act, the Bank and its subsidiaries are exposed to the following risks:

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

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

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

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

The Bank

	December 31	
	2018	2017
Discount rates	1.250%	1.375%
Expected rates of salary increase	3.000%	3.000%

CDIB Management Consulting Corporation and subsidiaries

	December 31	
	2018	2017
Discount rates	0.950%	0.950%
Expected rates of salary increase	2.500%	2.500%

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

	December 31	
	2018	**2017**
Discount rate		
0.25% increase	$ (34,709)	$ (32,196)
0.25% decrease	$ 36,298	$ 33,687
Expected rate of salary increase		
0.25% increase	$ 35,097	$ 32,591
0.25% decrease	$ (33,751)	$ (31,324)

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

The Bank

	December 31	
	2018	**2017**
The expected contributions to the plan for the next year	$ 16,371	$ 16,216
The average duration of the defined benefit obligation	13.4 years	13.4 years

CDIB Management Consulting Corporation and subsidiaries

	December 31	
	2018	**2017**
The expected contributions to the plan for the next year	$ 428	$ 1,619
The average duration of the defined benefit obligation	10.53 years	11.36 years

29. OTHER LIABILITIES

	December 31	
	2018	**2017**
Temporary receipts and suspended accounts	$ 1,613,132	$ 260,092
Guarantee deposits received	2,705,509	1,613,427
Advance receipts	115,471	41,630
Others	68,992	70,672
	$ 4,503,104	$ 1,985,821

30. EQUITY

a. Capital

Common stock

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

Note: Par value of shares is NT$10.

b. Capital surplus

	December 31	
	2018	2017
Additional paid-in capital	$ 7,245,723	$ 7,245,723
Issuance of employee share options	5,208	4,612
Change in capital surplus from investments in associates accounted for by using the equity method	242	218
	$ 7,251,173	$ 7,250,553

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 website of the Taiwan Stock Exchange.

31. NET INTEREST

	For the Year Ended December 31	
	2018	2017
Interest revenues		
Discounts and loans	$ 9,243,075	$ 7,545,895
Securities	2,474,214	1,773,212
Due from and call loans to banks	448,502	376,040
Accounts receivable - forfaiting	236,506	127,471
Others	819,174	687,473
	13,221,471	10,510,091

(Continued)

	For the Year Ended December 31	
	2018	2017
Interest expenses		
Deposits	$ 4,477,666	$ 2,934,932
Notes and bonds issued under repurchase agreements	875,948	608,216
Structured notes	124,136	128,381
Due to/borrowings from the other banks	447,386	269,703
Others	149,438	183,387
	6,074,574	4,124,619
	$ 7,146,897	$ 6,385,472

(Concluded)

32. SERVICE FEE INCOME, NET

	For the Year Ended December 31	
	2018	2017
Service fee revenues		
Insurance commission	$ 740,501	$ 695,198
Trust	439,720	468,877
Cash card	113,356	122,559
Credit card	151,811	169,737
Loans	307,250	309,662
Others	351,282	225,402
	2,103,920	1,991,435
Service fee expenses		
Agency	85,254	90,752
Interbank	59,068	51,897
Others	147,618	125,050
	291,940	267,699
	$ 1,811,980	$ 1,723,736

33. GAIN (LOSS) ON FINANCIAL ASSETS OR LIABILITIES MEASURED AT FVTPL

	For the Year Ended December 31	
	2018	2017
Realized gain (loss)		
Derivative instruments	$ 2,922,321	$ 2,124,699
Bonds	(693,486)	(353,776)
Stocks	(809,769)	3,601
Others	74,774	21,610
	1,493,840	1,796,134

(Continued)

	For the Year Ended December 31	
	2018	2017
Revaluation gain (loss)		
Derivative instruments	$ 862,985	$ 3,537,067
Stocks	299,422	5,040
Bonds	1,517,585	205,986
Others	(3,564,088)	(2,380,866)
	(884,096)	1,367,227
	$ 609,744	$ 3,163,361

(Concluded)

For the years ended December 31, 2018 and 2017, the realized gain or loss on the Bank and its subsidiaries financial assets or liabilities at FVTPL included (a) disposal gain of $2,102,782 thousand and $1,742,313 thousand, respectively, (b) interest revenues of $617,287 thousand and $814,585 thousand, respectively, (c) dividend incomes of $44,557 thousand and $7,477 thousand, respectively, and (d) interest expenses of $1,270,786 thousand and $768,241 thousand, respectively.

34. REALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS - 2017

	For the Year Ended December 31, 2017
Gain on bond disposal	$ 283,029
Gain on stock disposal	178,955
Dividend income	276,090
	$ 738,074

35. REALIZED GAINS (LOSSES) ON FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME - 2018

	For the Year Ended December 31, 2018
Loss on bond disposal	$ (586,878)
Dividend income	138,758
	$ (448,120)

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

	For the Year Ended December 31	
	2018	2017
Debt instruments at fair value through other comprehensive income	$ (4,207)	$ -
Debt investments measured at amortized cost	(1,400)	-
Gain on reversal of impairment loss on collateral	-	46,135
Impairment loss on other assets	-	(57,312)
	$ (5,607)	$ (11,177)

Reversal of impairment loss resulted from the increase in fair value of the collateral for the year ended December 31, 2017.

37. OTHER NON-INTEREST INCOME

	For the Year Ended December 31	
	2018	2017
Rental income	$ 172,503	$ 141,502
Gain on disposal of investment properties	69,047	-
Loss on debt restructuring	(28,289)	-
Net gains on financial assets measured at cost	-	27,157
Gain on disposal of collaterals	-	128,237
Others	(3,442)	19,967
	$ 209,819	$ 316,863

38. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Year Ended December 31	
	2018	2017
Employee benefit expense		
Salaries and wages	$ 3,094,776	$ 3,035,335
Employee insurance	231,736	226,514
Pension	137,121	132,646
Others	220,214	200,776
	$ 3,683,847	$ 3,595,271
Depreciation and amortization expenses	$ 422,486	$ 357,699

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.

The distribution of the compensation of employees for 2018 and 2017 approved by the board of directors on March 21, 2019 and March 22, 2018, respectively, were $2,382 thousand and $4,997 thousand, respectively.

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, 2018 and 2017.

