KGI Bank Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Six Months Ended June 30, 2019 and 2018 and Independent Auditors' Report

Deloitte.

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INDEPENDENT AUDITORS' REPORT

KGI Bank Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of KGI Bank Co., Ltd. (the "Bank") and its subsidiaries, which comprise the consolidated balance sheets as of June 30, 2019, December 31, 2018 and June 30, 2018, and the related consolidated statements of comprehensive income for the three and six months ended June 30, 2019 and 2018, changes in equity and cash flows for the six months then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of June 30, 2019, December 31, 2018 and June 30, 2018, and their consolidated financial performance for the three and six months ended June 30, 2019 and 2018, and their consolidated cash flows for the six months then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China ("ROC").

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 ROC. 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 ROC, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the six months ended June 30, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the consolidated financial statements of the Bank and its subsidiaries for the six months ended June 30, 2019 are 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 statement as a whole as it accounts for 50% of the total assets of the consolidated financial statement. As stated in Note 5, to determine the impairment loss of discounts and loans, receivables, provision for loan commitments and guarantee liabilities, the management should (1) judge whether there has been a significant increase in credit risk or there is any indication of credit impairment, (2) estimate the expected future cash flow based on past 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 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 six months ended June 30, 2019.

Refer to Notes 4, 5 and 45 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 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 six months ended June 30, 2019 and 2018 on which we have issued an unqualified opinion thereon, respectively.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Public Banks, and International Accounting Standard 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the ROC, 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 ROC 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 ROC, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

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

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

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements for the six months ended June 30, 2019 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 Kwan-Chung Lai.

Wu Mei Hui　　Kwan-Chung Lai

Deloitte & Touche
Taipei, Taiwan
Republic of China

August 22, 2019

Notice to Readers

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

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	June 30, 2019		December 31, 2018		June 30, 2018	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 6 and 41)	$ 9,530,996	1	$ 7,034,362	1	$ 9,269,780	1
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Notes 7 and 42)	35,083,261	5	26,431,383	4	31,087,128	4
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 8, 41 and 42)	98,792,025	14	81,922,752	12	98,112,987	14
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 9 and 42)	137,423,654	19	151,669,704	22	145,584,947	21
DEBT INVESTMENTS MEASURED AT AMORTIZED COST (Notes 10 and 41)	12,100,300	2	11,965,807	2	11,880,146	2
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Note 11)	18,837,196	3	15,164,692	2	21,240,195	3
RECEIVABLES, NET (Notes 12, 41 and 42)	26,262,790	4	27,807,567	4	29,430,178	4
CURRENT TAX ASSETS (Notes 4 and 39)	-	-	16	-	16	-
ASSETS HELD FOR SALE, NET (Note 16)	-	-	29,649	-	-	-
DISCOUNTS AND LOANS, NET (Notes 13 and 41)	355,267,323	50	335,751,432	49	330,752,368	47
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET (Note 14)	946,428	-	789,208	-	851,203	-
OTHER FINANCIAL ASSETS, NET (Notes 15 and 42)	1,131,100	-	1,477,248	-	2,990,560	-
PROPERTY AND EQUIPMENT, NET (Notes 16 and 42)	6,191,061	1	6,183,951	1	6,333,575	1
RIGHT-OF-USE ASSETS, NET (Notes 4 and 17)	2,333,951	-	-	-	-	-
INVESTMENT PROPERTY, NET (Notes 18 and 42)	1,010,897	-	1,014,721	-	875,852	-
INTANGIBLE ASSETS, NET	515,368	-	408,464	-	358,158	-
DEFERRED TAX ASSETS (Notes 4 and 39)	2,349,893	-	2,290,358	1	2,968,772	-
OTHER ASSETS, NET (Notes 19, 41 and 42)	5,715,248	1	13,332,712	2	17,746,189	3
TOTAL	$ 713,491,491	100	$ 683,274,026	100	$ 709,482,054	100
LIABILITIES AND EQUITY						
LIABILITIES						
Deposits from the Central Bank and banks (Notes 20 and 41)	$ 20,762,230	3	$ 21,359,259	3	$ 33,535,560	5
Financial liabilities at fair value through profit or loss (Notes 8 and 41)	83,863,042	12	73,866,749	11	92,128,647	13
Notes and bonds issued under repurchase agreements (Notes 8, 9, 10 and 21)	45,633,002	6	60,303,682	9	61,319,474	9
Payables (Notes 22 and 41)	10,437,813	1	7,037,664	1	8,029,060	1
Current tax liabilities (Notes 4, 39 and 41)	541,361	-	530,563	-	435,483	-
Deposits and remittances (Notes 23 and 41)	448,209,105	63	421,704,877	62	425,334,898	60
Bank debentures payable (Note 24)	10,450,000	2	7,350,000	1	1,000,000	-
Principal received on structured notes	20,110,583	3	24,020,358	3	19,912,294	3
Commercial paper payable, net (Note 25)	2,699,633	-	1,829,716	-	1,299,533	-
Other borrowings (Note 26)	1,288,429	-	1,811,543	-	2,750,851	-
Other financial liabilities	-	-	3,716	-	4,078	-
Provisions (Note 27)	446,136	-	348,043	-	335,818	-
Lease liabilities (Notes 4, 17 and 41)	2,328,479	-	-	-	-	-
Deferred tax liabilities (Notes 4 and 39)	425,382	-	24,413	-	230,315	-
Other liabilities (Note 29)	3,326,153	1	4,503,104	1	4,745,169	1
Total liabilities	650,521,348	91	624,693,687	91	651,061,180	92
EQUITY (Note 30)						
Equity attributable to owners of parent						
Capital						
Common stock	46,061,623	7	46,061,623	7	46,061,623	6
Capital surplus						
Additional paid-in capital	7,245,723	1	7,245,723	1	7,245,723	1
Other capital surplus	5,519	-	5,450	-	5,182	-
Total capital surplus	7,251,242	1	7,251,173	1	7,250,905	1
Retained earnings						
Legal reserve	5,130,089	1	4,639,065	1	4,639,065	1
Special reserve	1,437,043	-	291,319	-	291,319	-
Unappropriated earnings	1,865,245	-	1,636,748	-	1,028,316	-
Total retained earnings	8,432,377	1	6,567,132	1	5,958,700	1
Other equity						
Exchange differences on translation of foreign financial statements	28,928	-	45,522	-	36,922	-
Unrealized gain (loss) on equity instruments at fair value through other comprehensive income	271,439	-	(10,074)	-	252,085	-
Unrealized gain (loss) on debt instruments at fair value through other comprehensive income	706,962	-	(1,566,834)	-	(1,368,845)	-
Allowance for impairment loss of investments in debt instrument at fair value through other comprehensive income	18,035	-	25,933	-	25,667	-
Total other equity	1,025,364	-	(1,505,453)	-	(1,054,171)	-
Total equity of parent company	62,770,606	9	58,374,475	9	58,217,057	8
Non-controlling interests	199,537	-	205,864	-	203,817	-
Total equity	62,970,143	9	58,580,339	9	58,420,874	8
TOTAL	$ 713,491,491	100	$ 683,274,026	100	$ 709,482,054	100

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

KGI BANK CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
INTEREST REVENUES (Notes 31 and 41)	$ 3,477,148	123	$ 3,278,228	136	$ 6,983,926	127	$ 6,287,377	134
INTEREST EXPENSES (Notes 31 and 41)	(1,808,819)	(64)	(1,452,756)	(60)	(3,677,520)	(67)	(2,683,448)	(57)
NET INTEREST	1,668,329	59	1,825,472	76	3,306,406	60	3,603,929	77
NET REVENUES OTHER THAN INTEREST								
Service fee income, net (Notes 32 and 41)	521,013	19	463,083	19	1,015,043	19	949,247	20
Gains on financial assets or liabilities measured at fair value through profit or loss, net (Note 33)	524,685	19	111,995	5	676,881	12	834,111	18
Realized gain (loss) on financial assets measured at fair value through other comprehensive income (Note 34)	264,863	9	(306,900)	(13)	303,280	6	(541,663)	(12)
Foreign exchange gain (loss), net	(216,202)	(8)	295,632	12	(6,718)	-	(255,159)	(6)
Reversal of impairment loss (impairment loss) on assets, net (Note 35)	6,176	-	5,494	-	8,042	-	(5,645)	-
Share of the profit (loss) of associates for using equity method	25,192	1	(33,137)	(1)	93,354	2	(19,641)	-
Other non-interest income, net (Notes 16, 36 and 41)	22,781	1	42,718	2	74,266	1	136,726	3
Total net revenues other than interest	1,148,508	41	578,885	24	2,164,148	40	1,097,976	23
TOTAL NET REVENUE	2,816,837	100	2,404,357	100	5,470,554	100	4,701,905	100
REVERSAL (PROVISION) OF ALLOWANCE FOR BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION	(83,752)	(3)	96,458	4	(82,181)	(1)	(67,234)	(1)
OPERATING EXPENSES (Notes 17, 28, 37, 38 and 41)								
Employee benefits expense	(933,785)	(33)	(869,021)	(36)	(1,880,090)	(35)	(1,736,763)	(37)
Depreciation and amortization expense	(201,861)	(7)	(105,099)	(4)	(399,023)	(7)	(208,289)	(5)
Other general and administrative expenses	(422,448)	(15)	(506,344)	(21)	(824,472)	(15)	(998,733)	(21)
Total operating expenses	(1,558,094)	(55)	(1,480,464)	(61)	(3,103,585)	(57)	(2,943,785)	(63)
INCOME BEFORE INCOME TAX	1,174,991	42	1,020,351	43	2,284,788	42	1,690,886	36
INCOME TAX EXPENSE (Note 39)	(213,601)	(8)	(160,085)	(7)	(418,877)	(8)	(125,703)	(3)
NET INCOME	961,390	34	860,266	36	1,865,911	34	1,565,183	33

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KGI BANK CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME								
Items that will not be reclassified subsequently to profit or loss, net of tax								
Gain (loss) on equity instruments measured at fair value through other comprehensive income	$ (57,559)	(2)	$ (32,312)	(1)	$ 208,384	4	$ 21,909	-
Share of the other comprehensive gain (loss) of associates accounted for using equity method	33,598	1	(40,581)	(2)	77,404	1	(21,801)	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	-	-	-	-	-	-	960	-
Items that will be reclassified subsequently to profit or loss, net of tax								
Exchange differences on translation of foreign financial statements	2,032	-	24,250	1	(24,714)	-	52,498	1
Share of the other comprehensive income of associates accounted for using equity method	6,008	-	35,857	1	8,120	-	16,652	1
Gain (loss) on debt instruments measured at fair value through other comprehensive income	663,886	24	(243,073)	(10)	2,326,339	42	(1,423,551)	(30)
Impairment loss (reversal of impairment loss) on debt instruments measured at fair value through other comprehensive income	(6,086)	-	(5,601)	-	(7,898)	-	3,899	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	(52,544)	(2)	-	-	(52,544)	(1)	-	-
Other comprehensive income (loss), net of tax	589,335	21	(261,460)	(11)	2,535,091	46	(1,349,434)	(28)
TOTAL COMPREHENSIVE INCOME, NET OF TAX	$ 1,550,725	55	$ 598,806	25	$ 4,401,002	80	$ 215,749	5

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KGI BANK CO., LTD. AND SUBSIDIARIES

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

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
NET PROFIT ATTRIBUTABLE TO:								
Shareholders of parent company	$ 958,655	34	$ 857,344	36	$ 1,860,971	34	$ 1,549,547	33
Non-controlling interests	2,735	-	2,922	-	4,940	-	15,636	-
	$ 961,390	34	$ 860,266	36	$ 1,865,911	34	$ 1,565,183	33
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Shareholders of parent company	$ 1,547,990	55	$ 596,191	25	$ 4,396,062	80	$ 200,302	4
Non-controlling interests	2,735	-	2,615	-	4,940	-	15,447	1
	$ 1,550,725	55	$ 598,806	25	$ 4,401,002	80	$ 215,749	5
EARNINGS PER SHARE (NEW TAIWAN DOLLARS; Note 40)								
Basic	$ 0.21		$ 0.19		$ 0.40		$ 0.34	

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

KGI BANK CO., LTD. AND SUBSIDIARIES

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

	Equity Attributable to Owners of Parent										
			Retained Earnings			Other Equity					
	Common Stock	Capital Surplus	Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Financial Assets at Fair Value through Other Comprehensive Income	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Total Equity Attributable to Owners of the Parent	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2018	$ 46,061,623	$ 7,250,553	$ 3,694,540	$ 1,323,519	$ 3,148,414	$ (32,228)	$ -	$ (224,671)	$ 61,221,750	$ 195,672	$ 61,417,422
Effect of retrospective application and retrospective restatement	-	-	-	-	(545,679)	-	351,750	224,671	30,742	(5,542)	25,200
BALANCE AT JANUARY 1, 2018 AS RESTATED	46,061,623	7,250,553	3,694,540	1,323,519	2,602,735	(32,228)	351,750	-	61,252,492	190,130	61,442,622
Appropriation of earnings											
Legal reserve	-	-	944,525	-	(944,525)	-	-	-	-	-	-
Reversal on special reserve	-	-	-	(1,032,200)	1,032,200	-	-	-	-	-	-
Cash dividends - common stock	-	-	-	-	(3,236,089)	-	-	-	(3,236,089)	-	(3,236,089)
Change in equity of associate accounted for using equity method	-	16	-	-	-	-	-	-	16	-	16
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	24,448	-	(24,448)	-	-	-	-
Net income for the six months ended June 30, 2018	-	-	-	-	1,549,547	-	-	-	1,549,547	15,636	1,565,183
Other comprehensive income (loss) for the six months ended June 30, 2018, net of income tax	-	-	-	-	-	69,150	(1,418,395)	-	(1,349,245)	(189)	(1,349,434)
Total comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	1,549,547	69,150	(1,418,395)	-	200,302	15,447	215,749
Share-based payments	-	336	-	-	-	-	-	-	336	-	336
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(1,760)	(1,760)
BALANCE AT JUNE 30, 2018	$ 46,061,623	$ 7,250,905	$ 4,639,065	$ 291,319	$ 1,028,316	$ 36,922	$ (1,091,093)	$ -	$ 58,217,057	$ 203,817	$ 58,420,874
BALANCE AT JANUARY 1, 2019	$ 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
Appropriation of earnings											
Legal reserve	-	-	491,024	-	(491,024)	-	-	-	-	-	-
Special reserve	-	-	-	1,145,724	(1,145,724)	-	-	-	-	-	-
Change in equity of associate accounted for using equity method	-	(57)	-	-	-	-	-	-	(57)	-	(57)
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	4,274	-	(4,274)	-	-	-	-
Net income for the six months ended June 30, 2019	-	-	-	-	1,860,971	-	-	-	1,860,971	4,940	1,865,911
Other comprehensive income(loss) for the six months ended June 30, 2019, net of income tax	-	-	-	-	-	(16,594)	2,551,685	-	2,535,091	-	2,535,091
Total comprehensive income (loss) for the six months ended June 30, 2019	-	-	-	-	1,860,971	(16,594)	2,551,685	-	4,396,062	4,940	4,401,002
Share-based payments	-	126	-	-	-	-	-	-	126	-	126
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(11,267)	(11,267)
BALANCE AT JUNE 30, 2019	$ 46,061,623	$ 7,251,242	$ 5,130,089	$ 1,437,043	$ 1,865,245	$ 28,928	$ 996,436	$ -	$ 62,770,606	$ 199,537	$ 62,970,143