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 Year Ended December 31	
	2018	**2017**
Taxation	$ 467,059	$ 422,473
Rental	368,513	356,514
Professional services	260,793	275,010
Computer information	185,547	184,197
Marketing	180,603	160,998
Others	608,755	620,414
	$ 2,071,270	$ 2,019,606

40. INCOME TAX

a. Income tax expense

	For the Year Ended December 31	
	2018	**2017**
Current income tax		
Current year	$ 284,332	$ 252,746
Prior year's adjustments	(5,736)	(29,908)
	278,596	222,838
Deferred income tax	499,071	1,651,837
Income tax expenses	$ 777,667	$ 1,874,675

The reconciliation of accounting profit and income tax expense was as follows:

	For the Year Ended December 31	
	2017	**2016**
Income tax expenses calculated at the statutory rate	$ 578,247	$ 838,146
Nondeductible expenses in determine taxable income	(852,490)	(374,409)
Unrecognized temporary differences	126,236	(44,660)
Prior year's adjustments	(4,236)	(22,819)
Additional income tax under the Alternative Minimum Tax Act	272,404	252,746
Loss carryforwards	606,451	1,225,671
Others	51,055	-
Income tax expenses recognized in profit or loss	$ 777,667	$ 1,874,675

In 2017, the applicable corporate income tax rate used by the group entities in the ROC was 17%. However, the Income Tax Act in the ROC was amended in February 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

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

	For the Year Ended December 31	
	2018	**2017**
Current income tax		
Gain or loss on equity instruments at fair value through other comprehensive income	$ 12,543	$ -
Remeasurement of defined benefit plans	(16,196)	(6,220)
Income tax expense	$ (3,653)	$ (6,220)

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

	December 31	
	2018	**2017**
Tax paid to the parent company	$ 530,563	$ 412,845

d. Deferred tax assets and liabilities

	December 31	
	2018	**2017**
Deferred tax assets		
Loss carryforwards	$ 1,599,410	$ 2,439,086
Allowance for bad debts	555,586	513,686
Financial instruments valuation	110,276	-
Others	25,086	42,036
	$ 2,290,358	$ 2,994,808
Deferred tax liabilities		
Financial instruments valuation	$ -	$ 206,906
Land value increment tax	19,831	19,876
Defined benefit plans	4,582	17,056
	$ 24,413	$ 243,838

e. Unused loss carryforwards for which no deferred tax assets have been recognized in the consolidated balance sheets

	December 31	
	2018	2017
Loss carryforwards		
Expiry in 2017	$ -	$ 4,156,938
Expiry in 2018	12,613,743	9,738,114
Expiry in 2019	6,160,060	3,910,829
	$ 18,773,803	$ 17,805,881

f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2018 comprised:

Unused Amount	Expiry Year
$ 12,613,743	2018
10,187,530	2019
2,624,589	2020
1,240,412	2021
$ 26,666,274	

g. 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 and CDC Finance & Leasing Corporation through 2016 had been examined by the tax authorities.

The income tax returns of the Bank, formerly Cosmos Insurance Brokers Co., Ltd. through 2014 had been examined by the tax authorities.

41. EARNINGS PER SHARE

	For the Year Ended December 31	
	2018	2017
Earnings used in the computation of the EPS	$ 2,145,454	$ 3,180,005
Weighted average outstanding common shares (shares in thousands)	4,606,162	4,606,162
Basic EPS (in dollars)	$0.47	$0.69

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 became a related-party after the parent company acquired its shares through a public tender offer.

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

	Amount	%
December 31, 2018	$ 200,611	3
December 31, 2017	262,228	2

For the years ended December 31, 2018 and 2017, the interest revenue from due from banks was $0 thousand.

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

	Amount	%
December 31, 2018	$ 464,124	1
December 31, 2017	391,201	1

c. Bank debentures (recognized as debt investments measured at amortized cost)

	Amount	%
December 31, 2018	$ 921,744	8

For the year ended December 31, 2018, the interest revenue from bank debentures was $32,009 thousand.

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

	Amount	%
December 31, 2018	$ 30,182	-
December 31, 2017	9,895	-

e. Credit cards (recognized as receivables, net)

	Amount	%
December 31, 2018	$ 22,433	-
December 31, 2017	16,772	-

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

	Amount	%
December 31, 2017	$ 157,021	1

g. Discounts and loans, net

	Amount	%	Interest Rate (%)
December 31, 2018	$ 1,150,686	-	1.54-15.00
December 31, 2017	962,341	-	1.54-15.00

For the years ended December 31, 2018 and 2017, the interest revenues from discounts and loans were $16,667 thousand and $15,117 thousand, respectively.

Balance as of December 31, 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	40	$ 34,371	$ 21,486	$ 21,486	$ -	None	Yes
Residential mortgage loans	85	1,399,026	1,123,527	1,123,527	-	Real estate	Yes
Others	12	19,712	5,673	5,673	-	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

h. Purchase and sale of bonds

	Purchase of Bonds	Sale of Bonds
For the year ended December 31, 2018		
Subsidiary of the parent company	$ 5,330,933	$ 2,733,358
Other related parties	877,050	-
For the year ended December 31, 2017		
Subsidiary of the parent company	2,847,280	6,632,791

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

	Amount	%
December 31, 2018	$ 23,311	-
December 31, 2017	23,099	-

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

	December 31			
	2018		2017	
	Amount	%	Amount	%
Other related parties	$ 908,555	4	$ 4,096,960	14

For the years ended December 31, 2018 and 2017, the interest expense for call loans from banks were $41,016 thousand and $22,345 thousand, respectively.

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

	December 31			
	2018		2017	
	Amount	%	Amount	%
Parent company	$ 530,563	100	$ 412,845	100

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

l. Accrued interest (recognized as payables)

	Amount	%
December 31, 2018	$ 7,719	-
December 31, 2017	5,865	-

m. Deposits

	Amount	%	Interest Rate (%)
December 31, 2018	$ 24,713,558	6	0-5.58
December 31, 2017	15,343,386	4	0-5.58

For the years ended December 31, 2018 and 2017, the interest expenses for deposits were $97,128 thousand and $129,874 thousand, respectively.

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

	For the Year Ended December 31	
	Amount	%
2018		
Subsidiary of the parent company	$ 307,771	17
Other related parties	150	-
2017		
Other related parties	38,973	2

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

o. Rental income

	For the Year Ended December 31	
	Amount	%
2018	$ 3,029	2
2017	3,206	2

The rent was based on market prices and receivable monthly.

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

	For the Year Ended December 31	
	Amount	%
2018	$ 12,306	1
2017	16,156	1

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

	For the Year Ended December 31	
	Amount	%
2018	$ 101,947	5
2017	96,581	5

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

r. Insurance expenses (recognized as employee benefits expenses)

	For the Year Ended December 31	
	Amount	%
2018	$ 14,673	-
2017	4,825	-

s. Other general and administrative expenses

	For the Year Ended December 31	
	Amount	%
2018	$ 89,736	4
2017	80,351	4

t. Outstanding derivative financial instruments

December 31, 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	$ 12,320,368	$ 642,233	Financial assets at FVTPL	$ 150,929
					Financial liabilities at FVTPL	2,366
Subsidiaries of the parent company	Asset swap-interest rate swap contracts	January 18, 2017 - February 1, 2020	602,120	(13,226)	Financial assets at FVTPL	2,740
					Financial liabilities at FVTPL	7,058
	Asset swap-option contracts	January 18, 2017 - December 31, 2019	602,120	52,985	Financial liabilities at FVTPL	14,231
	Interest rate swap contracts	November 4, 2016 - November 6, 2020	636,173	(101)	Financial assets at FVTPL	544
					Financial liabilities at FVTPL	4,544
	Currency swap contracts	July 19, 2018 - February 27, 2019	15,520,165	36,905	Financial assets at FVTPL	49,613
					Financial liabilities at FVTPL	12,709

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

u. Compensation of key management personnel

	For the Year Ended December 31	
	2018	2017
Salary and short-term employee benefits	$ 126,827	$ 157,904
Post-employment benefits	1,932	2,228
Share-based payment	528	876
	$ 129,287	$ 161,008

In addition to the above, the Bank also paid housing rental, car rental and drivers' salaries, which amounted to $4,392 thousand and $6,687 thousand for the years ended December 31, 2018 and 2017, respectively.

The terms of transactions with related parties were similar to those for third parties, except for certain preferential interest rates 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 collateral by the Bank and its subsidiaries were as follows:

Assets	Object	Purpose	December 31 2018	December 31 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	$ -	$ 6,520,000
Financial assets at fair value through profit or loss	Government bonds	Guarantees for provisional seizure	2,838	5,171
Installment accounts and lease receivables	Notes receivable	Commercial paper payable and short-term borrowing	2,380,148	2,541,307
Available-for-sale financial assets	Government bonds	Guarantees for provisional seizure	-	23,340
Available-for-sale financial assets	Government bonds	Guarantees and provisions	-	157,256
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
Property and equipment, net	Property	Commercial paper payable and short-term borrowing	12,618	12,931
Investment properties, net	Investment properties	Commercial paper payable and short-term borrowing	40,192	41,546
Other financial assets, net	Time deposits	Short-term borrowing	300	1,300
Other assets, net	Cash in banks - impound account	Commercial paper payable and short-term borrowing	44,936	62,258
Financial assets at fair value through other comprehensive income	Government bonds	Guarantees for provisional seizure	20,584	-
Financial assets at fair value through other comprehensive income	Government bonds	Guarantees and provisions	160,764	-
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	16,198,186	-

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, annual service fees for the basic framework, support service, IT application service and integration and transformation of its server and so on. In response to the changes of the information and the improvement of customer service quality, the Bank has continually replaced the core systems and other related systems. On August 21, 2018, the board of directors approved the replacement which the Bank's need of infrastructure and application system services is significantly reduced, and the replacement of the contract will be effected from January 1, 2019, with the service fees totaling $300,120 thousand for the remaining contract period.

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 a new appeal and the Supreme Court ordered the high court to conduct a new trial on November 9, 2018. The high court is hearing this case on third trial as the consolidated financial statements were reported to the board of directors.

45. FAIR VALUE AND HIERARCHY INFORMATION

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

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

2) Level 2 fair values refer to directly or indirectly observable inputs other than Level 1 quoted prices, such as the quoted prices of similar financial instruments in active markets; in less active markets, fair values are quoted prices of the same or similar financial instruments or financial instruments that can be generated by using pricing models that use inputs such as interest rates and volatility rates, which are derived from or can be corroborated with observable market data.

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

b. Financial instruments measured at fair value

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

December 31, 2018

	Level 1	Level 2	Level 3	Total
Measured on a recurring basis				
Non-derivative financial instruments				
Assets				
Financial assets at FVTPL				
Financial assets mandatorily classified as at FVTPL				
Bond investments	$ 1,933,786	$ -	$ -	$ 1,933,786
Commercial paper payable	-	7,020,871	-	7,020,871
Others	425,169	-	-	425,169
Financial assets designated as at FVTPL	6,169,907	42,512,632	-	48,682,539
Financial assets at FVTOCI				
Stock investments	2,286,483	-	381,396	2,667,879
Debt investments	41,846,166	58,457,074	-	100,303,240
Negotiable certificates of deposit	-	48,698,585	-	48,698,585
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	-	29,046,779	-	29,046,779
Derivative financial instruments				
Assets				
Financial assets at FVTPL	219,882	23,493,271	147,234	23,860,387
Liabilities				
Financial liabilities at FVTPL	-	44,673,883	146,087	44,819,970

December 31, 2017

Measured on a recurring basis	Level 1	Level 2	Level 3	Total
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

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) Transfers between Level 1 and Level 2

	For the Year Ended December 31, 2018		For the Year Ended December 31, 2017	
	Transfer from Level 1 to Level 2	Transfer from Level 2 To Level 1	Transfer from Level 1 to Level 2	Transfer from Level 2 to Level 1
Bond investments				
Financial assets at FVTOCI	$ 5,189,130	$ -	$ -	$ -
Available-for-sale financial assets	-	-	-	-

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 1 into Level 2.

5) Reconciliation of Level 3 items of financial instruments

The movements of Level 3 financial assets were as follows:

For the Year Ended December 31, 2018

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		Recognized as Current Income (Loss)	Recognized as Compre-hensive Income	Purchase or Issue	Transfer to Level 3	Sale, Disposal or Settlement	Transfer from Level 3	
Financial assets at FVTPL	$ 143,196	$ 4,038	$ -	$ -	$ -	$ -	$ -	$ 147,234
Financial assets at FVTOCI	426,330	-	26,025	-	-	(70,959)	-	381,396

For the Year Ended December 31, 2017

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		Recognized as Current Income (Loss)	Recognized as Compre-hensive Income	Purchase or Issue	Transfer to Level 3	Sale, Disposal or Settlement	Transfer from Level 3	
Financial assets at FVTPL	$ 177,705	$ (34,509)	$ -	$ -	$ -	$ -	$ -	$ 143,196

The movements of Level 3 financial liabilities were as follows:

For the Year Ended December 31, 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 3	Sale, Disposal or Settlement	Transfer from Level 3	
Financial liabilities at FVTPL	$ 140,494	$ 5,467	$ 126	$ -	$ -	$ -	$ 146,087

For the Year Ended December 31, 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 3	Sale, Disposal or Settlement	Transfer from Level 3	
Financial liabilities at FVTPL	$ 234,417	$ (93,923)	$ -	$ -	$ -	$ -	$ 140,494

The total gains and losses were gain of $84,315 thousand and loss of $165,669 thousand on the assets and liabilities held for the years ended December 31, 2018 and 2017 respectively.

6) Quantitative information about significant unobservable inputs (Level 3) used in the fair value measurement

The table below lists quantitative unobservable inputs of Level 3 financial instruments:

	Fair Value at December 31, 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	$ 381,396	Market approach, net asset method	P/B, P/E, Lack of liquidity discount and control discount	1.15-9.94, 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	147,234	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	146,087	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.