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

KGI BANK CO., LTD. AND SUBSIDIARIES

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

	For the Six Months Ended June 30	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 2,284,788	$ 1,690,886
Adjustments for:		
Depreciation expenses	343,591	158,064
Amortization expenses	55,432	50,225
Provision of allowance for bad debts expense, commitments and guarantee liability provisions	82,181	67,234
Net gain financial assets and liabilities measured at fair value through profit or loss, net	(676,881)	(805,771)
Interest expense	3,677,520	2,683,448
Interest income	(6,983,926)	(6,287,377)
Dividend income	(72,309)	(52,269)
Share of profits of associate accounted for using equity method	(93,354)	19,641
Gain on disposal of investment property	-	(69,047)
Gain on disposal of assets held for sale	(5,772)	-
(Reversal of impairment loss) impairment loss on financial assets	(8,042)	5,645
Others	(251)	684
Changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank and call loans to banks	(682,196)	3,191,343
Decrease (increase) in financial assets at fair value through profit or loss	26,478,681	(17,210,732)
Decrease (increase) in financial assets at fair value through other comprehensive income	16,800,544	(23,282,745)
Increase in debt investments measured at amortized cost	(134,354)	(6,360,712)
Increase in securities purchased under resell agreement	(333,926)	(475,872)
Decrease (increase) in receivables	1,811,801	(6,389,667)
Increase in discounts and loans	(19,611,296)	(37,215,051)
Increase (decrease) in other financial assets	346,148	(905,861)
Decrease (increase) in other assets	7,543,394	(12,041,050)
Increase (decrease) in deposits from the Central Bank and banks	(597,029)	5,204,868
Increase (decrease) in financial liabilities at fair value through profit or loss	(32,674,779)	27,597,638
Increase (decrease) in notes and bonds issued under repurchase agreements	(14,670,680)	15,874,660
Increase in payables	2,736,632	339,280
Increase in deposits and remittances	26,504,228	48,711,764
Decrease in other financial liabilities	(3,895,880)	(235,184)
Increase (decrease) in other liabilities	(1,139,570)	2,781,458
Cash inflow (outflow) generated from operations	7,084,695	(2,954,500)
Interest received	6,769,248	5,698,930
Dividend received	4,825	12,801

(Continued)

KGI BANK CO., LTD. AND SUBSIDIARIES

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

	For the Six Months Ended June 30	
	2019	**2018**
Interest paid	$ (2,993,747)	$ (1,870,507)
Income taxes paid	(60,325)	(128,965)
Net cash flows generated from operating activities	10,804,696	757,759
CASH FLOWS FROM INVESTING ACTIVITIES		
Disposal of assets held for sale	35,420	-
Acquisition of property and equipment	(150,911)	(217,780)
Proceeds from disposal of property and equipment	12,043	11,671
Acquisition of intangible assets	(161,899)	(33,352)
Proceeds from disposal of investment property	-	120,102
Net cash flows used in investing activities	(265,347)	(119,359)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(29,698)	(47,450)
Increase in commercial paper payable	869,917	75,054
Issuance of bank debentures payable	3,100,000	-
Repayments of long-term borrowings	(493,416)	(106,781)
Payments of lease liabilities	(173,076)	-
Cash dividends paid	-	(3,236,089)
Changes in non-controlling interests	(11,267)	(1,760)
Net cash flows generated from (used in) financing activities	3,262,460	(3,317,026)
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	3,085	197
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	13,804,894	(2,678,429)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	37,316,230	47,010,963
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	$ 51,121,124	$ 44,332,534

(Continued)

KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(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 June 30, 2019 and 2018:

	June 30	
	2019	2018
Cash and cash equivalents in consolidated balance sheets	$ 9,530,996	$ 9,269,780
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	23,086,858	14,894,405
Securities purchased under agreements to resell qualifying as cash and cash equivalents under the definition of IAS 7 endorsed by FSC	18,503,270	20,168,349
Cash and cash equivalents in consolidated statements of cash flows	$ 51,121,124	$ 44,332,534

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

KGI BANK CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

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

As of June 30, 2019, 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 Co., Ltd. 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 directors 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 August 22, 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:

   <u>IFRS 16 "Leases"</u>

   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. Refer to Note 4 for information relating to the relevant accounting policies.

   <u>Definition of a lease</u>

   The Bank and its subsidiaries 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 are reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

   <u>The Bank and its subsidiaries as lessee</u>

   The Bank and its subsidiaries 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 are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Bank and its subsidiaries 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 are classified within financing activities; cash payments for the interest portion will be classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheets for contracts classified as finance leases.

   The Bank and its subsidiaries elect to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information was not restated.

   Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were 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 are measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid lease payments. The Bank and its subsidiaries apply IAS 36 to all right-of-use assets.

The Bank and its subsidiaries also apply the following practical expedients:

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

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

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

The weighted average lessee's incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 is 0.75%-3.84%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	$ 792,925
Less: Recognition exemption for short-term leases	(33,747)
Less: Recognition exemption for leases of low-value assets	(4,269)
Undiscounted amounts on January 1, 2019	$ 754,909
Discounted amounts using the incremental borrowing rate on January 1, 2019	$ 737,223
Add: Adjustments as a result of a different treatment of extension and termination options	1,544,223
Lease liabilities recognized on January 1, 2019	$ 2,281,446

The Bank and its subsidiaries as lessor

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

The impact on assets, liabilities and equity as of January 1, 2019

Application of IFRS 16 resulted 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.

b. The IFRSs endorsed by the FSC for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 1)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 2)

Note 1: 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 2: The Bank and its subsidiaries shall apply these amendments prospectively for annual reporting periods beginning on or after January 1, 2020.

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

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

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

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

Principles for Preparing Consolidated Financial Statements

The consolidated financial 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	Main Business	Percentage of Ownership (%)		
			June 30, 2019	December 31, 2018	June 30, 2018
The Bank	CDIB Management Consulting Corporation	Management and consulting	100.00	100.00	100.00
CDIB Management Consulting Corporation	CDC Finance & Leasing Corporation	Leasing	76.04	76.04	76.04
	CDIB International Leasing Corporation	Leasing	100.00	100.00	100.00

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

All regular way transactions of financial assets are recognized and derecognized on a trade date basis. Regular way transactions 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

   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 from any dividends or interest earned and remeasurement on the financial assets recognized in net revenues other than interest. Fair value is determined in the manner described in Note 44.

   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.

b. Impairment of financial assets

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

In addition to the analysis of impairment mentioned above, 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 and principal 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, 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.

The accounting policies of these consolidated financial statements please refer to the consolidated financial statements for the year ended December 31, 2018, except for those described below.

Retirement Benefits

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

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax. Interim period income taxes are assessed on an annual basis and calculated by applying to an interim period's pre-tax income the tax rate that would be applicable to expected total annual earnings. The effect of a change in tax rate resulting from a change in tax law is recognized consistent with the accounting for the transaction itself which gives rise to the tax consequence, and is recognized in profit or loss, other comprehensive income or directly in equity in full in the period in which the change in tax rate occurs.

Leasing

2019

At the inception of a contract, the Bank and its subsidiaries assess whether the contract is (or contains) a lease.

For a contract that contains a lease component and non-lease components, the Bank and its subsidiaries allocate the consideration in the contract to each component on the basis of the relative stand-alone price and accounts for each component separately.

a. The Bank and its subsidiaries as lessor

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

   Under finance leases, the net investment in a lease is measured at (a) the present value of the sum of the lease payments receivable by a lessor and any unguaranteed residual value accrued to the lessor plus (b) initial direct costs and is presented as a finance lease receivable. Finance lease income is allocated to the relevant accounting periods so as to reflect a constant, periodic rate of return on the Bank and its subsidiaries' net investment outstanding in respect of leases.

   Lease payments less any lease incentives payable from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases.

b. The Bank and its subsidiaries as lessee

The Bank and its subsidiaries recognize right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Bank and its subsidiaries by the end of the lease terms or if the costs of right-of-use assets reflect that the Bank and its subsidiaries will exercise a purchase option, the Bank and its subsidiaries depreciate the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments. The Bank and its subsidiaries use the lessee’s incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there is a change in a lease term, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Bank and its subsidiaries remeasure the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

<u>2018</u>

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

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

6. CASH AND CASH EQUIVALENTS

	June 30, 2019	December 31, 2018	June 30, 2018
Due from banks	$ 6,864,551	$ 3,922,906	$ 5,697,967
Cash on hand	1,618,593	1,728,250	1,515,103
Checks for clearing	556,190	751,499	640,742
Cash in banks	417,905	381,763	857,626
Excess margin of futures	73,757	249,944	558,342
	$ 9,530,996	$ 7,034,362	$ 9,269,780

Cash and cash equivalents as of December 31, 2018 as shown in the consolidated statements of cash flows can be reconciled to the related items in the consolidated balance sheets as follows; please refer to the consolidated statement of cash flows for the reconciliation information as of June 30, 2019 and 2018:

	December 31, 2018
Cash and cash equivalents in consolidated balance sheets	$ 7,034,362
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
Securities purchased under agreements to resell qualifying as cash and cash equivalents under the definition of IAS 7 endorsed by FSC	15,164,692
Cash and cash equivalents in consolidated statements of cash flows	$ 37,316,230

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

	June 30, 2019	December 31, 2018	June 30, 2018
Call loans to banks	$ 19,080,359	$ 6,643,433	$ 12,613,859
Deposit reserve - demand accounts	9,388,256	8,854,579	8,448,043
Deposit reserve - checking accounts	5,146,666	9,467,197	5,659,144
Due from the Central Bank - interbank settlement funds	1,300,191	1,300,216	701,382
Deposit reserve - foreign currencies	167,789	165,958	164,700
Due from the Central Bank	-	-	3,500,000
	$ 35,083,261	$ 26,431,383	$ 31,087,128

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 42.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	June 30, 2019	December 31, 2018	June 30, 2018
Financial assets mandatorily classified as at FVTPL			
Derivative instruments			
Currency swap contracts	$ 8,905,838	$ 7,036,560	$ 24,708,131
Interest rate swap contracts	28,788,301	13,779,444	15,618,166
Option contracts	2,059,585	2,291,406	2,688,866
Others	729,341	752,977	1,107,790
Non-derivative financial assets			
Bank debentures	806,704	252,316	991,314
Convertible (exchangeable) corporate bonds	385,339	1,397,847	1,848,985
Corporate bonds	701,890	262,706	392,735
Commercial papers	9,905,624	7,020,871	16,816,178
Stocks	-	425,169	1,040,205
Others	56,802	20,917	610,144
	52,339,424	33,240,213	65,822,514
Financial assets designated as at FVTPL			
Government bonds	18,657,942	20,515,907	7,088,858
Corporate bonds	7,723,007	3,571,791	1,805,758
Bank debentures	4,661,077	2,598,117	1,745,161
Others	15,410,575	21,996,724	21,650,696
	46,452,601	48,682,539	32,290,473
Financial assets at FVTPL	$ 98,792,025	$ 81,922,752	$ 98,112,987

(Continued)

	June 30, 2019	December 31, 2018	June 30, 2018
Financial liabilities held for trading			
Derivative instruments			
Interest rate swap contracts	$ 28,388,819	$ 16,511,192	$ 17,175,932
Currency swap contracts	8,684,669	6,623,550	23,958,656
Option contracts	14,681,386	20,949,956	20,562,617
Others	674,680	735,272	1,147,767
	52,429,554	44,819,970	62,844,972
Financial liabilities designated as at FVTPL			
Bank debentures payable	30,420,898	27,131,475	26,936,416
Others	1,012,590	1,915,304	2,347,259
	31,433,488	29,046,779	29,283,675
Financial liabilities at FVTPL	$ 83,863,042	$ 73,866,749	$ 92,128,647

(Concluded)

As of June 30, 2019, December 31, 2018 and June 30, 2018, bank debentures issued by the Bank and designated as at FVTPL were as follows:

Name	June 30, 2019	December 31, 2018	June 30, 2018	Issuance Period	Method of Paying Principal and Interests	Interest Rate
15KGIB1	$ 3,293,632	$ 3,257,698	$ 3,233,000	2015.03.24-2045.03.24 (Note 1)	Principal due on maturity	0%
P16KGIB1	3,417,920	3,380,630	3,355,000	2016.05.03-2046.05.03 (Note 2)	Principal due on maturity	0%
P16KGIB2	3,417,920	3,380,630	3,355,000	2016.05.27-2046.05.27 (Note 2)	Principal due on maturity	0%
P16KGIB3	2,485,760	2,458,640	2,440,000	2016.11.08-2046.11.08 (Note 1)	Principal due on maturity	0%
P17KGIB1	6,214,400	6,146,600	6,100,000	2017.01.23-2047.01.23 (Note 1)	Principal due on maturity	0%
P18KGIB1	6,214,400	6,146,600	6,100,000	2018.01.30-2048.01.30 (Note 3)	Principal due on maturity	0%
P18KGIB2	4,971,520	4,917,280	4,880,000	2018.02.27-2048.02.27 (Note 3)	Principal due on maturity	0%
	30,015,552	29,688,078	29,463,000			
Valuation adjustments	405,346	(2,556,603)	(2,526,584)			
	$ 30,420,898	$ 27,131,475	$ 26,936,416			

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 (inclusive).

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 (inclusive).

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 (inclusive).

The contract (nominal) amounts of the Bank and its subsidiaries' outstanding derivative financial instruments as of June 30, 2019, December 31, 2018 and June 30, 2018 were summarized as follows:

	Contract Amount		
	June 30, 2019	**December 31, 2018**	**June 30, 2018**
Interest rate swap contracts	$ 1,409,720,618	$ 1,148,356,086	$ 1,076,253,700
Currency swap contracts	1,328,772,828	1,460,383,307	1,595,877,704
Option contracts	562,217,573	651,774,332	698,331,905
Forward exchange contracts	53,142,139	48,505,833	32,561,499
Cross-currency swap contracts	27,150,640	32,681,055	30,953,994
Non-deliverable forward contracts	4,189,969	185,593	2,571,341
Commodity swap contracts	791,860	964,180	728,450
Futures contracts	363,178	14,003,511	18,000,540
Asset swap contracts	344,216	1,236,314	1,350,700

As of June 30, 2019, December 31, 2018 and June 30, 2018, financial assets at fair value through profit or loss with aggregate carrying values of $17,120,970 thousand, $7,844,863 thousand and $4,331,458 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 42.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	June 30, 2019	**December 31, 2018**	**June 30, 2018**
Investments in equity instruments at FVTOCI	$ 4,187,895	$ 2,667,879	$ 2,563,553
Investments in debt instruments at FVTOCI	133,235,759	149,001,825	143,021,394
	$ 137,423,654	$ 151,669,704	$ 145,584,947

a. Investments in equity instruments at FVTOCI

	June 30, 2019	**December 31, 2018**	**June 30, 2018**
Listed and OTC stocks	$ 3,815,337	$ 2,286,483	$ 2,146,485
Unlisted stocks	372,558	381,396	417,068
	$ 4,187,895	$ 2,667,879	$ 2,563,553

For the six months ended June 30, 2019 and 2018, the Bank and its subsidiaries sold its shares in order to manage its investment portfolio. The sold shares had a fair value of $106,772 thousand and $254,608 thousand and the Bank and its subsidiaries transferred gain of $4,274 thousand and $24,448 thousand from other equity related-unrealized gain (loss) on financial assets at fair value through other comprehensive income to retained earnings.