7) Pricing process of Level 3 fair value

The Bank's risk management department is responsible for the pricing process of Level 3 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

December 31, 2018

	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments measured at amortized cost	$ -	$ 11,969,388	$ -	$ 11,969,388
Non-financial assets				
Investment properties	-	-	1,099,813	1,099,813
Financial liabilities				
Bank debentures payable	-	7,360,509	-	7,360,509

December 31, 2017

	Level 1	Level 2	Level 3	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

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) Financial assets measured at cost, 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. (applicable to 2017)

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 from electronic bond trading system 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 properties, 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 an accurate understanding of their background 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

The maximum exposure to credit risk from on-balance sheet financial assets was equal to their carrying values; Without taking into account irrevocable collateral or other credit enhancements and unused revolving credit without credit card and cash card, the maximum exposure of credit risk from off-balance sheet financial instruments was as follows:

Items	December 31 2018	December 31 2017
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 37,251,576	$ 29,079,858

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 values of maximum exposure credit risk for major credit assets were as follows:

	Discounts And Loans						
	December 31, 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	December 31, 2017 Total
Short-term loans	$ 59,431,415	$ 1,121,576	$ 614,463	$ -		$ 61,167,454	$ 57,489,128
Short-term secured loans	20,978,083	2,600	4,797	-		20,985,480	14,775,539
Medium-term loans	135,657,957	192,409	361,245	-		136,211,611	118,372,311
Medium-term secured loans	55,203,609	62,808	11,912	-		55,278,329	52,803,496
Long-term loans	929,979	277,446	402,542	-		1,609,967	1,678,126
Long-term secured loans	63,377,413	96,527	1,010,702	-		64,484,642	52,083,633
Loans reclassified to nonperforming loans	-	-	420,512	-		420,512	455,444
Export negotiations	56,079	-	-	-		56,079	17,155
Total book values	335,634,535	1,753,366	2,826,173	-		340,214,074	297,674,832
Impairment allowance	(1,415,427)	(102,703)	(495,451)	-		(2,013,581)	(3,924,531)
Impairment recognized in accordance with Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (2,320,761)	(2,320,761)	
Adjusting for discounts and loans premium	-	-	-	-	(128,300)	(128,300)	(93,311)
	$ 334,219,108	$ 1,650,663	$ 2,330,722	$ -	$ (2,449,061)	$ 335,751,432	$ 293,656,990

	Receivables						
	December 31, 2018						December 31, 2017
	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	Total
Credit card business	$ 2,449,428	$ 196,501	$ 91,043	$ -		$ 2,736,972	$ 2,648,363
Accounts receivable - forfaiting	8,122,872	-	-	-		8,122,872	4,400,120
Accounts receivable factoring - without recourse	8,180,068	280	160	-		8,180,508	8,498,884
Acceptances	140,770	-	-	-		140,770	258,652
Installment accounts and lease receivables	3,365,564	47,465	92,327	-		3,505,356	3,951,034
Total book value	22,258,702	244,246	183,530	-		22,686,478	19,757,053
Impairment allowance	(65,519)	(27,975)	(66,189)	-		(159,683)	(307,539)
Impairment recognized in accordance with Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (186,096)	$ (186,096)	
	$ 22,193,183	$ 216,271	$ 117,341	$ -	$ (186,096)	$ 22,340,699	$ 19,449,514

Maximum exposure to credit risk of financial instruments not applicable to impairment is as follows:

	December 31, 2018
	Maximum Exposure Credit Risk
Financial assets at FVTPL	
Debt instruments	$ 35,640,472
Derivatives instruments	23,860,387

5) Collaterals and credit enhancements

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 year ended December 31, 2018 were as follows:

	Total Book Value	Credit Impairment	Amount of Risk Exposure (Amortized Cost)	Collaterals Value
Impaired asset:				
Accounts receivable				
Credit card business	$ 91,043	$ 28,013	$ 63,030	$ -
Accounts receivable factoring	160	10	150	-
Installment accounts and lease receivables	92,327	38,166	54,161	96,449
Discounts and loans	2,826,173	495,451	2,330,722	8,450,071
Total amount of impaired asset	$ 3,009,703	$ 561,640	$ 2,448,063	$ 8,546,520

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 $581,078 thousand for the year ended December 31, 2018.

6) Concentration of credit risk

Concentration of credit risk arise when there is only one counterparty, or when there is more than one counterparty but they have comparable economic characteristics, or when 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 from 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

	December 31, 2018		December 31, 2017	
	Amount	%	Amount	%
Public and private enterprises	$ 223,928,501	65.82	$ 197,705,315	66.42
Natural persons	115,908,259	34.07	99,643,651	33.47
Non-profit organizations	377,314	0.11	325,866	0.11
Total	$ 340,214,074	100.00	$ 297,674,832	100.00

b) By region

	December 31, 2018		December 31, 2017	
	Amount	**%**	**Amount**	**%**
Domestic	$ 249,109,901	73.22	$ 225,941,825	75.90
Overseas	91,104,173	26.78	71,733,007	24.10
Total	$ 340,214,074	100.00	$ 297,674,832	100.00

c) By collateral

	December 31, 2018		December 31, 2017	
	Amount	**%**	**Amount**	**%**
Credit	$ 199,322,970	58.59	$ 178,769,206	60.06
Secured				
Financial collaterals	7,522,386	2.21	6,857,650	2.30
Real estate	112,842,633	33.17	89,144,353	29.95
Guarantees	14,661,938	4.31	16,997,483	5.71
Other	5,864,147	1.72	5,906,140	1.98
Total	$ 340,214,074	100.00	$ 297,674,832	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 agreements, 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

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

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

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 deposit	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 impairment loss 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

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	December 31, 2017
With objective evidence of impairment	Assessment of individual impairment	$ 184,525	$ 42,374
	Assessment of collective impairment	750,991	443,884
With no objective evidence of impairment	Assessment of collective impairment	296,739,316	3,438,273
Total		297,674,832	3,924,531

Items		Receivables	Allowance for Bad Debts
		December 31, 2017	December 31, 2017
With objective evidence of impairment	Assessment of individual impairment	$ 1,707,936	$ 1,173,526
	Assessment of collective impairment	83,504	51,553
With no objective evidence of impairment	Assessment of collective impairment	21,743,478	243,149
Total		23,534,918	1,468,228

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) under other non-interest income, net.

The Bank’s foreclosed collaterals were mainly securities, land and buildings. As of December 31, 2018 and 2017, the carrying amounts of the collaterals were $0 thousand. Foreclosed collaterals assumed are classified as other assets in the balance sheets. The Bank had gained on disposal of collaterals with amounts of $0 thousand and $128,237 thousand during 2018 and 2017, respectively.

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

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

Item			December 31, 2018				
			Non-performing Loan (NPL) (Note 1)	**Total Loans**	**NPL Ratio (Note 2)**	**Loan Loss Reserves (LLR)**	**Coverage Ratio (Note 3)**
Corporate banking	Secured		$ 92,641	$ 66,186,663	0.14%	$ 868,216	937.18%
	Unsecured		125,781	162,139,177	0.08%	1,837,173	1,460.61%
Consumer banking	Mortgage (Note 4)		36,495	50,506,797	0.07%	762,653	2,089.76%
	Cash card		134,830	13,837,469	0.97%	287,034	212.89%
	Micro credit (Note 5)		158,752	23,343,848	0.68%	324,479	204.39%
	Others (Note 6)	Secured	23,697	24,173,355	0.10%	253,059	1,067.88%
		Unsecured	1,438	26,765	5.37%	1,728	120.23%
Total			573,634	340,214,074	0.17%	4,334,342	755.59%
			Overdue Receivables	**Accounts Receivable**	**Delinquency Ratio**	**Allowance for Credit Losses**	**Coverage Ratio**
Credit card			17,283	2,736,972	0.63%	56,444	326.59%
Accounts receivable - factoring without recourse (Note 7)			36	8,180,508	0.00%	113,780	312,137.08%

Item			December 31, 2017				
			Non-performing Loan (NPL) (Note 1)	**Total Loans**	**NPL Ratio (Note 2)**	**Loan Loss Reserves (LLR)**	**Coverage Ratio (Note 3)**
Corporate banking	Secured		$ 118,803	$ 59,013,613	0.20%	$ 706,728	594.87%
	Unsecured		133,484	141,820,168	0.09%	1,691,518	1,267.20%
Consumer banking	Mortgage (Note 4)		40,044	40,290,946	0.10%	544,139	1,358.85%
	Cash card		159,427	14,516,318	1.10%	387,169	242.85%
	Micro credit (Note 5)		151,855	21,492,486	0.71%	317,929	209.36%
	Others (Note 6)	Secured	21,368	20,503,800	0.10%	276,542	1,294.20%
		Unsecured	345	37,501	0.92%	506	146.88%
Total			625,326	297,674,832	0.21%	3,924,531	627.60%
			Overdue Receivables	**Accounts Receivable**	**Delinquency Ratio**	**Allowance for Credit Losses**	**Coverage Ratio**
Credit card			20,390	2,648,363	0.77%	48,842	239.54%
Accounts receivable - factoring without recourse (Note 7)			3,732	8,498,884	0.04%	116,949	3,134.11%

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	December 31, 2018		December 31, 2017	
	Excluded NPL	Excluded Overdue Receivables	Excluded NPL	Excluded Overdue Receivables
Amounts of executed contracts on negotiated debts not reported (Note 1)	$ 11,518	$ 88	$ 12,862	$ 137
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	44,921	4,653	46,561	4,276
Total	$ 56,439	$ 4,741	$ 59,423	$ 4,413

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

December 31, 2018

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth
1	A Group - 012711 - manufacture of computers	$ 7,924,071	13.57
2	B Group - 012331 - manufacture of cement	7,185,684	12.31
3	C Group - 012613 - packaging and testing of semiconductors	4,933,506	8.45
4	D Group - 016811 - real estate rental sale activities	4,539,571	7.78
5	E Group - 015100 - air transport	4,215,415	7.22
6	F Group - 016700 - real estate development activities	3,850,000	6.60
7	G Group - 012711 - manufacture of computers	3,378,104	5.79
8	H Group - 016811 - real estate rental sale activities	3,181,523	5.45
9	I Group - 012411 - smelting and refining of iron and steel	3,011,595	5.16
10	J Group - 016700 - real estate development activities	2,855,537	4.89

December 31, 2017

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth
1	B Group - 011850 - manufacture of man-made fibers	$ 5,899,179	9.64
2	G Group - 012711 - manufacture of computers	4,340,394	7.09
3	A Group - 012711 - manufacture of computers	4,199,518	6.86
4	K Group - 012641 - manufacture of liquid crystal panel and components	4,035,229	6.59
5	F Group - 016700 - real estate development activities	3,825,000	6.25
6	I Group - 012411 - smelting and refining of iron and steel	3,625,759	5.92
7	J Group - 016700 - real estate development activities	3,468,927	5.67
8	L Group - 012740 - manufacture of magnetic and optical media	3,200,000	5.23
9	M Group - 011512 - manufacture of paper	3,019,197	4.93
10	N Group - 014510 - wholesale on a fee or contract basis	2,984,800	4.88

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 initial recognition, main indicators considered and supporting information (including prospective information) were as follows:

a) Quantitative index

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

b) Qualitative index

i. Changes in the 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 negotiation can be included after assessment.

For the various types of credit assets of the Bank which are not regarded as low credit risk, it can be assumed that the credit risk of such assets has not increased significantly since initial recognition.

13) Definition of financial assets in default and credit impaired financial assets

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

   For 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 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 used for internal credit risk management purposes, and is used in the relevant impairment assessment model.

   The credit asset will be restored to the state of compliance and is not considered as a credit impaired credit asset in default 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 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 closes down or is in the process of other financial restructuring.

14) Write-off policy

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

a) When the timing for statutory write-off is reached.

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

c) Written off by the governing authorities or the financial inspection authorities.

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

e) Obtaining the documentary evidence or supporting documents with the assessment that it is not possible to recover the loan.

15) Amendment of contract cash flows of financial assets

The Bank may amend the contract cash flows of financial assets as a result of financial difficulties of borrowers or improvement of problematic debtors' recovery rates, etc. The amendments to contract cash flows include the extension of the contract period, interest payment time modification, contract interest modification, or exemption of part of the debts.

16) Measurement of expected credit losses

For the purpose of measuring expected credit losses, the Bank divides credit assets into the following groups; for corporate banking, they are grouped according to scale, while for consumer banking, they are grouped according to product characteristics:

<table>
<tr><th>Business</th><th>Group</th><th>Definition</th></tr>
<tr><td rowspan="6">Corporate banking</td><td>Large enterprises + Stage 1</td><td rowspan="2">Credit risk has not increased significantly</td></tr>
<tr><td>Small and medium enterprises + Stage 1</td></tr>
<tr><td>Large enterprises + Stage 2</td><td rowspan="2">Credit risk has increased significantly</td></tr>
<tr><td>Small and medium enterprises + Stage 2</td></tr>
<tr><td>Large enterprises + Stage 3</td><td rowspan="2">Credit impaired</td></tr>
<tr><td>Small and medium enterprises + Stage 3</td></tr>
<tr><td rowspan="3">Consumer banking</td><td>Product + Stage 1</td><td>Credit risk has not increased significantly</td></tr>
<tr><td>Product + Stage 2</td><td>Credit risk has increased significantly</td></tr>
<tr><td>Product + Stage 3</td><td>Credit impaired</td></tr>
</table>

The Bank measures the allowance loss for financial instruments that did not have a significant increase in credit risk since initial recognition based on the 12-month expected credit loss model. For financial instruments that had a significant increase in credit risk or are credit impaired since initial recognition, lifetime expected credit losses are applied.

To measure the expected credit losses, the Bank takes into account the borrower's probability of default ("PD") for the next 12 months and the period of existence, and includes the loss given default ("LGD") and exposure at default ("EAD"), taking into account the impact of the time value of money when calculating the 12 month and lifetime expected credit losses, respectively.

Probability of default is the probability of default of a borrower (or counterparty) over a period of time; the loss given default refers to the probability of loss of the borrower or counterparty due to inability to recover the debt at the end of the reminder procedures. The probability of default and loss given default used in the impairment assessment of the Bank’s credit business are based on internal historical information (such as credit loss experience, etc.) of each group, adjusted based on the current observable data and forward-looking general economic information (such as GDP and employment rate, etc.) which are used to calculate the probability of default on expected losses.