Dividend income for the three and six months ended June 30, 2019 and 2018, were $72,309 thousand, $23,929 thousand, $72,309 thousand and $23,929 thousand, which were all related to investments held at the end of the reporting period.

b. Investments in debt instruments at FVTOCI

	June 30, 2019	December 31, 2018	June 30, 2018
Negotiable certificates of deposit issued by the Central Bank	$ 54,060,962	$ 48,698,585	$ 40,365,608
Government bonds	53,248,087	59,624,096	60,966,660
Corporate bonds	18,255,326	27,544,694	28,591,127
Bank debentures	7,671,384	13,134,450	13,097,999
	$ 133,235,759	$ 149,001,825	$ 143,021,394

As of June 30, 2019, December 31, 2018 and June 30, 2018, investments in debt instruments at FVTOCI, with aggregate carrying values of $25,809,460 thousand, $52,166,855 thousand and $53,750,242 thousand had been sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

For the information on financial assets at fair value through other comprehensive income pledged as collateral for the Bank and its subsidiaries, please refer to Note 42.

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. An adjustment in corporate bonds and bank debentures portfolio resulted in $18,035 thousand, $25,933 thousand and $25,667 thousand of loss allowance on June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

10. DEBT INVESTMENTS MEASURED AT AMORTIZED COST, NET

	June 30, 2019	December 31, 2018	June 30, 2018
Domestic bank debentures	$ 1,553,600	$ 1,536,650	$ 1,525,000
Foreign bank debentures	10,550,142	10,432,738	10,359,100
	12,103,742	11,969,388	11,884,100
Allowance for impairment	(3,442)	(3,581)	(3,954)
Net amount	$ 12,100,300	$ 11,965,807	$ 11,880,146

As of June 30, 2019, December 31, 2018 and June 30, 2018, debt investments measured at amortized cost, with aggregate carrying values of $279,648 thousand, $291,964 thousand and $268,400 thousand had been sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

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

There was no significant increase in the credit risk of debt investments measured at amortized cost of the Bank and its subsidiaries; therefore, the 12 months expected credit losses were used to assess allowance for loss. An adjustment in the investment portfolio resulted in $3,442 thousand, $3,581 thousand and $3,954 thousand of loss allowance on June 30, 2019, December 31, 2018 and June 30, 2018.

11. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	June 30, 2019	December 31, 2018	June 30, 2018
Commercial papers	$ 11,144,213	$ 10,244,264	$ 10,497,894
Corporate bonds	4,486,625	2,885,400	8,036,115
Bank debentures	1,576,358	200,006	848,867
Government bonds	1,630,000	785,022	1,507,230
Negotiable certificates of deposit	-	1,050,000	350,089
	$ 18,837,196	$ 15,164,692	$ 21,240,195
Agreed-upon resell amounts	$ 18,841,966	$ 15,167,241	$ 21,256,912
Last maturity date	August 2019	January 2019	October 2018

12. RECEIVABLES, NET

	June 30, 2019	December 31, 2018	June 30, 2018
Accounts receivable - forfaiting	$ 6,068,832	$ 8,122,872	$ 8,119,096
Installment accounts and lease receivables	3,853,949	3,703,463	3,743,509
Credit cards	3,294,627	2,788,881	3,242,987
Interest receivable	3,001,723	2,791,521	2,287,433
Accounts receivables factoring without recourse	6,561,896	8,180,472	9,749,139
Interbank settlement funds	389,058	309,604	1,843,004
Rental deposits	467,748	467,748	467,748
PEM receivable	922,271	910,033	896,061
Receivable on securities sold	2,432,518	40,000	54,629
Others	945,734	2,210,326	779,354
	27,938,356	29,524,920	31,182,960
Less: Unrealized interest	(208,626)	(198,107)	(200,278)
Allowance for bad debts	(1,466,940)	(1,519,246)	(1,552,504)
Net amount	$ 26,262,790	$ 27,807,567	$ 29,430,178

As of June 30, 2019, December 31, 2018 and June 30, 2018, 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. Third party then filed appeal for third trial and the case was currently pending with the Supreme Court on November 9, 2018. Please refer to Note 43 for details.

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

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

As of June 30, 2019, the PEM receivable amounting to $922,271 thousand (US$29,682 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 were as follows:

(In Thousands of USD/TWD)

	June 30, 2019	
	USD	TWD
Life insurance policies	$ 14,108	$ 438,373
Non-life insurance policies	15,574	483,898
	29,682	922,271
Less: Allowance for bad debts	(16,212)	(503,740)
Net amount	$ 13,470	$ 418,531

	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

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

Changes in Loss Allowance on Receivables

The reconciliation statements of loss allowance for receivables of the Bank and its subsidiaries were as follows:

For the six months ended June 30, 2019

	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	$ 69,740	$ 28,458	$ 5	$ 1,183,155	$ -	$ 1,281,358	$ 237,888	$ 1,519,246
Changes due to financial instruments that have been identified at the beginning of the period:								
Transferred to lifetime ECL	(127)	3,073	-	(2,946)	-	-		-
Transferred to credit - impaired financial assets	(71)	(968)	-	1,039	-	-		-
Transferred to 12 months ECL	278	(188)	-	(90)	-	-		-
Derecognizing financial assets during the current period	(15,369)	(2,700)	(5)	(7,149)	-	(25,223)		(25,223)
Purchased or originated new financial assets	16,711	-	-	-	-	16,711		16,711
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with nonperforming/nonaccrual loans							(51,185)	(51,185)
Write-off	-	-	-	(1,513)	-	(1,513)		(1,513)
Recovery of written-off	-	-	80	9,206	-	9,286		9,286
Effect of exchange rate changes and others	(10,986)	4,055	(80)	6,629	-	(382)	-	(382)
Balance at June 30	$ 60,176	$ 31,730	$ -	$ 1,188,331	$ -	$ 1,280,237	$ 186,703	$ 1,466,940

For the six months ended June 30, 2018

	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	$ 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	(947)	2,925	-	(1,978)	-	-		-
Transferred to credit - impaired financial assets	(793)	(5,067)	-	5,860	-	-		-
Transferred to 12 months ECL	1,546	(140)	-	(1,406)	-	-		-
Derecognizing financial assets during the current period	(38,826)	(5,435)	-	(6,907)	-	(51,168)		(51,168)
Purchased or originated new financial assets	41,281	7	-	-	-	41,288		41,288
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with nonperforming/nonaccrual loans							81,545	81,545
Write-off	-	(6,351)	-	(29,923)	-	(36,274)		(36,274)
Recovery of written-off	-	-	-	79,840	-	79,840		79,840
Effect of exchange rate changes and others	(25,903)	646	-	(46,075)	-	(71,332)	-	(71,332)
Balance at June 30	$ 84,660	$ 19,027	$ -	$ 1,231,992	$ -	$ 1,335,679	$ 216,825	$ 1,552,504

Changes in total book values of receivables of the Bank and its subsidiaries were as follows:

For the six months ended June 30, 2019

	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	$ 27,184,310	$ 251,010	$ 17	$ 1,891,476	$ -	$ 29,326,813
Conversion from individual financial instruments to lifetime ECL	-	-	2	(2)	-	-
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	(39,342)	19,577	-	19,765	-	-
Purchased or originated new receivables	4,709,627	-	-	2,888	-	4,712,515
Write-off	-	-	-	(2,364)	-	(2,364)
Derecognition	(6,294,016)	(29,940)	(15)	(62,627)	-	(6,386,598)
Effect of exchange rate changes and others	67,270	18	(2)	12,078	-	79,364
Balance at June 30	$ 25,627,849	$ 240,665	$ -	$ 1,861,216	$ -	$ 27,729,730

For the six months ended June 30, 2018

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

For the impairment loss analysis of receivables, please refer to Note 45.

For the receivables pledged as collaterals for the Bank and its subsidiaries, please refer to Note 42.

13. DISCOUNTS AND LOANS, NET

	June 30, 2019	December 31, 2018	June 30, 2018
Short-term loans	$ 81,221,266	$ 82,152,934	$ 90,641,628
Medium-term loans	207,140,927	191,489,940	183,956,117
Long-term loans	71,203,797	66,094,609	59,942,077
Overdue loans	348,258	420,512	486,955
Export negotiations	42,776	56,079	80,694
	359,957,024	340,214,074	335,107,471
Less: Allowance for bad debts	(4,566,978)	(4,334,342)	(4,243,592)
Less: Discounts on loans	(122,723)	(128,300)	(111,511)
Net amount	$ 355,267,323	$ 335,751,432	$ 330,752,368

Changes in Loss Allowance on Discounts and Loans

The reconciliation statements of loss allowance for discounts and loans of the Bank were as follows:

For the six months ended June 30, 2019

	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	$ 1,415,427	$ 95,618	$ 7,085	$ 495,451	$ -	$ 2,013,581	$ 2,320,761	$ 4,334,342
Changes due to financial instruments that have been identified at the beginning of the period:								
Transferred to lifetime ECL	(1,240)	10,838	4,050	(13,648)	-	-		-
Transferred to credit - impaired financial assets	(2,227)	(19,150)	(2,106)	23,483	-	-		-
Transferred to 12 months ECL	4,762	(3,441)	-	(1,321)	-	-		-
Derecognizing financial assets during the current period	(206,091)	(8,166)	(136)	(81,262)	-	(295,655)		(295,655)
Purchased or originated new financial assets	517,071	-	-	-	-	517,071		517,071
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with nonperforming/nonaccrual loans							108,969	108,969
Write-off	-	-	-	(239,287)	-	(239,287)		(239,287)
Recovery of written-off	-	-	-	363,981	-	363,981		363,981
Effect of exchange rate changes and others	(191,211)	76,936	235	(108,403)	-	(222,443)		(222,443)
Balance at June 30	$ 1,536,491	$ 152,635	$ 9,128	$ 438,994	$ -	$ 2,137,248	$ 2,429,730	$ 4,566,978

For the six months ended June 30, 2018

	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	$ 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	(2,226)	9,432	-	(7,206)	-	-		-
Transferred to credit - impaired financial assets	(2,246)	(23,418)	-	25,664	-	-		-
Transferred to 12 months ECL	2,049	(1,645)	-	(404)	-	-		-
Derecognizing financial assets during the current period	(271,561)	(2,474)	-	(6,702)	-	(280,737)		(280,737)
Purchased or originated new financial assets	453,559	380	-	6,851	-	460,790		460,790
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with nonperforming/nonaccrual loans							311,027	311,027
Write-off	-	-	-	(204,371)	-	(204,371)		(204,371)
Recovery of written-off	-	-	-	375,494	-	375,494		375,494
Effect of exchange rate changes and others	(161,229)	(7,715)	-	(178,583)	-	(347,527)		(347,527)
Balance at June 30	$ 1,334,475	$ 104,186	$ -	$ 541,647	$ -	$ 1,980,308	$ 2,263,284	$ 4,243,592

Changes in total book values of discounts and loans of the Bank were as follows:

For the six months ended June 30, 2019

	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	$ 335,634,535	$ 1,729,750	$ 23,616	$ 2,826,173	$ -	$ 340,214,074
Conversion from individual financial instruments to lifetime ECL	-	-	13,502	(13,502)	-	-
Conversion from individual financial instruments to credit-impaired financial assets	-	-	(7,020)	7,020	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Discounts and loans based on collective assessment	(426,092)	(87,208)	-	513,300	-	-
Purchased or originated new discounts and loans	199,733,617	-	-	-	-	199,733,617
Write-off	-	-	-	(239,287)	-	(239,287)
Derecognition	(180,162,123)	(160,755)	(454)	(260,066)	-	(180,583,398)
Effect of exchange rate changes and others	829,449	1,102	786	681	-	832,018
Balance at June 30	$ 355,609,386	$ 1,482,889	$ 30,430	$ 2,834,319	$ -	$ 359,957,024

For the six months ended June 30, 2018

	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	-	-	-	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	-	-	-	-	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Discounts and loans based on collective assessment	(466,342)	197,957	-	268,385	-	-
Purchased or originated new discounts and loans	180,347,838	19,134	-	385,253	-	180,752,225
Write-off	-	-	-	(204,371)	-	(204,371)
Derecognition	(138,275,226)	(126,164)	-	(304,304)	-	(138,705,694)
Effect of exchange rate changes and others	(3,762,680)	(172,103)	-	(474,738)	-	(4,409,521)
Balance at June 30	$ 330,083,368	$ 1,896,652	$ -	$ 3,127,451	$ -	$ 335,107,471

For the impairment loss analysis of discounts and loans, please refer to Note 45.

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET

Immaterial associates:

	June 30, 2019		December 31, 2018		June 30, 2018	
	Carrying Amount	%	Carrying Amount	%	Carrying Amount	%
CDIB & Partners Investment Holding Corporation	$ 946,321	4.95	$ 789,000	4.95	$ 850,857	4.95
Others	107		208		346	
	$ 946,428		$ 789,208		$ 851,203	

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

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

15. OTHER FINANCIAL ASSETS, NET

	June 30, 2019	December 31, 2018	June 30, 2018
Due from banks (original maturities over three months)	$ 1,130,800	$ 1,476,948	$ 2,990,260
Overdue receivables	14,443	10,498	12,802
Pledged time deposits	300	300	300
	1,145,543	1,487,746	3,003,362
Less: Allowance for bad debts - overdue receivables	(14,443)	(10,498)	(12,802)
Net amount	$ 1,131,100	$ 1,477,248	$ 2,990,560

For the other financial assets pledged as collaterals by the Bank and its subsidiaries, please refer to Note 42.

16. PROPERTY AND EQUIPMENT, NET

	June 30, 2019	December 31, 2018	June 30, 2018
Land	$ 3,310,707	$ 3,310,707	$ 3,439,901
Buildings and facilities	1,579,971	1,601,481	1,686,690
Machinery and computer equipment	660,416	275,528	199,081
Leased assets	-	658,309	646,965
Leasehold improvement	233,805	247,663	271,352
Transportation equipment	327,851	113	215
Miscellaneous equipment	39,030	40,737	44,047
Prepayments for acquisition of properties	39,281	49,413	45,324
	$ 6,191,061	$ 6,183,951	$ 6,333,575

	June 30, 2019
Assets used by the Bank and its subsidiaries	$ 5,484,557
Assets leased under operating leases	706,504
	$ 6,191,061

Except for depreciation recognized and the transactions listed below, the Bank and its subsidiaries’ had no significant addition, disposal and impairment of property and equipment during the six months ended June 30, 2019 and 2018.

The board of directors held in July 2018 approved selling three buildings located in Miaoli Gongguan, Tainan Canal and Yongle, thus there were 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 Yongle were sold in February 2019, and the buildings located in Miaoli Gongguan and Tainan Canal were sold in December 2018, and the gains on disposal of assets held for sale were $5,772 thousand and $8,494 thousand, respectively.