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

The initial adoption of IFRS 9 to assess expected credit losses is 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 adjustment parameters for default probability of lending. Based on the type of business, the Bank used different overall indicators. The Corporate banking business takes the 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 expected credit loss of the Bank’s debt instruments is based an external credit migration matrix method which is used to calculate the Probability of default (PD), which is incorporated in 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 year ended December 31, 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:								
Transferred to lifetime ECL	(34)	34	-	-	-	-		-
Transferred to credit-impaired financial assets	(9)	(12)	-	21	-	-		-
Transferred to 12 months ECL	544	(141)	-	(403)	-	-		-
Derecognized financial assets in the current period	(92,303)	(3)	-	-	-	(92,306)		(92,306)
Purchased or originated new financial assets	93,819	321	-	-	-	94,140		94,140
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							34,999	34,999
Write-off	-	-	-	-	-	-		-
Recovery of written-off	-	-	-	-	-	-		-
Effect of exchange rate changes and others	(12,077)	64	-	326	-	(11,687)		(11,687)
Balance at December 31	$ 150,970	$ 896	$ -	$ 1,670	$ -	$ 153,536	$ 62,440	$ 215,976

The Bank and its subsidiaries had no significant increase in off-balance-sheet guarantees, and life time ECL of contractual commitment unused amount for the year ended December 31, 2018. Net increase of $27,028,541 thousand change in total book value resulted in abovementioned provisions increased by $25,146 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)

December 31, 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	$ 7,523,296	$ 2,500	$ -	$ 166,850	$ -	$ 7,692,646
Notes and bonds issued under repurchase agreements	13,291,782	1,243,064	601,742	-	-	15,136,588
Deposits and remittances	39,640,290	68,725,042	59,815,135	86,327,484	24,215,819	278,723,770
Bank debentures payable	-	-	-	-	7,350,000	7,350,000
Other capital outflow on maturity	2,867,861	710,703	298,834	562,208	287,922	4,727,528
Total	$ 63,323,229	$ 70,681,309	$ 60,715,711	$ 87,056,542	$ 31,853,741	$ 313,630,532

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

Maturity analysis of non-derivative financial liabilities (USD)

(In Thousands of U.S. Dollars)

December 31, 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	$ 235,000	$ 146,000	$ 20,000	$ -	$ -	$ 401,000
Notes and bonds issued under repurchase agreements	239,203	511,658	331,969	-	-	1,082,830
Deposits and remittances	1,573,301	1,006,239	542,454	843,891	10,023	3,975,908
Bank debentures payable	-	-	-	-	945,133	945,133
Other capital outflow on maturity	30,683	19,947	8,128	1,620	159,044	219,422
Total	$ 2,078,187	$ 1,683,844	$ 902,551	$ 845,511	$ 1,114,200	$ 6,624,293

(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

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)

December 31, 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	$ (233,453,223)	$ (278,785,154)	$ (170,854,332)	$ (43,935,861)	$ (7,938,490)	$ (734,967,060)
Cash inflow	212,355,080	261,260,926	164,566,007	38,897,232	6,501,546	683,580,791
Interest rate derivatives instruments						
Cash outflow	(148,479)	(340,477)	(11,507)	(300,000)	(16,900,584)	(17,701,047)
Cash inflow	125,186	337,310	-	-	15,006	477,502
Cash outflow subtotal	(233,601,702)	(279,125,631)	(170,865,839)	(44,235,861)	(24,839,074)	(752,668,107)
Cash inflow subtotal	212,480,266	261,598,236	164,566,007	38,897,232	6,516,552	684,058,293
Net cash flow	$ (21,121,436)	$ (17,527,395)	$ (6,299,832)	$ (5,338,629)	$ (18,322,522)	$ (68,609,814)

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)

Maturity analysis of derivative instruments (USD)

(In Thousands of U.S. Dollars)

December 31, 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	$ (8,079,022)	$ (9,161,839)	$ (5,717,494)	$ (1,603,252)	$ (492,810)	$ (25,054,417)
Cash inflow	8,838,537	9,949,100	5,887,192	1,598,368	540,811	26,814,008
Interest rate derivatives instruments						
Cash outflow	(89,987)	(133,284)	(85,583)	(6,773)	(68,545)	(384,172)
Cash inflow	59,794	125,658	74,119	2,843	128	262,542
Others						
Cash outflow	(365)	-	-	-	-	(365)
Cash inflow	725	-	-	-	-	725
Cash outflow subtotal	(8,169,374)	(9,295,123)	(5,803,077)	(1,610,025)	(561,355)	(25,438,954)
Cash inflow subtotal	8,899,056	10,074,758	5,961,311	1,601,211	540,939	27,077,275
Net cash flow	$ 729,682	$ 779,635	$ 158,234	$ (8,814)	$ (20,416)	$ 1,638,321

(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

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.

December 31, 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	$ 7,809,005	$ 3,477,324	$ 3,972,951	$ 10,004,484	$ 11,987,812	$ 37,251,576

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	$ 3,733,551	$ 4,103,855	$ 2,851,540	$ 7,230,363	$ 11,160,549	$ 29,079,858

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:

December 31, 2018	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Lease agreement				
Financial lease gross income (lessor)	$ 1,727,233	$ 1,976,230	$ -	$ 3,703,463
Financial lease present value income (lessor)	1,615,018	1,890,338	-	3,505,356
Operating lease payment (lessee)	322,537	325,106	85,297	732,940
Operating lease income (lessor)	22,177	76,527	10,185	108,889
Present value of financial lease payment (lessee)	-	3,716	-	3,716

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

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)

December 31, 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	$ 149,159,389	$ 245,722,737	$ 299,698,283	$ 202,917,488	$ 75,145,312	$ 149,115,349	$ 1,121,758,558
Main capital outflow on maturity	103,871,470	206,384,796	376,122,829	261,937,068	189,060,528	198,159,116	1,335,535,807
Gap	45,287,919	39,337,941	(76,424,546)	(59,019,580)	(113,915,216)	(49,043,767)	(213,777,249)

December 31, 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	$ 127,058,823	$ 219,715,996	$ 295,579,614	$ 163,632,779	$ 128,864,381	$ 117,527,786	$ 1,052,379,379
Main capital outflow on maturity	95,731,910	183,638,358	383,761,033	208,991,914	213,997,515	205,014,186	1,291,134,916
Gap	31,326,913	36,077,638	(88,181,419)	(45,359,135)	(85,133,134)	(87,486,400)	(238,755,537)

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

(In Thousands of U.S. Dollars)

December 31, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 9,842,316	$ 10,983,935	$ 6,369,860	$ 1,944,560	$ 3,788,668	$ 32,929,339
Main capital outflow on maturity	10,441,717	11,367,360	7,095,302	3,027,754	2,636,078	34,568,211
Gap	(599,401)	(383,425)	(725,442)	(1,083,194)	1,152,590	(1,638,872)

(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
Main capital inflow on maturity	$ 9,056,306	$ 10,980,822	$ 5,171,771	$ 3,691,720	$ 2,485,901	$ 31,386,520
Main capital outflow on maturity	9,399,859	11,470,249	5,792,896	5,043,384	2,215,725	33,922,113
Gap	(343,553)	(489,427)	(621,125)	(1,351,664)	270,176	(2,535,593)