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

The operating leases of the Bank's subsidiaries are mainly based on leased light passenger vehicle with lease terms of 1 to 5 years without an option to extend for an additional years. All operating lease contracts not contain market review clauses in the event that the lessees exercise their options to extend. The lessees do not have bargain purchase options to acquire the assets at the expiry of the lease periods.

The maturity analysis of lease payments receivable was as follows:

	June 30, 2019
Year 1	$ 116,795
Year 2	71,338
Year 3	32,048
Year 4	7,121
Year 5	1,084
	$ 228,386

The investment property leased by the Bank and its subsidiaries for operating leases is depreciated on a straight-line basis based over their estimated useful lives as follows:

	Estimated Useful Lives
Machinery equipment	20 years
Transportation equipment	5 years

For the property and equipment pledged as collaterals by the Bank and its subsidiaries, please refer to Note 42.

17. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	June 30, 2019
Carrying amounts	
Buildings and facilities	$ 2,251,286
Computer equipment	77,610
Transportation equipment	5,055
	$ 2,333,951

	For the Six Months Ended June 30, 2019
Additions to right-of-use assets	$ 221,307

	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
Depreciation of right-of-use assets		
Buildings and facilities	$ 82,194	$ 161,084
Computer equipment	3,977	7,092
Transportation equipment	431	732
	$ 86,602	$ 168,908

b. Lease liabilities-2019

	June 30, 2019
Carrying amounts	$ 2,328,479

Range of discount rate for lease liabilities were as follows:

	June 30, 2019
Buildings and facilities	0.75%-3.84%
Computer equipment	0.91%-0.92%
Transportation equipment	0.75%-0.92%

The maturity analysis of lease liabilities (undiscounted) were as follows:

	June 30, 2019
Less than 1 year	$ 338,835
1 year to 5 years	1,046,945
Over 5 years	1,079,408
	$ 2,465,188

c. Material lease-in activities and terms

The Bank and its subsidiaries leases buildings and facilities, computer equipment and transportation equipment with lease terms of 1 to 10 years. In the contract, the Bank and its subsidiaries has options to lease the building at the end of the lease terms. The lessees do not have bargain purchase options to acquire the assets at the expiry of the lease periods.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties and freehold property, plant and equipment for the Bank and its subsidiaries, please refer Notes 16 and 18, respectively.

	For the Three Months Ended June 30, 2019	For the Six Months Ended June 30, 2019
Expenses relating to short-term leases	$ 9,720	$ 21,328
Expenses relating to low-value asset leases	$ 558	$ 902
Total cash outflow for leases		$ 195,361

The Bank and its subsidiaries lease certain building and facilities, transportation equipment, parking space and other equipment which qualify as short-term leases and certain equipment which qualify as low-value asset leases. The Bank and its subsidiaries have elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

For the six months ended June 30, 2019, the amount of expenses relating to short-term leases also include expenses relating to leases for which the lease terms end on or before December 31, 2019 and for which the recognition exemption is applied was $10,280 thousand. The amount of lease commitments for short-term leases for which the recognition exemption is applied was $16,069 thousand as of June 30, 2019.

18. INVESTMENT PROPERTY, NET

	June 30, 2019	December 31, 2018	June 30, 2018
Land	$ 816,754	$ 816,754	$ 726,715
Buildings and facilities	194,143	197,967	149,137
	$ 1,010,897	$ 1,014,721	$ 875,852

Except for depreciation recognized, the Bank and its subsidiaries had no significant addition, disposal and impairment of investment property during the six months ended June 30, 2019 and 2018.

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

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

The fair value of the Bank and its subsidiaries' investment property was based on the assessment of an external independent appraiser and is reviewed by the Bank and its subsidiaries' management that considers the validity of appraisal report in 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 property as of June 30, 2019, December 31, 2018 and June 30, 2018 were $1,093,721 thousand, $1,099,813 thousand and $962,001 thousand, respectively.

Lease terms of leasing investment property is 1 to 10 years, and part of lessees have bargain lease options. The lease contracts do not have market review clauses in the event that the lessees exercise their options to extend. The lessees do not have bargain purchase options to acquire the investment property at the expiry of the lease periods.

The maturity analysis of lease payments receivable under operating leases of investment property as of June 30, 2019 were as follows:

	June 30, 2019
Year 1	$ 32,034
Year 2	30,744
Year 3	27,486
Year 4	26,137
Year 5	12,930
Over 5 years	23,054
	$ 152,385

The investment property leased by the Bank and its subsidiaries for operating leases is depreciated on a straight-line basis based over their estimated useful lives as follows:

	Estimated Useful Lives
Buildings and facilities	20-60 years

For the investment property pledged as collaterals by the Bank and its subsidiaries, please refer to Note 42.

19. OTHER ASSETS, NET

	June 30, 2019	December 31, 2018	June 30, 2018
Guarantee deposits paid	$ 4,736,066	$ 12,340,430	$ 16,657,410
Prepaid expenses	772,747	815,358	836,258
Operating guarantee deposits	57,100	57,100	57,100
Prepaid pension costs	62,658	31,909	106,652
Others	86,677	87,915	88,769
	$ 5,715,248	$ 13,332,712	$ 17,746,189

For the other assets pledged as collaterals by the Bank and its subsidiaries, please refer to Note 42.

20. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	June 30, 2019	December 31, 2018	June 30, 2018
Call loans from banks	$ 20,572,084	$ 21,166,613	$ 33,177,355
Deposits from Chunghwa Post Co., Ltd.	190,146	192,646	358,205
	$ 20,762,230	$ 21,359,259	$ 33,535,560

21. NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS

	June 30, 2019	December 31, 2018	June 30, 2018
Bank debentures	$ 11,431,585	$ 14,788,077	$ 15,433,831
Corporate bonds	25,226,051	29,294,737	30,740,512
Government bonds	7,461,577	15,641,443	14,897,164
Commercial paper	1,513,789	579,425	247,967
	$ 45,633,002	$ 60,303,682	$ 61,319,474
Repurchase amounts	$ 45,881,120	$ 60,652,969	$ 61,589,870
Last maturity date	October 2019	May 2019	November 2018

22. PAYABLES

	June 30, 2019	December 31, 2018	June 30, 2018
Accounts payable factoring	$ 961,044	$ 1,038,451	$ 1,635,740
Accrued interest	4,233,675	3,534,393	2,671,740
Accrued expenses	579,536	897,568	476,001
Funds for clearing	363,076	286,813	1,818,645
Checks for clearing	556,190	751,499	640,742
Payables for securities purchased	3,024,822	-	152,163
Others	719,470	528,940	634,029
	$ 10,437,813	$ 7,037,664	$ 8,029,060

23. DEPOSITS AND REMITTANCES

	June 30, 2019	December 31, 2018	June 30, 2018
Time deposits	$ 263,530,619	$ 248,719,544	$ 240,069,812
Savings deposits	111,821,286	93,330,058	96,321,286
Demand deposits	54,873,758	58,703,189	58,355,843
Checking deposits	3,610,485	3,689,070	3,607,132
Negotiable certificates of deposit	14,344,000	17,211,000	26,945,800
Remittances	28,957	52,016	35,025
	$ 448,209,105	$ 421,704,877	$ 425,334,898

24. BANK DEBENTURES PAYABLE

Name	June 30, 2019	December 31, 2018	June 30, 2018	Issuance Period	Method of Paying Principle and Interests	Interest Rate
P06 KGIB 1	$ 1,000,000	$ 1,000,000	$ 1,000,000	2017.05.19-2020.05.19	Interest payable annually; principal due on maturity	0.90%
P07 KGIB 1	3,000,000	3,000,000	-	2018.12.27, no maturity date	Interest payable annually (Note)	2.35%
P07 KGIB 2	3,350,000	3,350,000	-	2018.12.27-2033.12.27	Interest payable annually; principal due on maturity	1.68%
P08KGIB 1	3,100,000	-	-	2019.06.26-2034.06.26	Interest payable annually; principal due on maturity	1.40%
	10,450,000	7,350,000	1,000,000			
Unamortized discount	-	-	-			
Net amount	$ 10,450,000	$ 7,350,000	$ 1,000,000			

Note: 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

	June 30, 2019	December 31, 2018	June 30, 2018
Commercial paper payable	$ 2,700,000	$ 1,830,000	$ 1,300,000
Less: Unamortized discount	(367)	(284)	(467)
	$ 2,699,633	$ 1,829,716	$ 1,299,533
Range of interest rate	1.02%-1.09%	1.02%-1.09%	1.08%-1.12%
Last maturity date	August 2019	March 2019	September 2018

26. OTHER BORROWINGS

	June 30, 2019	December 31, 2018	June 30, 2018
Short-term credit borrowings	$ 435,339	$ 430,037	$ 730,536
Note issuance facility	609,954	1,039,821	1,599,485
Short-term secured borrowings	180,000	215,000	105,000
Long-term credit borrowings	63,136	126,685	315,830
	$ 1,288,429	$ 1,811,543	$ 2,750,851
Range of interest rate	1.10%-4.35%	1.10%-4.35%	1.10%-4.35%
Last maturity date	July 2021	July 2021	October 2020

27. PROVISIONS

	June 30, 2019	December 31, 2018	June 30, 2018
Provisions for guarantee liabilities	$ 204,353	$ 134,756	$ 125,363
Provisions for employee benefits	13,721	14,907	14,595
Provisions for loan commitments	98,041	79,477	78,243
Others	130,021	118,903	117,617
	$ 446,136	$ 348,043	$ 335,818

28. RETIREMENT BENEFIT PLANS

The Bank and its subsidiaries' retirement plans consist of defined contribution and defined benefit plans. For defined benefit plans, employee benefit expenses for the six months ended June 30, 2019 and 2018 were calculated using the actuarially determined pension cost discount rates as of December 31, 2018 and 2017, respectively.

For the three and six months ended June 30, 2019 and 2018, the Bank and its subsidiaries (a) recognized their contributions under the defined benefit plans as pension expenses (recognized as employee benefits expense) of $819 thousand, $921 thousand, $1,638 thousand and $1,899 thousand, respectively, and (b) recognized under the defined contribution plans pension expenses (recognized as employee benefits expense) of $34,464 thousand, $33,569 thousand, $68,511 thousand and $65,938 thousand, respectively.

29. OTHER LIABILITIES

	June 30, 2019	December 31, 2018	June 30, 2018
Temporary receipts and suspense accounts	$ 322,773	$ 1,613,132	$ 253,217
Guarantee deposits received	2,825,234	2,705,509	4,289,434
Advance receipts	108,842	115,471	132,504
Others	69,304	68,992	70,014
	$ 3,326,153	$ 4,503,104	$ 4,745,169

30. EQUITY

a. Capital

Common stock

	June 30, 2019	December 31, 2018	June 30, 2018
Number of shares authorized (in thousands) (Note)	20,000,000	20,000,000	20,000,000
Shares authorized	$ 200,000,000	$ 200,000,000	$ 200,000,000
Number of shares issued and fully paid (in thousands) (Note)	4,606,162	4,606,162	4,606,162
Shares issued	$ 46,061,623	$ 46,061,623	$ 46,061,623

Note: Share par value NT$10.

b. Capital surplus

	June 30, 2019	December 31, 2018	June 30, 2018
Additional paid-in capital	$ 7,245,723	$ 7,245,723	$ 7,245,723
Issuance of employee share options	5,334	5,208	4,948
Change in capital surplus from investments in associates accounted for by using equity method	185	242	234
	$ 7,251,242	$ 7,251,173	$ 7,250,905

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 recognizes and reverses special reserve according to Order No. 1010012865 issued by the FSC on April 6, 2012 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. However, in response of the development of financial technology and the protection of the rights and interests of employees in the domestic banks, it is not applicable to appropriate special reserve in accordance with the Order No. 10802714560 issued by the FSC. When paying the expense of employees turnover or resettlement expenditures and the training in response of financial technology or business development of the bank, the Bank reverses the special reserve within the scope mentioned above.

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 2018 and 2017 earnings for approved by board of directors which entitled to execute shareholders' meeting function on May 23, 2019 and May 24, 2018 respectively were as follows:

	2018	2017
Legal reserve	$ 491,024	$ 944,525
Special reserve (reversal on special reserve)	1,145,724	(1,032,200)
Cash dividends	-	3,236,089

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

31. NET INTEREST

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Interest revenues				
Discounts and loans	$ 2,546,180	$ 2,281,859	$ 5,040,061	$ 4,392,229
Securities	599,892	623,322	1,230,945	1,204,758
Due from and call loans to banks	105,723	119,000	212,922	235,169
Others	225,353	254,047	499,998	455,221
	3,477,148	3,278,228	6,983,926	6,287,377

(Continued)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Interest expenses				
Deposits	$ 1,378,251	$ 1,056,358	$ 2,783,194	$ 1,972,859
Notes and bonds issued under repurchase agreements	251,179	218,539	501,091	395,451
Structured notes	31,597	30,286	67,788	60,945
Due to/borrowings from the other banks	61,055	112,675	159,073	190,935
Lease liabilities	6,901	-	15,983	-
Others	79,836	34,898	150,391	63,258
	1,808,819	1,452,756	3,677,520	2,683,448
	$ 1,668,329	$ 1,825,472	$ 3,306,406	$ 3,603,929

(Concluded)

32. SERVICE FEE INCOME, NET

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Service fee revenues				
Insurance commission	$ 192,724	$ 179,323	$ 377,879	$ 372,388
Trust	112,006	116,810	197,758	267,783
Loans	125,396	75,475	280,559	145,514
Credit card	44,298	38,598	90,587	75,520
Cash card	26,237	28,922	50,583	56,419
Others	99,031	92,364	179,930	177,462
	599,692	531,492	1,177,296	1,095,086
Service fee expenses				
Agency	24,021	21,727	47,401	40,421
Interbank	16,417	14,166	31,871	28,365
Others	38,241	32,516	82,981	77,053
	78,679	68,409	162,253	145,839
	$ 521,013	$ 463,083	$ 1,015,043	$ 949,247

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Realized gain (loss)				
Bonds	$ (64,214)	$ (202,110)	$ (114,132)	$ (377,553)
Stocks	-	(327,530)	(183,105)	(635,743)
Derivative instruments	619,028	(461,024)	(1,121,168)	709,431
Others	17,841	22,397	33,750	36,561
	572,655	(968,267)	(1,384,655)	(267,304)
Revaluation gain (loss)				
Bonds	(1,036,909)	476,124	(2,762,390)	1,724,458
Derivative instruments	(720,161)	785,823	1,383,764	2,622,342
Stocks	-	285,577	169,275	390,334
Others	1,709,100	(467,262)	3,270,887	(3,635,719)
	(47,970)	1,080,262	2,061,536	1,101,415
	$ 524,685	$ 111,995	$ 676,881	$ 834,111

For the three and six months ended June 30, 2019 and 2018, the realized gain or loss on the Bank and its subsidiaries' financial assets or liabilities at FVTPL included (a) disposal gain of $631,995 thousand, loss of $784,911 thousand, loss of $1,251,378 thousand and gain of $68,587 thousand, respectively, (b) interest revenues of $294,693 thousand, $126,117 thousand, $565,762 thousand and $226,570 thousand, respectively, (c) dividend incomes of $0 thousand, $20,840 thousand, $0 thousand and $28,340 thousand, respectively, and (d) interest expenses of $354,033 thousand, $330,313 thousand, $699,039 thousand and $590,801 thousand, respectively.

34. REALIZED GAINS (LOSSES) ON FINANCIAL ASSETS MEASURED AT FVTOCI

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Gain (loss) on bond disposal	$ 192,656	$ (330,829)	$ 231,073	$ (565,592)
Dividend income	72,309	23,929	72,309	23,929
Others	(102)	-	(102)	-
	$ 264,863	$ (306,900)	$ 303,280	$ (541,663)

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Debt instruments at fair value through other comprehensive income	$ 6,027	$ 5,653	$ 7,903	$ (3,872)
Debt investments measured at amortized cost	149	(159)	139	(1,773)
	$ 6,176	$ 5,494	$ 8,042	$ (5,645)

36. OTHER NON-INTEREST INCOME

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Rental income	$ 51,763	$ 46,740	$ 100,151	$ 85,084
Gain on disposal of investment property	-	-	-	69,047
Losses on debt restructuring	(6,772)	(6,936)	(12,866)	(14,532)
Others	(22,210)	2,914	(13,019)	(2,873)
	$ 22,781	$ 42,718	$ 74,266	$ 136,726

37. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Employee benefit expense				
Salaries and wages	$ 783,369	$ 727,214	$ 1,554,940	$ 1,444,441
Employee insurance	58,840	53,550	130,014	119,049
Pension	35,283	34,490	70,149	67,837
Others	56,293	53,767	124,987	105,436
	$ 933,785	$ 869,021	$ 1,880,090	$ 1,736,763
Depreciation and amortization expenses	$ 201,861	$ 105,099	$ 399,023	$ 208,289

The Company's Articles of Incorporation stipulates to distribute compensation of employees at the rates no less than 0.01% and no higher than 3% of net profit before income tax and employees' compensation. However, if the Bank had incurred cumulative losses, the profit should be used to offset the losses first. For the three and six months ended June 30, 2019 and 2018, the employee's compensation were $1,158 thousand, $1,027 thousand, $2,256 thousand and $1,666 thousand, respectively.

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.

There was no difference between the amounts of the employees' compensation resolved by the board of directors and the respective amounts recognized in the 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.

38. OTHER GENERAL AND ADMINISTRATIVE EXPENSES

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Taxation	$ 118,817	$ 113,562	$ 244,009	$ 239,292
Rental	10,781	91,379	23,436	180,223
Professional services	40,680	60,838	78,026	114,499
Marketing	43,026	43,920	78,345	84,941
Computer information	50,951	45,886	94,512	97,682
Others	158,193	150,759	306,144	282,096
	$ 422,448	$ 506,344	$ 824,472	$ 998,733

39. INCOME TAX

a. Income tax expense

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Current income tax				
Current year	$ 70,416	$ (32,070)	$ 135,658	$ 118,327
Prior year's adjustments	(6,828)	(5,736)	(6,828)	(5,736)
	63,588	(37,806)	128,830	112,591
Deferred income tax	150,013	197,891	290,047	13,112
Income tax expenses	$ 213,601	$ 160,085	$ 418,877	$ 125,703

The corporate income tax rate used by the Bank and its subsidiaries in the ROC is 20%. In addition, the rate of the corporate surtax applicable to 2018 unappropriated earnings will be reduced from 10% to 5%. The applicable tax rate used by subsidiaries in China is 25%.

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

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Current income tax				
Changes in fair value of equity instruments at fair value through other comprehensive income	$ -	$ -	$ -	$ (960)
Deferred income tax				
Changes in fair value of debt instruments at fair value through other comprehensive income	52,544	-	52,544	-
Income tax expense (benefit)	$ 52,544	$ -	$ 52,544	$ (960)

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

	June 30, 2019	December 31, 2018	June 30, 2018
Tax paid to the parent company	$ 541,361	$ 530,563	$ 435,483

d. Income tax assessments

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

The income tax returns of CDIB Management Consulting Corporation and CDC Finance & Leasing Corporation through 2017 had been examined by the tax authorities. The income tax returns of the Bank and formerly Cosmos Insurance Brokers Co., Ltd. through 2014 had been examined by the tax authorities.

40. EARNINGS PER SHARE

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Earnings used in the computation of the EPS	$ 958,655	$ 857,344	$ 1,860,971	$ 1,549,547
Weighted average outstanding common shares (shares in thousands)	4,606,162	4,606,162	4,606,162	4,606,162
Basic EPS (in dollars)	$0.21	$0.19	$0.40	$0.34

41. 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
Others	Other related parties

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

	Amount	%
December 31, 2018	$ 200,611	3
June 30, 2018	235,943	3

For the three and six months ended June 30, 2019 and 2018, the interest revenue from due from banks were $0 thousand.

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

<u>Cash and cash equivalents</u>

	Amount	%
June 30, 2019	$ 73,757	1
December 31, 2018	244,242	4
June 30, 2018	551,010	7

<u>Financial assets at fair value through profit or loss</u>

	Amount	%
June 30, 2019	$ 5,291	-
December 31, 2018	219,882	-
June 30, 2018	169,366	-

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

	Amount	%
December 31, 2018	$ 921,744	8
June 30, 2018	914,756	8

For the three and six months ended June 30, 2019 and 2018, the interest revenue from bank debentures were $8,211 thousand, $9,346 thousand, $17,946 thousand and $12,872 thousand, respectively.

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

	Amount	%
June 30, 2019	$ 14,788	-
December 31, 2018	30,182	-
June 30, 2018	25,387	-

e. Credit card (recognized as receivables, net)

	Amount	%
June 30, 2019	$ 38,741	-
December 31, 2018	22,433	-
June 30, 2018	39,120	-

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

	Amount	%
June 30, 2018	$ 7,369	-

g. Discounts and loans, net

	Amount	%	Interest Rate (%)
June 30, 2019	$ 1,123,113	-	1.54-5.99
December 31, 2018	1,150,686	-	1.54-15.00
June 30, 2018	1,015,459	-	1.54-15.00

For the three and six months ended June 30, 2019 and 2018, the interest revenues from discounts and loans were $4,282 thousand, $3,964 thousand, $8,719 thousand and $8,227 thousand, respectively.

Balance as of June 30, 2019

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	34	$ 31,039	$ 19,312	$ 19,312	$ -	None	Yes
Residential mortgage loans	82	1,274,425	1,096,100	1,096,100	-	Real estate	Yes
Others	6	9,050	7,701	7,701	-	Real estate	Yes

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 June 30, 2018

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

h. Purchase and sale of bonds

	Purchase of Bonds	Sale of Bonds
For the six months ended June 30, 2019		
Subsidiary of the parent company	$ 386,477	$ 702,331
For the six months ended June 30, 2018		
Subsidiary of the parent company	3,431,410	431,412
Other related parties	877,050	-

i. Lease arrangements (as a lessee)

Lease liabilities

	June 30, 2019
Subsidiary of the parent company	$ 154,061

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Interest expense				
Subsidiary of the parent company	$ 340	$ -	$ 901	$ -
Lease expense				
Subsidiary of the parent company	21	25,483	42	50,958

The above renal price is determined by the market and paid monthly/quarterly.

j. Lease arrangements (as a lessor)

The subsidiary leases out transportation equipment to parent company and subsidiary of parent company under operating lease with lease term of one year.

	For the Three Months Ended June 30	For the Six Months Ended June 30
	Amount	Amount
2019	$ 661	$ 1,324
2018	825	1,650

The above rental price is determined by the market and charged monthly.

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

	Amount	%
June 30, 2019	$ 26,327	-
December 31, 2018	23,311	-
June 30, 2018	23,374	-

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

	December 31, 2018		June 30, 2018	
	Amount	**%**	**Amount**	**%**
Other related parties	$ 908,555	4	$ 4,457,500	13

For the three and six months ended June 30, 2019 and 2018, the interest expense for call loans from banks were $4,907 thousand, $2,981 thousand, $14,477 thousand and $6,450 thousand, respectively.

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

	Amount	%
June 30, 2018	$ 66,687	1

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

	June 30, 2019		December 31, 2018		June 30, 2018	
	Amount	**%**	**Amount**	**%**	**Amount**	**%**
Parent company	$ 541,361	100	$ 530,563	100	$ 435,483	100

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

o. Accrued interest (recognized as payables)

	Amount	%
June 30, 2019	$ 3,333	-
December 31, 2018	7,719	-
June 30, 2018	4,760	-

p. Deposits

	Amount	%	Interest Rate (%)
June 30, 2019	$ 12,544,677	3	0-5.58
December 31, 2018	24,713,558	6	0-5.58
June 30, 2018	19,334,976	5	0-5.58

For the three and six months ended June 30, 2019 and 2018, the interest expenses for deposits were $39,006 thousand, $24,410 thousand, $83,722 thousand and $48,824 thousand, respectively.

q. Service fee revenue

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	%	Amount	%
2019				
Subsidiary of the parent company	$ 97,281	16	$ 180,668	15
Other related parties	34	-	67	-
2018				
Subsidiary of the parent company	62,219	12	120,284	11
Other related parties	45	-	83	-

Service fee revenue was mainly comprised of sale of insurance, fund, trust affiliated business and others.

r. Service fee expenses

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	%	Amount	%
2019	$ 557	1	$ 1,095	1
2018	605	1	8,063	6

s. Insurance expenses (recognized as employee benefits expenses)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	%	Amount	%
2019	$ 4,824	1	$ 9,497	1
2018	3,507	-	7,318	-

t. Donation (recognized as other general and administrative expenses)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	%	Amount	%
2019	$ 10,000	2	$ 10,000	1

u. Other general and administrative expenses (Note)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	Amount	%	Amount	%
2019	$ 23,043	5	$ 44,505	5
2018	22,186	4	42,904	4

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

v. Outstanding derivative financial instruments

June 30, 2019

Related Party	Contract Type	Contract Period	Contract Amount	Valuation Gain (Loss)	Balance Sheet	
					Account	Balance
Subsidiaries of the parent company	Asset swap-interest rate swap contracts	March 12, 2019 - February 26, 2022	$ 180,000	$ 7,163	Financial assets at FVTPL	$ 7,163
	Asset swap-option contracts	March 12, 2019 - February 11, 2022	180,000	(13,169)	Financial liabilities at FVTPL	13,169
	Interest rate swap contracts	November 4, 2016 - January 24, 2020	372,864	3,150	Financial liabilities at FVTPL	1,394
	Currency swap contracts	March 27, 2019 - November 15, 2019	15,846,720	12,807	Financial assets at FVTPL	81,025
					Financial liabilities at FVTPL	68,218

December 31, 2018

Related Party	Contract Type	Contract Period	Contract Amount	Valuation Gain (Loss)	Balance Sheet	
					Account	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

June 30, 2018

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

w. Compensation of key management personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	2018	2019	2018
Salary and short-term employee benefits	$ 37,738	$ 29,794	$ 74,269	$ 61,201
Post-employment benefits	432	447	880	924
Share-based payment	62	155	126	310
	$ 38,232	$ 30,396	$ 75,275	$ 62,435

In addition to the above, the Bank also paid housing rental, car rental and drivers' salaries, which amounted to $851 thousand, $1,261 thousand, $1,864 thousand and $2,620 thousand for the three and six months ended June 30, 2019 and 2018, respectively.

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

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

42. PLEDGED ASSETS

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

Assets	Object	Purpose	June 30, 2019	December 31, 2018	June 30, 2018
Due from the Central Bank and call loans to banks	Certificates of deposit issued by the Central Bank	As collaterals for day-term overdraft and U.S. dollar liquidation and other transactions of the guarantee	$ -	$ -	$ 3,500,000
Financial assets at fair value through profit or loss	Government bonds	Guarantees for provisional seizure	15,850	2,838	27,028
Installment accounts and lease receivables	Notes receivable	Commercial paper payable and short-term borrowing	2,439,765	2,380,148	2,305,826
Financial assets at fair value through other comprehensive income	Government bonds	Guarantees for provisional seizure	20,539	20,584	20,757
Financial assets at fair value through other comprehensive income	Government bonds	Guarantees and provisions	160,675	160,764	161,594
Financial assets at fair value through other comprehensive income	Negotiable certificates of deposit	As collaterals for day-term overdraft and U.S. dollar liquidation and other transactions of the guarantee	17,097,368	16,198,186	15,529,159
Other financial assets, net	Time deposits	As collaterals for day-term overdraft	1,130,800	1,118,900	-
Property and equipment, net	Property	Commercial paper payable and short-term borrowing	12,462	12,618	12,775
Investment property, net	Investment property	Commercial paper payable and short-term borrowing	39,515	40,192	40,869
Other financial assets, net	Time deposits	Short-term borrowing	300	300	300
Other assets, net	Cash in banks - impound account	Commercial paper payable and short-term borrowing	42,914	44,936	49,315

43. 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 was effected from January 1, 2019, with the service fees totaling $260,141 thousand for the remaining contract period starting from June 30, 2019.

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.

44. 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:

June 30, 2019

	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	$ 1,950,735	$ -	$ -	$ 1,950,735
Commercial paper payable	-	9,905,624	-	9,905,624
Financial assets designated as at FVTPL	12,384,084	34,068,517	-	46,452,601
Financial assets at FVTOCI				
Stock investments	3,815,337	-	372,558	4,187,895
Debt investments	27,893,460	51,281,337	-	79,174,797
Negotiable certificates of deposit	-	54,060,962	-	54,060,962
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	-	31,433,488	-	31,433,488
Derivative financial instruments				
Assets				
Financial assets at FVTPL	5,291	40,371,021	106,753	40,483,065
Liabilities				
Financial liabilities at FVTPL	-	52,323,436	106,118	52,429,554

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
Stock investments	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

June 30, 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	$ 3,233,034	$ -	$ -	$ 3,233,034
Commercial paper payable	-	16,816,178	-	16,816,178
Others	1,040,205	610,144	-	1,650,349
Financial assets designated as at FVTPL	3,550,919	28,739,554	-	32,290,473
Financial assets at FVTOCI				
Stock investments	2,146,485	-	417,068	2,563,553
Debt investments	42,860,100	59,795,686	-	102,655,786
Others	-	40,365,608	-	40,365,608
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	-	29,283,675	-	29,283,675
Derivative financial instruments				
Assets				
Financial assets at FVTPL	169,767	43,732,106	221,080	44,122,953
Liabilities				
Financial liabilities at FVTPL	-	62,621,504	223,468	62,844,972

2) Valuation technique of fair value

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

b) Credit risk valuation adjustment

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

The credit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the counterparty may default and that the Corporation may not receive the full market value of the transactions. The debit valuation adjustment is an adjustment to the valuation of OTC derivative contracts to reflect within fair value the possibility that the Corporation may default, and that the Corporation may not pay full market value of the transactions. The Bank does credit valuation adjustment using probability of default (PD) multiplied by loss given default (LGD) multiplied by exposure at default (EAD). To estimate the PD to be used as basis for the allowance for doubtful accounts, the Bank refers to the ratings published by international credit rating institutions, valuation models and valuation method specified in IFRS 9. For EAD calculation, the market values of OTC derivative instruments are estimated in calculating EAD. The Bank uses PD no lower than 60%.