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 Year Ended December 31, 2018			**For the Year Ended December 31, 2017**		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	$ 172,030	$ 263,393	$ 72,541	$ 98,810	$ 187,181	$ 29,201
Equity risk	13,929	27,333	3,477	8,254	13,354	4,918
Foreign exchange risk	5,034	34,521	2,163	10,860	44,645	2,060

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)

	December 31, 2018		
	Foreign Currency	**Exchange Rate**	**New Taiwan Dollar**
Financial assets			
Monetary items			
USD	$ 6,504,546	30.73	$ 199,904,197
EUR	553,336	35.22	19,488,500
HKD	3,190,724	3.92	12,520,400
RMB	1,282,347	4.48	5,739,271
GBP	35,024	38.89	1,362,084
AUD	43,641	21.68	946,141
JPY	2,497,538	0.28	695,315
SGD	20,472	22.49	460,408
ZAR	202,838	2.13	431,843
Financial liabilities			
Monetary items			
USD	8,133,541	30.73	249,968,104
RMB	3,795,557	4.48	16,987,396
EUR	391,754	35.22	13,797,578
ZAR	2,048,614	2.13	4,361,500
AUD	100,666	21.68	2,182,447
JPY	4,488,426	0.28	1,249,578
HKD	110,607	3.92	434,023
GBP	3,127	38.89	121,619
NZD	5,713	20.63	117,855

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	December 31, 2017		
	Foreign Currency	**Exchange Rate**	**New Taiwan Dollar**
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

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)

December 31, 2018

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 290,680,052	$ 13,938,764	$ 5,363,941	$ 96,967,939	$ 406,950,696
Interest rate-sensitive liabilities	124,914,663	119,990,034	51,240,364	9,068,808	305,213,869
Interest rate sensitivity gap	165,765,389	(106,051,270)	(45,876,423)	87,899,131	101,736,827
Net worth					57,581,935
Ratio of interest rate-sensitive assets to liabilities (%)					133.33
Ratio of interest rate-sensitive gap to net worth (%)					176.68

December 31, 2017

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 259,156,710	$ 15,038,530	$ 4,733,678	$ 74,345,633	$ 353,274,551
Interest rate-sensitive liabilities	143,550,855	96,800,437	22,051,229	3,812,474	266,214,995
Interest rate sensitivity gap	115,605,855	(81,761,907)	(17,317,551)	70,533,159	87,059,556
Net worth					59,218,356
Ratio of interest rate-sensitive assets to liabilities (%)					132.70
Ratio of interest rate-sensitive gap to net worth (%)					147.01

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)

December 31, 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	$ 2,871,990	$ 149,671	$ 42,301	$ 1,547,530	$ 4,611,492
Interest rate-sensitive liabilities	4,215,405	768,422	465,888	892,835	6,342,550
Interest rate sensitivity gap	(1,343,415)	(618,751)	(423,587)	654,695	(1,731,058)
Net worth					25,518
Ratio of interest rate-sensitive assets to liabilities (%)					72.71
Ratio of interest rate-sensitive gap to net worth (%)					(6,783.67)

December 31, 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	$ 3,113,094	$ 155,835	$ 42,177	$ 1,554,905	$ 4,866,011
Interest rate-sensitive liabilities	4,276,669	469,709	694,146	583,645	6,024,169
Interest rate sensitivity gap	(1,163,575)	(313,874)	(651,969)	971,260	(1,158,158)
Net worth					66,874
Ratio of interest rate-sensitive assets to liabilities (%)					80.77
Ratio of interest rate-sensitive gap to net worth (%)					(1,731.85)

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

<u>Transferred financial assets not qualifying for full derecognition</u>

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:

December 31, 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	$ 307,330	$ 291,964	$ 307,330	$ 291,964	$ 15,366
Financial assets at fair value through profit or loss	8,359,623	7,844,863	8,359,623	7,844,863	514,760
Financial assets at fair value through other comprehensive income	55,513,141	52,166,855	55,513,141	52,166,855	3,346,286

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

f. Offsetting financial assets and financial liabilities

The Bank and its subsidiaries have 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:

December 31, 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	$ 15,164,692	$ -	$ 15,164,692	$ 15,164,692	$ -	$ -
Derivative financial instruments	23,860,387	-	23,860,387	7,962,286	2,407,631	13,490,470
Total	$ 39,025,079	$ -	$ 39,025,079	$ 23,126,978	$ 2,407,631	$ 13,490,470

December 31, 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	$ 60,303,682	$ -	$ 60,303,682	$ 59,626,359	$ 677,323	$ -
Derivative financial instruments	44,819,970	-	44,819,970	7,962,286	11,014,447	25,843,237
Total	$ 105,123,652	$ -	$ 105,123,652	$ 67,588,645	$ 11,691,770	$ 25,843,237

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

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

Items			December 31, 2018	December 31, 2017
Eligible capital	Common equity Tier 1 capital		$ 55,803,540	$ 56,977,566
	Additional Tier 1 capital		2,734,552	-
	Tier 2 capital		5,374,424	742,210
	Eligible capital		63,912,516	57,719,776
Risk-weighted assets	Credit risk	Standardized approach	404,225,330	343,689,959
		Internal rating-based approach	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach	18,688,007	18,011,674
		Standardized approach/ alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	54,311,738	45,449,650
		Internal model approach	-	-
	Total risk-weighted assets		477,225,075	407,151,283
Capital adequacy ratio			13.39%	14.18%
Ratio of common equity to risk-weighted assets			11.69%	13.99%
Ratio of Tier 1 capital to risk-weighted assets			12.27%	13.99%
Leverage ratio			7.89%	8.94%

Note:
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 requirements 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	December 31 2018	December 31 2017	Trust Liabilities and Equity	December 31 2018	December 31 2017
Bank deposits	$ 585,926	$ 371,243	Payables	$ 151,212	$ 152,685
Short-term investment	28,539,061	29,283,250	Account payable on securities under custody	4,839,320	2,571,397
Financial assets at FVTPL	11,640	241,655	Other liabilities	57,865	5,730
Receivables	50,719	193	Donations	1,811	1,811
Other financial assets	16,450	7,650	Trust capital	29,835,976	30,555,629
Real estate, net	534,259	534,259	Accumulated earnings	675,725	707,034
Intangible assets - surface rights	984,534	984,534			
Securities under custody	4,839,320	2,571,397			
Others	-	105			
Total	$ 35,561,909	$ 33,994,286	Total	$ 35,561,909	$ 33,994,286

Income Statements of Trust Accounts

(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31 2018	For the Year Ended December 31 2017
Trust income and gains		
Dividend income	$ 9,976	$ 96,752
Interest income	1,506,809	1,347,506
Rental income	28,367	29,583
Gain on financial assets at FVTPL, net	-	30,536
Other income	8,800	9,653
Total trust income and gains	1,553,952	1,514,030
Trust expenses		
Property transaction losses	(1,171,300)	(717,270)
Administrative expenses	(32,716)	(40,561)
Loss on financial assets at FVTPL, net	(3,753)	-
Tax expenditure	(1,346)	(11,854)
Other expenses	(10,185)	(79)
Total trust expenses	(1,219,300)	(769,764)
Net income	$ 334,652	$ 744,266