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

4) Transfer between Level 1 and Level 2

	For the Six Months Ended June 30, 2019		For the Six Months Ended June 30, 2018	
	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	$ -	$ -	$ 5,186,315	$ -

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 financial assets with Level 3 fair value were as follows:

For the Six Months Ended June 30, 2019

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	$ 147,234	$ (32,916)	$ -	$ -	$ -	$ (7,565)	$ -	$ 106,753
Financial assets at FVTOCI	381,396	-	(1,525)	-	-	(7,313)	-	372,558

For the Six Months Ended June 30, 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	$ 86,689	$ -	$ -	$ -	$ (8,805)	$ -	$ 221,080
Financial assets at FVTOCI	426,330	-	(55)	-	-	(9,207)	-	417,068

The movements of financial liabilities with Level 3 fair value were as follows:

For the Six Months Ended June 30, 2019

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Current Income (Loss)	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	$ 146,087	$ (32,357)	$ -	$ -	$ (7,612)	$ -	$ 106,118

For the Six Months Ended June 30, 2018

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Current Income (Loss)	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	$ 91,236	$ -	$ -	$ (8,262)	$ -	$ 223,468

In relation to the above, valuation gains and losses are recognized in gain and loss in the period. As of June 30, 2019 and 2018, the gains and losses on assets and liabilities were gain of $635 thousand and loss of $2,388 thousand, respectively.

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

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

	Fair Value at June 30, 2019	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	$ 372,558	Market approach, net asset method	P/B, P/E, Lack of liquidity discount and control discount	1.23-5.67, 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	106,753	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	106,118	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, 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 June 30, 2018	Valuation Technique(s)	Significant Unobservable Inputs	Interval	The Relationship Between Inputs and Fair Value
Measured on a recurring basis					
Non-derivative financial instruments					
Financial assets at FVTOCI	$ 417,068	Market approach, net asset method	P/B, P/E, Lack of liquidity discount and control discount	1.24-14.10, 11%-27.2%	Multiplier is proportional to fair value, fair value is inversely proportional to discount for lack of marketability and control
Derivative financial instruments					
Financial assets at FVTPL	221,080	HullWhite, Libor market model, discounted cash flow	Quality/factor/ FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.
Financial liabilities at FVTPL	223,468	HullWhite, Libor market model, discounted cash flow	Quality/factor/ FREQ/simulate method	Adjusted daily based on market information	Inputs of parameters do not contain linear relation, which analyzed by comparing correctness, stability, rationality, efficiency of performance and other different aspects of the outcome. Then the Bank select the applicable one according to the analysis.

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 financial instruments not carried at fair value

1) Except for debt investments measured at amortized cost and bank debentures payable, the carrying amounts of the financial instruments not measured at fair value are approximate to their fair value; thus, their fair values are not disclosed.

2) Information of fair value hierarchy

June 30, 2019

	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments measured at amortized cost	$ -	$ 12,103,742	$ -	$ 12,103,742
Financial liabilities				
Bank debentures payable	-	10,449,873	-	10,449,873

December 31, 2018

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

June 30, 2018

	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments measured at amortized cost	$ -	$ 11,884,343	$ -	$ 11,884,343
Financial liabilities				
Bank debentures payable	-	1,002,794	-	1,002,794

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) 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.

c) 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 or Bloomberg.

d) 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.

45. 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 departments

The departments are 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 including 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 consumer banking business, they track and control the changes in asset quality through the use of regular-assessment system, and handle the changes in borrowers' credit quality instantly through the use of regular-reassessment system. For delinquent loans, the Bank uses the concentration management method, together with information systems and analysis models, to enhance and expedite the collection of non-performing 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 Enterprise Credit Guarantee Fund of Taiwan 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 institution 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	**June 30, 2019**	**December 31, 2018**	**June 30, 2018**
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 46,269,614	$ 37,251,576	$ 34,810,201

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					
	June 30, 2019					
			Stage 3			
	Stage 1 12 Months Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Asset	The Adjustment under the Regulation/ Discount	Total
Short-term loans	$ 58,087,454	$ 939,830	$ 726,968	$ -		$ 59,754,252
Short-term secured loans	21,466,859	155	-	-		21,467,014
Medium-term loans	141,468,956	173,660	331,017	-		141,973,633
Medium-term secured loans	65,091,659	44,540	31,095	-		65,167,294
Long-term loans	1,328,316	239,846	450,440	-		2,018,602
Long-term secured loans	68,123,366	115,288	946,541	-		69,185,195
Loans reclassified to nonperforming loans	-	-	348,258	-		348,258
Export negotiations	42,776	-	-	-		42,776
Total book values	355,609,386	1,513,319	2,834,319	-		359,957,024
Allowance for bad debts	(1,536,491)	(161,763)	(438,994)	-		(2,137,248)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (2,429,730)	(2,429,730)
Discounts on loans					(122,723)	(122,723)
Total	$ 354,072,895	$ 1,351,556	$ 2,395,325	$ -	$ (2,552,453)	$ 355,267,323

	Receivables					
	June 30, 2019					
			Stage 3			
	Stage 1 12 Months Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Asset	The Adjustment under the Regulation	Total
Credit card	$ 2,864,085	$ 190,738	$ 99,310	$ -		$ 3,154,133
Accounts receivable – forfaiting	6,068,832	-	-	-		6,068,832
Accounts receivable factoring without recourse	6,561,544	133	254	-		6,561,931
Acceptances	101,164	-	-	-		101,164
Installment accounts and lease receivables	3,519,029	43,613	82,681	-		3,645,323
Total book value	19,114,654	234,484	182,245	-		19,531,383
Allowance for bad debts	(56,006)	(31,187)	(58,144)	-		(145,337)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (145,327)	(145,327)
Total	$ 19,058,648	$ 203,297	$ 124,101	$ -	$ (145,327)	$ 19,240,719

	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	The Adjustment under the Regulation/ Discount	Total
Short-term loans	$ 59,431,415	$ 1,121,576	$ 614,463	$ -		$ 61,167,454
Short-term secured loans	20,978,083	2,600	4,797	-		20,985,480
Medium-term loans	135,657,957	192,409	361,245	-		136,211,611
Medium-term secured loans	55,203,609	62,808	11,912	-		55,278,329
Long-term loans	929,979	277,446	402,542	-		1,609,967
Long-term secured loans	63,377,413	96,527	1,010,702	-		64,484,642
Loans reclassified to nonperforming loans	-	-	420,512	-		420,512
Export negotiations	56,079	-	-	-		56,079
Total book values	335,634,535	1,753,366	2,826,173	-		340,214,074
Allowance for bad debts	(1,415,427)	(102,703)	(495,451)	-		(2,013,581)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (2,320,761)	(2,320,761)
Discounts on loans					(128,300)	(128,300)
Total	$ 334,219,108	$ 1,650,663	$ 2,330,722	$ -	$ (2,449,061)	$ 335,751,432

	Receivables 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	The Adjustment under the Regulation	Total
Credit card	$ 2,449,428	$ 196,501	$ 91,043	$ -		$ 2,736,972
Accounts receivable - forfaiting	8,122,872	-	-	-		8,122,872
Accounts receivable factoring without recourse	8,180,068	280	160	-		8,180,508
Acceptances	140,770	-	-	-		140,770
Installment accounts and lease receivables	3,365,564	47,465	92,327	-		3,505,356
Total book value	22,258,702	244,246	183,530	-		22,686,478
Allowance for bad debts	(65,519)	(27,975)	(66,189)	-		(159,683)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (186,096)	(186,096)
Total	$ 22,193,183	$ 216,271	$ 117,341	$ -	$ (186,096)	$ 22,340,699

	Discounts and Loans					
	June 30, 2018					
			Stage 3			
	Stage 1 12 Months Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Asset	The Adjustment under the Regulation/ Discount	Total
Short-term loans	$ 70,572,268	$ 1,203,311	$ 737,988	$ -		$ 72,513,567
Short-term secured loans	17,968,663	4,750	154,648	-		18,128,061
Medium-term loans	131,521,646	223,262	349,906	-		132,094,814
Medium-term secured loans	51,779,052	71,980	10,271	-		51,861,303
Long-term loans	1,150,251	258,231	381,199	-		1,789,681
Long-term secured loans	57,010,794	135,118	1,006,484	-		58,152,396
Loans reclassified to nonperforming loans	-	-	486,955	-		486,955
Export negotiations	80,694	-	-	-		80,694
Total book values	330,083,368	1,896,652	3,127,451	-		335,107,471
Allowance for bad debts	(1,334,475)	(104,186)	(541,647)	-		(1,980,308)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (2,263,284)	(2,263,284)
Discounts on Loans					(111,511)	(111,511)
Total	$ 328,748,893	$ 1,792,466	$ 2,585,804	$ -	$ (2,374,795)	$ 330,752,368

	Receivables					
	June 30, 2018					
			Stage 3			
	Stage 1 12 Months Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Lifetime Expected Credit Losses	Purchased or Originated Credit-impaired Financial Asset	The Adjustment under the Regulation	Total
Credit card	$ 2,909,705	$ 203,812	$ 90,829	$ -		$ 3,204,346
Accounts receivable - forfaiting	8,119,096	-	-	-		8,119,096
Accounts receivable factoring without recourse	9,748,678	276	223	-		9,749,177
Acceptances	150,268	-	-	-		150,268
Lease receivables	3,387,736	8,243	147,252	-		3,543,231
Total book value	24,315,483	212,331	238,304	-		24,766,118
Allowance for bad debts	(80,395)	(18,326)	(86,953)	-		(185,674)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (200,236)	(200,236)
Total	$ 24,235,088	$ 194,005	$ 151,351	$ -	$ (200,236)	$ 24,380,208

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

	June 30, 2019	December 31, 2018	June 30, 2018
Financial assets at FVTPL			
Debt instruments	$ 42,898,385	$ 35,640,472	$ 31,299,133
Derivatives instruments	40,483,065	23,860,387	44,122,953

5) Collaterals and credit enhancements

The Bank and its subsidiaries' pledged collaterals associated with credit include discounts, loans and receivables which contain real estate, movable property (e.g.: Machinery), rights certificates and securities (e.g.: Certificates of deposit, stocks), notes receivable arose from borrowing of business transactions, guarantees provided by government public authority at all levels, banks or guarantee institutions authorized by government (e.g.: SME credit guarantee fund and letter of credit guaranteed) and collaterals set in accordance with the laws including pledge, 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 were as follows:

	June 30, 2019			
	Total Book Value	**Credit Impairment**	**Amount of Risk Exposure (Amortized Cost)**	**Collaterals Value**
Impaired asset:				
Receivables:				
Credit card	$ 99,310	$ 24,194	$ 75,116	$ -
Accounts receivable factoring without recourse	254	15	239	-
Installment accounts and lease receivables	82,681	33,935	48,746	-
Discounts and loans	2,834,319	438,994	2,395,325	2,459,731
Total amount of impaired asset	$ 3,016,564	$ 497,138	$ 2,519,426	$ 2,459,731

	December 31, 2018			
	Total Book Value	**Credit Impairment**	**Amount of Risk Exposure (Amortized Cost)**	**Collaterals Value**
Impaired asset:				
Receivables:				
Credit card	$ 91,043	$ 28,013	$ 63,030	$ -
Accounts receivable factoring without recourse	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	2,267,860
Total amount of impaired asset	$ 3,009,703	$ 561,640	$ 2,448,063	$ 2,364,309

	June 30, 2018			
	Total Book Value	Credit Impairment	Amount of Risk Exposure (Amortized Cost)	Collaterals Value
Impaired asset:				
Receivables:				
Credit card	$ 90,829	$ 33,796	$ 57,033	$ -
Accounts receivable factoring without recourse	223	53	170	-
Installment accounts and lease receivables	147,252	53,104	94,148	99,139
Discounts and loans	3,127,451	541,647	2,585,804	2,607,125
Total amount of impaired asset	$ 3,365,755	$ 628,600	$ 2,737,155	$ 2,706,264

The amount of the Bank and its subsidiaries' financial assets which has been written off and still has recourse activities of outstanding contract amount are $268,574 thousand and $272,064 thousand for the six months ended June 30, 2019 and 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

	June 30, 2019		December 31, 2018		June 30, 2018	
	Amount	%	Amount	%	Amount	%
Public and private enterprises	$ 237,796,692	66.06	$ 223,928,501	65.82	$ 226,380,146	67.56
Natural persons	121,801,750	33.84	115,908,259	34.07	108,419,285	32.35
Non-profit organizations	358,582	0.10	377,314	0.11	308,040	0.09
Total	$ 359,957,024	100.00	$ 340,214,074	100.00	$ 335,107,471	100.00

b) By region

	June 30, 2019		December 31, 2018		June 30, 2018	
	Amount	%	Amount	%	Amount	%
Domestic	$ 261,629,853	72.68	$ 249,109,901	73.22	$ 248,785,645	74.24
Overseas	98,327,171	27.32	91,104,173	26.78	86,321,826	25.76
Total	$ 359,957,024	100.00	$ 340,214,074	100.00	$ 335,107,471	100.00

c) By collateral

	June 30, 2019		December 31, 2018		June 30, 2018	
	Amount	%	Amount	%	Amount	%
Credit	$ 204,026,130	56.68	$ 199,322,970	58.59	$ 207,808,096	62.01
Secured						
Financial collaterals	8,754,169	2.43	7,522,386	2.21	8,140,229	2.43
Real estate	122,948,824	34.16	112,842,633	33.17	101,189,177	30.20
Guarantees	16,806,944	4.67	14,661,938	4.31	12,433,091	3.71
Other	7,420,957	2.06	5,864,147	1.72	5,536,878	1.65
Total	$ 359,957,024	100.00	$ 340,214,074	100.00	$ 335,107,471	100.00

7) Management policies on foreclosed collaterals

Foreclosed collaterals are recorded at cost, using lower-at-cost or fair value less cost of sale 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 net revenue other than interest.

As of June 30, 2019, December 31, 2018 and June 30, 2018, the carrying amounts of the collaterals were $0 thousand.

8) 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			June 30, 2019				
			Non-performing Loan (NPL) (Note 1)	Total Loans	NPL Ratio (Note 2)	Loan Loss Reserves (LLR)	Coverage Ratio (Note 3)
Corporate banking	Secured		$ 88,125	$ 77,487,189	0.11%	$ 956,926	1,085.88%
	Unsecured		80,419	166,326,512	0.05%	1,887,891	2,347.56%
Consumer banking	Mortgage (Note 4)		21,462	53,097,129	0.04%	657,500	3,063.53%
	Cash card		126,057	13,344,862	0.94%	306,083	242.81%
	Micro credit (Note 5)		158,696	24,331,714	0.65%	343,582	216.50%
	Others (Note 6)	Secured	21,741	25,346,576	0.09%	411,112	1,890.98%
		Unsecured	619	23,042	2.69%	3,884	626.88%
Total			497,119	359,957,024	0.14%	4,566,978	918.69%
			Overdue Receivables	Accounts Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio
Credit card			20,656	3,154,133	0.65%	59,062	285.93%
Accounts receivable factoring without recourse (Note 7)			35	6,561,931	0.00%	90,308	258,421.22%

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

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

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

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

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

b) Exemption on non-performing loans and overdue receivables

Items	June 30, 2019		June 30, 2018	
	Excluded NPL	**Excluded Overdue Receivables**	**Excluded NPL**	**Excluded Overdue Receivables**
Amounts of executed contracts on negotiated debts not reported (Note 1)	$ 9,556	$ 121	$ 12,063	$ 124
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	48,919	5,857	46,602	4,813
Total	$ 58,475	$ 5,978	$ 58,665	$ 4,937

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

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

c) Concentration of credit risk

June 30, 2019

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth
1	A Group - manufacture of cement	$ 8,009,288	12.76
2	B Group - real estate activities for sale and rental	7,680,700	12.24
3	C Group - manufacture of other electronic parts and components not elsewhere classified	6,876,198	10.95
4	D Group - packaging and testing of semiconductors	5,430,698	8.65
5	E Group - real estate activities for sale and rental	4,978,477	7.93
6	F Group - manufacture of computers	4,638,863	7.39
7	G Group - activities of other holding companies	4,526,000	7.21
8	H Group - air transport	4,065,514	6.48
9	I Group - smelting and refining of iron and steel	3,848,880	6.13
10	J Group - real estate development activities	3,720,000	5.93

June 30, 2018

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

9) 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. After evaluation, it can be included if the borrowers do not suffer from difficulties at the time of negotiation in individual credit assets.

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

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

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

a) Quantitative index

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

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

b) Qualitative index

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.

11) 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.

12) Amendment of contract cash flows of financial assets

The Bank may amend the contract cash flows of loans 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.

13) 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.

14) 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 appropriate 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 renowned economic forecasting institutions at home and abroad) 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.

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

For the Six Months Ended June 30, 2019:

	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	$ 150,970	$ 896	$ -	$ 1,670	$ -	$ 153,536	$ 62,440	$ 215,976
Changes due to financial instruments that have been identified at the beginning of the period:								
Transferred to lifetime ECL	(292)	292	-	-	-	-		-
Transferred to credit-impaired financial assets	(379)	(6)	-	385	-	-		-
Transferred to 12 months ECL	538	(310)	-	(228)	-	-		-
Derecognized financial assets in the current period	(46,657)	(458)	-	-	-	(47,115)		(47,115)
Purchased or originated new financial assets	31,091	-	-	-	-	31,091		31,091
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							92,030	92,030
Write-off	-	-	-	-	-	-		-
Recovery of written-off	-	-	-	-	-	-		-
Effect of exchange rate changes and others	12,088	(369)	-	(222)	-	11,497		11,497
Balance at June 30	$ 147,359	$ 45	$ -	$ 1,605	$ -	$ 149,009	$ 154,470	$ 303,479

The Bank and its subsidiaries had no significant increase in off-balance-sheet guarantees and loan commitments, and life time ECL of contractual commitment unused amount for the six months ended June 30, 2019. Net increase of $32,103,788 thousand change in total book value resulted in abovementioned provisions increased by $87,503 thousand in comparison to the prior period.

For the Six Months Ended June 30, 2018:

	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	(52)	42	-	10	-	-		-
Transferred to credit-impaired financial assets	-	-	-	-	-	-		-
Transferred to 12 months ECL	-	-	-	-	-	-		-
Derecognized financial assets in the current period	(12,916)	(15)	-	-	-	(12,931)		(12,931)
Purchased or originated new financial assets	22,891	-	-	-	-	22,891		22,891
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							23,674	23,674
Write-off	-	-	-	-	-	-		-
Recovery of written-off	-	-	-	-	-	-		-
Effect of exchange rate changes and others	(20,025)	(52)	-	213	-	(19,864)		(19,864)
Balance at June 30	$ 150,928	$ 608	$ -	$ 1,949	$ -	$ 153,485	$ 51,115	$ 204,600

The Bank and its subsidiaries had no significant increase in off-balance-sheet guarantees and loan commitments, and life time ECL of contractual commitment unused amount for the six months ended June 30, 2018. Net increase of $27,190,827 thousand change in total book value resulted in abovementioned provisions increased by $13,770 thousand in comparison to the prior period.

c. Liquidity risk

1) Definition and source of liquidity risk

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

2) Management policies of liquidity risk

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

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

a) Financial assets held for liquidity management

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

b) Maturity analysis of non-derivative financial liabilities

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

Maturity analysis of non-derivative financial liabilities (NTD)

June 30, 2019	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 2,500,000	$ 2,009,590	$ 157,260	$ 23,296	$ -	$ 4,690,146
Notes and bonds issued under repurchase agreements	7,148,788	-	-	-	-	7,148,788
Deposits and remittances	72,556,592	81,210,898	45,434,980	80,390,111	17,540,854	297,133,435
Bank debentures payable	-	-	-	1,000,000	9,450,000	10,450,000
Other capital outflow on maturity	1,150,234	379,336	578,725	825,540	2,586,510	5,520,345
Total	$ 83,355,614	$ 83,599,824	$ 46,170,965	$ 82,238,947	$ 29,577,364	$ 324,942,714

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

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

Maturity analysis of non-derivative financial liabilities (USD)

(In Thousands of U.S. Dollars)

June 30, 2019	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Deposits from the Central Bank and banks	$ 10,000	$ 247,000	$ 200,000	$ -	$ -	$ 457,000
Notes and bonds issued under repurchase agreements	190,281	700,200	153,361	-	-	1,043,842
Deposits and remittances	1,726,986	709,851	400,534	1,075,781	13,858	3,927,010
Bank debentures payable	-	-	-	-	1,011,634	1,011,634
Other capital outflow on maturity	112,984	25,343	6,336	2,121	178,587	325,371
Total	$ 2,040,251	$ 1,682,394	$ 760,231	$ 1,077,902	$ 1,204,079	$ 6,764,857

(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)

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

4) Maturity analysis of derivative instruments

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

Maturity analysis of derivative instruments (NTD)

June 30, 2019	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	$ (215,023,098)	$ (254,182,804)	$ (127,721,398)	$ (58,102,983)	$ (8,665,500)	$ (663,695,783)
Cash inflow	200,156,348	221,168,818	123,910,681	54,216,579	7,065,180	606,517,606
Interest rate derivatives instruments						
Cash outflow	(155,544)	(430,582)	(353,311)	(401)	(13,102,796)	(14,042,634)
Cash inflow	138,990	415,328	53,758	-	-	608,076
Cash outflow subtotal	(215,178,642)	(254,613,386)	(128,074,709)	(58,103,384)	(21,768,296)	(677,738,417)
Cash inflow subtotal	200,295,338	221,584,146	123,964,439	54,216,579	7,065,180	607,125,682
Net cash flow	$ (14,883,304)	$ (33,029,240)	$ (4,110,270)	$ (3,886,805)	$ (14,703,116)	$ (70,612,735)

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)

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

Maturity analysis of derivative instruments (USD)

(In Thousands of U.S. Dollars)

June 30, 2019	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	$ (7,395,764)	$ (7,785,297)	$ (4,334,490)	$ (2,450,473)	$ (472,832)	$ (22,438,856)
Cash inflow	8,148,400	8,952,660	4,346,739	2,254,422	524,832	24,227,053
Interest rate derivatives instruments						
Cash outflow	(51,471)	(146,373)	(98,772)	(60,601)	(71,103)	(428,320)
Cash inflow	61,977	144,988	100,253	3,160	71	310,449
Others						
Cash outflow	(6,696)	-	-	-	-	(6,696)
Cash inflow	4,575	-	-	-	-	4,575
Cash outflow subtotal	(7,453,931)	(7,931,670)	(4,433,262)	(2,511,074)	(543,935)	(22,873,872)
Cash inflow subtotal	8,214,952	9,097,648	4,446,992	2,257,582	524,903	24,542,077
Net cash flow	$ 761,021	$ 1,165,978	$ 13,730	$ (253,492)	$ (19,032)	$ 1,668,205

(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)

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

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.

June 30, 2019	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	$ 13,517,032	$ 4,397,934	$ 3,945,402	$ 9,695,705	$ 14,713,541	$ 46,269,614

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

June 30, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 7,025,116	$ 3,853,714	$ 3,658,712	$ 8,057,449	$ 12,215,210	$ 34,810,201

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

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

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

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

June 30, 2019	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	$ 163,377,004	$ 224,831,101	$ 263,434,658	$ 163,132,285	$ 98,196,717	$ 148,658,699	$ 1,061,630,464
Main capital outflow on maturity	117,362,855	200,400,851	367,232,557	199,052,990	192,812,622	203,519,178	1,280,381,053
Gap	46,014,149	24,430,250	(103,797,899)	(35,920,705)	(94,615,905)	(54,860,479)	(218,750,589)

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

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

(In Thousands of U.S. Dollars)

June 30, 2019	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 9,522,320	$ 10,047,020	$ 4,758,180	$ 2,723,082	$ 3,198,110	$ 30,248,712
Main capital outflow on maturity	9,704,362	10,034,149	5,554,289	4,269,947	3,210,077	32,772,824
Gap	(182,042)	12,871	(796,109)	(1,546,865)	(11,967)	(2,524,112)

(In Thousands of U.S. Dollars)

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

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) related 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 of trading positions on the balance sheet, including interest rate risk, foreign exchange risk, equity securities risk, and price of commodity risks, as well as volatility risks 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 to conduct value assessment of products. Market Risk Limits are reviewed and controlled based on the valuation results of traders' position risk value, position sensitivity and profit and loss figure on the daily basis.

5) Valuation techniques of market risk

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

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

	For the Six Months Ended June 30, 2019			For the Year Ended December 31, 2018			For the Six Months Ended June 30, 2018		
	Average	Highest	Lowest	Average	Highest	Lowest	Average	Highest	Lowest
Interest rate risk	$ 167,324	$ 226,896	$ 97,544	$ 172,030	$ 263,393	$ 72,541	$ 182,367	$ 263,393	$ 108,589
Equity securities risk	331	3,764	95	13,929	27,333	3,477	14,251	22,137	6,541
Foreign exchange risk	5,092	10,628	3,164	5,034	34,521	2,163	6,447	34,521	3,159

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) Concentration of foreign currency risk information

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

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	June 30, 2019		
	Foreign Currency	**Exchange Rate**	**New Taiwan Dollar**
Financial assets			
Monetary items			
USD	$ 6,903,296	31.07	$ 214,499,204
HKD	3,752,128	3.98	14,929,716
EUR	344,673	35.38	12,194,534
CNY	1,133,883	4.52	5,128,781
JPY	14,156,101	0.29	4,086,866
ZAR	667,560	2.20	1,467,964
GBP	37,235	39.38	1,466,301
AUD	41,536	21.80	905,490
SGD	18,824	22.97	432,389
Financial liabilities			
Monetary items			
USD	8,495,481	31.07	263,971,579
CNY	3,961,984	4.52	17,920,846
EUR	215,366	35.38	7,619,661
JPY	23,930,069	0.29	6,908,611
ZAR	2,281,445	2.20	5,016,898
AUD	134,914	21.80	2,941,128
HKD	389,309	3.98	1,549,060
GBP	5,958	39.38	234,636
NZD	5,475	20.85	114,150

(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
CNY	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
CNY	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)

	June 30, 2018		
	Foreign Currency	**Exchange Rate**	**New Taiwan Dollar**
Financial assets			
Monetary items			
USD	$ 8,047,684	30.50	$ 245,454,348
EUR	579,178	35.48	20,549,228
HKD	2,527,039	3.89	9,822,600
CNY	1,499,509	4.60	6,898,339
JPY	15,176,873	0.28	4,184,264
SGD	19,826	22.37	443,499
ZAR	152,656	2.22	339,202
GBP	8,340	40.01	333,692
AUD	8,197	22.54	184,761

(Continued)

	June 30, 2018		
	Foreign Currency	**Exchange Rate**	**New Taiwan Dollar**
Financial liabilities			
Monetary items			
USD	$ 9,024,960	30.50	$ 275,261,278
CNY	3,474,495	4.60	15,984,068
EUR	437,832	35.48	15,534,268
JPY	16,014,162	0.28	4,415,104
ZAR	1,652,731	2.22	3,672,367
AUD	133,611	22.54	3,011,597
HKD	177,897	3.89	691,484
NZD	16,751	20.65	345,910
GBP	2,859	40.01	114,375

(Concluded)

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

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

June 30, 2019

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 304,038,760	$ 20,713,703	$ 15,602,428	$ 85,137,300	$ 425,492,191
Interest rate-sensitive liabilities	156,135,218	105,645,598	41,481,096	12,549,940	315,811,852
Interest rate sensitivity gap	147,903,542	(84,931,895)	(25,878,668)	72,587,360	109,680,339
Net worth					60,898,670
Ratio of interest rate-sensitive assets to liabilities (%)					134.73
Ratio of interest rate-sensitive gap to net worth (%)					180.10

June 30, 2018

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

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

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

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

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

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

June 30, 2019

(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	$ 3,267,235	$ 159,843	$ 45,985	$ 1,413,429	$ 4,886,492
Interest rate-sensitive liabilities	4,005,545	648,589	759,862	992,903	6,406,899
Interest rate sensitivity gap	(738,310)	(488,746)	(713,877)	420,526	(1,520,407)
Net worth					60,245
Ratio of interest rate-sensitive assets to liabilities (%)					76.27
Ratio of interest rate-sensitive gap to net worth (%)					(2,523.71)

June 30, 2018

(In Thousands of U.S. Dollars)

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

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

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

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

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

e. Transfers of financial assets

Transferred financial assets not qualifying for full derecognition

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

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

June 30, 2019					
Category	**Carrying Amount of Transferred Financial Assets**	**Carrying Amount of Related Financial Liabilities**	**Fair Value of Transferred Financial Assets**	**Fair Value of Related Financial Liabilities**	**Fair Value of Net Position**
Notes and bonds issued under repurchase agreements					
Debt Investments measured at amortized cost	$ 310,641	$ 279,648	$ 310,720	$ 279,648	$ 31,072
Financial assets at fair value through profit or loss	18,218,274	17,120,970	18,218,274	17,120,970	1,097,304
Financial assets at fair value through other comprehensive income	28,224,686	25,809,460	28,224,686	25,809,460	2,415,226
Securities purchased under resell agreements	2,422,983	2,422,924	2,422,983	2,422,924	59

December 31, 2018					
Category	**Carrying Amount of Transferred Financial Assets**	**Carrying Amount of Related Financial Liabilities**	**Fair Value of Transferred Financial Assets**	**Fair Value of Related Financial Liabilities**	**Fair Value of Net Position**
Notes and bonds issued under repurchase agreements					
Debt Investments measured at amortized cost	$ 307,248	$ 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

June 30, 2018					
Category	**Carrying Amount of Transferred Financial Assets**	**Carrying Amount of Related Financial Liabilities**	**Fair Value of Transferred Financial Assets**	**Fair Value of Related Financial Liabilities**	**Fair Value of Net Position**
Notes and bonds issued under repurchase agreements					
Debt Investments measured at amortized cost	$ 304,919	$ 268,400	$ 305,000	$ 268,400	$ 36,600
Financial assets at fair value through profit or loss	4,613,327	4,331,458	4,613,327	4,331,458	281,869
Financial assets at fair value through other comprehensive income	57,959,850	53,750,242	57,959,850	53,750,242	4,209,608
Securities purchased under resell agreements	3,135,849	2,969,374	3,135,849	2,969,374	166,475

f. Offsetting financial assets and financial liabilities

The Bank and its subsidiaries have enforceable master netting arrangements or similar agreements signed with counterparty but do not meet the offsetting criteria, and the financial assets and financial liabilities can be offset when both sides of the transaction have decided to, but gross settlements if have not. One can choose net settlement if the other side of the transaction is in the breach of contract.