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

Trust Property Accounts

(In Thousands of New Taiwan Dollars)

	December 31 2018	December 31 2017
Investment Portfolio		
Bank deposits	$ 585,926	$ 371,243
Short-term investments		
Funds	26,786,220	27,956,024
Bonds	1,410,880	1,013,666
Common shares	73,200	75,900
Structured notes	93,766	93,766
ETF	174,995	143,894
Financial assets at FVTPL	11,640	241,655
Other financial assets	16,450	7,650
Real estate, net	534,259	534,259
Intangible assets - surface rights	984,534	984,534
Securities under custody	4,839,320	2,571,397
Other assets	50,719	298
	$ 35,561,909	$ 33,994,286

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		December 31, 2018	December 31, 2017
Return on total assets	Before income tax	0.46	0.87
	After income tax	0.34	0.55
Return on net worth	Before income tax	4.90	8.40
	After income tax	3.60	5.29
Profit margin		23.85	27.69

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) Marketable securities acquired or disposed of at costs or prices of at least NT$300 million or 10% of the paid in 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) Sale of 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.

a. 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 year ended December 31, 2018					
Interest revenue, net	$ 3,131,110	$ 2,324,133	$ 1,541,619	$ 150,035	$ 7,146,897
Net revenue (loss) - intersegment	809,351	587,116	(1,635,877)	239,410	-
Non-interest profits and gains, net	1,414,698	409,104	(86,118)	184,635	1,922,319
Net revenue	5,355,159	3,320,353	(180,376)	574,080	9,069,216
Reversal (provision) of allowance for bad debts expense, commitments, and guarantee liability provision, net	239,441	(263,735)	305	73,288	49,299
Operating expenses	(3,191,443)	(681,927)	(331,973)	(1,972,260)	(6,177,603)
Income (loss) before income tax	2,403,157	2,374,691	(512,044)	(1,324,892)	2,940,912
Income tax expense	-	-	-	(777,667)	(777,667)
Net income (loss)	$ 2,403,157	$ 2,374,691	$ (512,044)	$ (2,102,559)	$ 2,163,245
For the year ended December 31, 2017					
Interest revenue, net	$ 3,119,482	$ 2,018,878	$ 1,067,316	$ 179,796	$ 6,385,472
Net revenue (loss) - intersegment	430,187	564,924	(905,587)	(89,524)	-
Non-interest profits and gains, net	1,442,169	348,116	2,925,642	391,638	5,107,565
Net revenue	4,991,838	2,931,918	3,087,371	481,910	11,493,037
Reversal (provision) of allowance for bad debts expense and guarantee liability provision, net	44,644	(201,537)	(56,089)	(250,456)	(463,438)
Operating expenses	(3,009,399)	(668,423)	(333,237)	(1,961,517)	(5,972,576)
Income (loss) before income tax	2,027,083	2,061,958	2,698,045	(1,730,063)	5,057,023
Income tax expense	-	-	-	(1,874,675)	(1,874,675)
Net income (loss)	$ 2,027,083	$ 2,061,958	$ 2,698,045	$ (3,604,738)	$ 3,182,348

b. Geographical information

The revenue of the Bank and its subsidiaries from external customers by location of operations are detailed below.

	For the Year Ended December 31	
	2018	2017
Taiwan	$ 9,076,171	$ 11,462,487
Others	(6,955)	30,550
	$ 9,069,216	$ 11,493,037

c. Information about major customers

No single customer contributed 10% or more to the total revenue of the Bank and its subsidiaries.

TABLE 1

KGI BANK AND SUBSIDIARIES

COLLATERALS/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 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	$ 4,485,240	$ 1,690,315	$ 1,690,315	$ 430,262	$ -	188.43%	$ 4,485,240 (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.

TABLE 2

KGI BANK AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Holding Company	Marketable Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 2018				Note
				Shares/Face Value/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value (Note 2)	
CDIB Management Consulting Corporation	Stock							
	CDC Finance & Leasing Corporation	Subsidiary	Investments accounted for using the equity method	58,328,460	$ 653,433	76.04	$ 653,433	
	CDIB International Leasing Corporation	Subsidiary	Investments accounted for using the equity method	-	170,190	100.00	170,190	
CDC Finance & Leasing Corporation	Stock							
	Hwahong Corporation	Associate	Investments accounted for using the equity method	23,750	208	19.00	208	
	Pacific Electric Wire and Cable Co., Ltd.	-	Financial assets at fair value through other comprehensive income	496,574	-	0.07	-	

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: No securities were treated as collaterals or warrants.

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 INVESTEES
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business	Balance as of December 31, 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	$ 3,222	$ 360	80,000	-	80,000	0.40	
Taiwan Futures Exchange	Taiwan	Futures exchange and settlement	0.51	94,947	5,896	20,454,791	-	20,454,791	6.12	
Financial Information Service Co., Ltd.	Taiwan	Telecommunication service; information system service	1.23	120,059	16,987	6,410,160	-	6,410,160	1.23	
Taiwan Asset Management Co., Ltd.	Taiwan	Purchasing for financial institutions’ loans	0.57	84,869	4,854	6,000,000	-	6,000,000	0.57	
Sunlight Asset Management Co., Ltd.	Taiwan	Purchasing for financial institutions’ loans	5.74	3,761	447	344,476	-	344,476	5.74	
Taiwan Financial Asset Service Company	Taiwan	Other activities auxiliary to financial service activities	2.94	47,575	350	5,000,000	-	5,000,000	2.94	
Taiwan Mobile Payment	Taiwan	Communication and IT service	1.00	3,689	-	600,000	-	600,000	1.00	
CDIB Management Consulting Corporation	Taiwan	Management consultancy activities	100.00	865,220	50,091	153,171,873	-	153,171,873	100.00	
Euroc II Venture Capital Corp.	Taiwan	Venture capital corporation	7.50	13,738	99	1,570,800	-	1,570,800	7.50	
Euroc III Venture Capital Corp.	Taiwan	Venture capital corporation	5.00	7,955	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	1,581	125	125,000	-	125,000	5.00	
CDIB & Partners Investment Holding Corp.	Taiwan	General investment corporation	4.95	789,000	(72,357)	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 or derivative financial instrument contracts that are not transferred to common shares. Based on the transaction terms and 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 INVESTMENTS IN MAINLAND CHINA
DECEMBER 31, 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 December 31, 2018	Net Loss of the investee (Note 2)	Ownership of Direct or Indirect Investment	Investment Loss (Note 2)	Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 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	$ (2,260)	100%	$ (2,260)	$ 170,190	$ -

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investment
$921,990 (US$30,000 thousand)	US$30,000 thousand	$519,132

Note 1: The investment types are as follows:

a. Direct investments.
b. Reinvested through an investee company in a third area.
c. Others.

Note 2: Financial statements audited by the CPA firm of the parent company in Taiwan.

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 YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

No. (Note 1)	Trading 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	$ 19,508	Note 4	-
1	CDC Finance & Leasing Corporation	KGI Bank	2	Cash and cash equivalents	19,508	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 revenue.

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.