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

June 30, 2019						
Financial Assets Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Netted Financial Liabilities Recognized on the Balance Sheet (b)	Net Amount of Recognized Financial Assets (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	$ 18,837,196	$ -	$ 18,837,196	$ 18,837,196	$ -	$ -
Derivative financial instruments	40,483,065	-	40,483,065	5,980,011	1,854,319	32,648,735
Total	$ 59,320,261	$ -	$ 59,320,261	$ 24,817,207	$ 1,854,319	$ 32,648,735

June 30, 2019						
Financial Assets Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amounts of Netted Financial Assets Recognized on the Balance Sheet (b)	Net Amount of Recognized Financial Liabilities (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	$ 45,633,002	$ -	$ 45,633,002	$ 45,606,591	$ 26,411	$ -
Derivative financial instruments	52,429,554	-	52,429,554	5,980,011	3,314,830	43,134,713
Total	$ 98,062,556	$ -	$ 98,062,556	$ 51,586,602	$ 3,341,241	$ 43,134,713

December 31, 2018						
Financial Assets Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Netted Financial Liabilities Recognized on the Balance Sheet (b)	Net Amount of Recognized Financial Assets (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 Assets Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	**Gross Amounts of Recognized Financial Liabilities (a)**	**Gross Amounts of Netted Financial Assets Recognized on the Balance Sheet (b)**	**Net Amount of Recognized Financial Liabilities (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

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

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

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

46. 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 / Year			June 30, 2019	December 31, 2018	June 30, 2018
Eligible capital	Common equity Tier 1 capital		$ 59,120,825	$ 55,803,540	$ 54,493,309
	Additional Tier 1 capital		2,744,922	2,734,552	-
	Tier 2 capital		9,062,412	5,374,424	1,953,467
	Eligible capital		70,928,159	63,912,516	56,446,776
Risk-weighted assets	Credit risk	Standardized approach	424,687,206	404,225,330	414,190,395
		Internal rating-based approach	-	-	-
		Securitization	-	-	-
	Operational risk	Basic indicator approach	18,688,007	18,688,007	18,011,674
		Standardized approach/ alternative standardized approach	-	-	-
		Advanced measurement approach	-	-	-
	Market risk	Standardized approach	56,458,113	54,311,738	54,620,525
		Internal model approach	-	-	-
	Total risk-weighted assets		499,833,326	477,225,075	486,822,594
Capital adequacy ratio			14.19%	13.39%	11.59%
Ratio of common equity to risk-weighted assets			11.83%	11.69%	11.19%
Ratio of Tier 1 capital to risk-weighted assets			12.38%	12.27%	11.19%
Leverage ratio			7.73%	7.89%	7.25%

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.

47. TRUST BUSINESS OPERATIONS UNDER THE TRUST ENTERPRISES ACT

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

Balance Sheets of Trust Accounts

(In Thousands of New Taiwan Dollars)

Trust Assets	June 30, 2019	December 31, 2018	June 30, 2018	Trust Liabilities	June 30, 2019	December 31, 2018	June 30, 2018
Bank deposits	$ 1,008,955	$ 585,926	$ 806,202	Payables	$ 149,782	$ 151,212	$ 150,401
Short-term investment	27,998,568	28,539,061	29,716,127	Account payable on securities			
Financial assets at FVTPL	10,440	11,640	11,640	under custody	3,683,987	4,839,320	8,072,287
Receivables	38,826	50,719	63,819	Other liabilities	87,351	57,865	70,815
Other financial assets	16,450	16,450	10,450	Donations	1,811	1,811	1,811
Real estate, net	843,343	534,259	534,259	Trust capital	30,024,113	29,835,976	31,235,451
Intangible assets - surface rights	984,534	984,534	984,534	Accumulated earnings	680,723	675,725	672,794
Securities under custody	3,683,987	4,839,320	8,072,287				
Others	42,664	-	4,241				
Total	$ 34,627,767	$ 35,561,909	$ 40,203,559	Total	$ 34,627,767	$ 35,561,909	$ 40,203,559

Income Statements of Trust Accounts

(In Thousands of New Taiwan Dollars)

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2019	**2018**	**2019**	**2018**
Trust income and gains				
Dividend income	$ 614	$ 1,200	$ 1,945	$ 1,901
Interest income	363,441	364,662	706,443	728,989
Rental income	6,986	7,090	14,105	14,185
Gain on financial assets at FVTPL, net	-	(44,327)	-	-
Property transaction gains	-	(41,818)	-	-
Other income	2,106	7,670	3,922	10,031
Total trust income and gains	373,147	294,477	726,415	755,106
Trust expenses				
Property transaction losses	(1,320,252)	(139,262)	(1,471,210)	(139,262)
Administrative expenses	(15,147)	(8,552)	(21,794)	(19,072)
Interest expenses	-	(1,453)	-	(1,453)
Loss on financial assets at FVTPL, net	-	(3,753)	-	(3,753)
Other expenses	(2,212)	(1,263)	(4,761)	(3,841)
Total trust expenses	(1,337,611)	(154,283)	(1,497,765)	(167,381)
Net income (loss)	$ (964,464)	$ 140,194	$ (771,350)	$ 587,725

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

Trust Property Accounts

(In Thousands of New Taiwan Dollars)

Investment Portfolio	June 30, 2019	December 31, 2018	June 30, 2018
Bank deposits	$ 1,008,955	$ 585,926	$ 806,202
Short-term investments			
Funds	26,318,473	26,786,220	28,119,632
Bonds	1,390,577	1,410,880	1,264,727
Common shares	73,200	73,200	75,900
Structured notes	93,766	93,766	93,766
ETF	122,552	174,995	162,102
Financial assets at FVTPL	10,440	11,640	11,640
Other financial assets	55,276	67,169	74,269
Real estate, net	843,343	534,259	534,259
Intangible assets - surface rights	984,534	984,534	984,534
Securities under custody	3,683,987	4,839,320	8,072,287
Other assets	42,664	-	4,241
Total	$ 34,627,767	$ 35,561,909	$ 40,203,559

48. 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 41 to the consolidated financial statements.

49. PROFITABILITY

(%)

Items		June 30, 2019	June 30, 2018
Return on total assets	Before income tax	0.65	0.52
	After income tax	0.53	0.48
Return on net worth	Before income tax	7.52	5.64
	After income tax	6.14	5.22
Profit margin		34.11	33.29

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 in the current year.

Note 5: Return on total assets and return on net worth are expressed annually.

50. 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 acquired and disposed 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 non-performing 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).

51. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance according to the characteristics of the business and profits and losses. 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, 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, commodities, equity, 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 and income before income tax are composed of revenues and expenses directly attributable to an operating segment.

Segment revenues and results

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

	Retail Banking Segment	**Corporate Banking Segment**	**Global Markets Segment**	**Others**	**Total**
For the three months ended June 30, 2019					
Interest revenue, net	$ 769,175	$ 534,472	$ 333,862	$ 30,820	$ 1,668,329
Net revenue (loss) - intersegment	229,089	263,324	(526,981)	34,568	-
Non-interest profits and gains, net	350,397	174,395	556,994	66,722	1,148,508
Net revenue	1,348,661	972,191	363,875	132,110	2,816,837
Reversal (provision) of allowance for bad debts expense, commitments, and guarantee liability provision	(5,810)	(84,951)	79	6,930	(83,752)
Operating expenses	(773,991)	(207,519)	(84,024)	(492,560)	(1,558,094)
Income (loss) before income tax	568,860	679,721	279,930	(353,520)	1,174,991
Income tax expense	-	-	-	(213,601)	(213,601)
Net income (loss)	$ 568,860	$ 679,721	$ 279,930	$ (567,121)	$ 961,390
For the three months ended June 30, 2018					
Interest revenue, net	$ 782,257	$ 619,470	$ 390,553	$ 33,192	$ 1,825,472
Net revenue (loss) - intersegment	227,750	103,708	(507,106)	175,648	-
Non-interest profits and gains (losses), net	359,872	102,697	120,645	(4,329)	578,885
Net revenue	1,369,879	825,875	4,092	204,511	2,404,357
Reversal (provision) of allowance for bad debts expense, commitments, and guarantee liability provision	135,946	(87,846)	(8)	48,366	96,458
Operating expenses	(786,886)	(167,844)	(85,561)	(440,173)	(1,480,464)
Income (loss) before income tax	718,939	570,185	(81,477)	(187,296)	1,020,351
Income tax expense	-	-	-	(160,085)	(160,085)
Net income (loss)	$ 718,939	$ 570,185	$ (81,477)	$ (347,381)	$ 860,266

(Continued)

	Retail Banking Segment	Corporate Banking Segment	Global Markets Segment	Others	Total
For the six months ended June 30, 2019					
Interest revenue, net	$ 1,544,429	$ 1,011,762	$ 692,006	$ 58,209	$ 3,306,406
Net revenue (loss) - intersegment	445,005	534,126	(1,062,619)	83,488	-
Non-interest profits and gains, net	679,675	359,239	940,623	184,611	2,164,148
Net revenue	2,669,109	1,905,127	570,010	326,308	5,470,554
Reversal (provision) of allowance for bad debts expense, commitments, and guarantee liability provision	47,673	(137,829)	203	7,772	(82,181)
Operating expenses	(1,549,918)	(414,740)	(168,929)	(969,998)	(3,103,585)
Income (loss) before income tax	1,166,864	1,352,558	401,284	(635,918)	2,284,788
Income tax expense	-	-	-	(418,877)	(418,877)
Net income (loss)	$ 1,166,864	$ 1,352,558	$ 401,284	$ (1,054,795)	$ 1,865,911
For the six months ended June 30, 2018					
Interest revenue, net	$ 1,583,696	$ 1,161,058	$ 797,399	$ 61,776	$ 3,603,929
Net revenue (loss) - intersegment	345,538	276,925	(759,874)	137,411	-
Non-interest profits and gains, net	761,067	187,518	6,468	142,923	1,097,976
Net revenue	2,690,301	1,625,501	43,993	342,110	4,701,905
Reversal (provision) of allowance for bad debts expense, commitments, and guarantee liability provision	182,084	(322,159)	(32)	72,873	(67,234)
Operating expenses	(1,571,155)	(336,878)	(164,376)	(871,376)	(2,943,785)
Income (loss) before income tax	1,301,230	966,464	(120,415)	(456,393)	1,690,886
Income tax expense	-	-	-	(125,703)	(125,703)
Net income (loss)	$ 1,301,230	$ 966,464	$ (120,415)	$ (582,096)	$ 1,565,183

(Concluded)

KGI BANK CO., LTD. AND SUBSIDIARIES

COLLATERALS/GUARANTEE PROVIDED
FOR THE SIX MONTHS ENDED JUNE 30, 2019
(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	$ 4,320,875	$ 1,708,960	$ 1,242,880	$ 435,008	$ -	143.82%	$ 4,320,875 (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 worth shown in the latest financial report of CDIB Management Consulting Corporation.

TABLE 2

KGI BANK CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD
JUNE 30, 2019
(In Thousands of New Taiwan Dollars)

Holding Company	Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	June 30, 2019				Note
				Shares/Face Value/Units	Carrying Value	Percentage of Ownership	Market Value or Net Asset Value	
CDIB Management Consulting Corporation	Stock							
	CDC Finance & Leasing Corporation	Subsidiary	Investments accounted for using equity method	58,328,460	$ 633,352	76.04	$ 633,352	
	CDIB International Leasing Corporation	Subsidiary	Investments accounted for using equity method	-	132,052	100.00	132,052	
CDC Finance & Leasing Corporation	Stock							
	Hwahong Corporation	Associate	Investments accounted for using equity method	23,750	107	19.00	107	
	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.

TABLE 3

KGI BANK CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTEES
JUNE 30, 2019
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business	Balance as of June 30, 2019			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.	Taipei City, Taiwan	Foreign exchange trading, financial derivatives trading	0.40	$ 2,921	$ 480	80,000	-	80,000	0.40	
Taiwan Futures Exchange	Taipei City, Taiwan	Futures exchange and settlement	0.51	105,525	6,250	20,454,791	-	20,454,791	6.12	
Financial Information Service Co., Ltd.	Taipei City, Taiwan	Telecommunication service; information system service	1.23	131,427	-	6,410,160	-	6,410,160	1.23	
Taiwan Asset Management Co., Ltd.	Taipei City, Taiwan	Purchasing for financial institutions' loans	0.57	70,446	3,900	6,000,000	-	6,000,000	0.57	
Sunlight Asset Management Co., Ltd.	Taipei City, Taiwan	Purchasing for financial institutions' loans	5.74	3,565	445	344,476	-	344,476	5.74	
Taiwan Financial Asset Service Company	Taipei City, Taiwan	Other activities auxiliary to financial service activities	2.94	47,259	-	5,000,000	-	5,000,000	2.94	
Taiwan Mobile Payment	Taipei City, Taiwan	Communication and IT service	1.00	3,571	-	600,000	-	600,000	1.00	
CDIB Management Consulting Corporation	Taipei City, Taiwan	Management consultancy activities	100.00	839,756	(27,607)	153,171,873	-	153,171,873	100.00	
Euroc II Venture Capital Corp.	Taipei City, Taiwan	Venture capital corporation	7.50	4,230	-	675,444	-	675,444	7.50	
Euroc III Venture Capital Corp.	Taipei City, Taiwan	Venture capital corporation	5.00	1,879	-	259,875	-	259,875	5.00	
Non-financial industry-related										
Cosmos Construction Management Corporation	Taipei City, Taiwan	Valuation on real estate, contract evaluation	9.39	-	-	6,991,000	-	6,991,000	9.39	
Lieu-An Service Co.	Taipei City, Taiwan	ATM cash cartridge replacement and service provision	5.00	1,735	-	125,000	-	125,000	5.00	
CDIB & Partners Investment Holding Corp.	Taipei City, Taiwan	General investment corporation	4.95	946,321	93,455	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 CO., LTD. AND SUBSIDIARIES

INFORMATION ON INVESTMENTS IN MAINLAND CHINA
JUNE 30, 2019
(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, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2019	Net Loss of the investee (Note 2)	% Ownership of Direct or Indirect Investment	Investment Loss (Note 2)	Carrying Value as of June 30, 2019	Accumulated Inward Remittance of Earnings as of June 30, 2019
					Outflow	Inflow						
CDIB International Leasing Corporation	Financial leasing and management business consulting	CNY 187,750 thousand	Note 1 (a)	US$ 30,000 thousand	$ -	$ -	US$ 30,000 thousand	$ (40,275)	100%	$ (40,275)	$ 132,052	$ -

Accumulated Investment in Mainland China as of June 30, 2019	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investment
$932,160 (US$30,000 thousand)	US$30,000 thousand	$503,643

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 CO., LTD. AND SUBSIDIARIES

BUSINESS RELATIONSHIPS AND SIGNIFICANT INTERCOMPANY TRANSACTIONS
FOR THE SIX MONTHS ENDED JUNE 30, 2019
(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 Co., Ltd.	CDC Finance & Leasing Corporation	1	Deposit and remittances	$ 26,330	Note 4	0.00
1	CDC Finance & Leasing Corporation	KGI Bank Co., Ltd.	2	Cash and cash equivalents	26,330	Note 4	0.00

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 eliminated from the consolidated financial statements.