KGI Bank Co., Ltd. and Subsidiaries

Consolidated Financial Statements for the Years Ended December 31, 2019 and 2018 and Independent Auditors' Report

DECLARATION OF CONSOLIDATION OF FINANCIAL STATEMENTS OF AFFILIATES

The Bank required to be included in the consolidated financial statements of affiliates in accordance with the "Criteria Governing Preparation of Affiliation Reports, Consolidated Business Reports and Consolidated Financial Statements of Affiliated Enterprises" for the year ended December 31, 2019 are all the same as the companies required to be included in the consolidated financial statements of parent and subsidiary companies as provided in International Financial Reporting Standard 10 "Consolidated Financial Statements". Relevant information that should be disclosed in the consolidated financial statements of affiliates has all been disclosed in the consolidated financial statements of parent and subsidiary companies. Hence, we have not prepared a separate set of consolidated financial statements of affiliates.

Very truly yours,

KGI BANK CO., LTD.

March 26, 2020

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 December 31, 2019 and 2018, the related consolidated statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of December 31, 2019 and 2018, and their consolidated financial performance, and their consolidated cash flows for the years then ended, in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, relevant regulations, International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China ("ROC").

Basis for Opinion

We conducted our audits in accordance with Regulations Governing Auditing and Attestation of Financial Statements 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 year ended December 31, 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 year ended December 31, 2019 are stated as follows:

Impairment of Discounts and Loans and Receivables

Loans is the main business of the Bank, which is material to the consolidated financial statements as a whole as it accounts for 52% of the total assets of the consolidated statements. As stated in Note 5, to determine the impairment loss of discounts and loans and receivables, the management should (1) judge whether there has been a significant increase in credit risk or if there is any indication of credit impairment, (2) estimate the expected future cash flows based on past events, present status and future economic circumstances of the assets with similar credit risk, and (3) review periodically the methodology and assumptions adopted for both 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 and receivables is deemed to be a key audit matter for the year ended December 31, 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 and receivables.

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 and receivables. 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 and receivables cases to verify whether the allowance thereof complies with the law and related regulations issued by the authorities.

Other Matter

We have also audited the parent company only financial statements of the Bank as of and for the years ended December 31, 2019 and 2018 on which we have issued an unmodified 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 the Regulations Governing the Preparation of Financial Reports by Public Banks, the guidelines issued by the authorities International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the 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 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 year ended December 31, 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

March 26, 2020

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

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

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

KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019		2018	
ASSETS	**Amount**	**%**	**Amount**	**%**
CASH AND CASH EQUIVALENTS (Notes 4, 6 and 41)	$ 8,152,200	1	$ 7,034,362	1
DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS (Note 7)	28,303,064	4	26,431,383	4
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8, 41 and 42)	78,108,576	12	81,922,752	12
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 9 and 42)	135,245,604	20	151,669,704	22
DEBT INVESTMENTS MEASURED AT AMORTIZED COST (Notes 4, 10 and 41)	11,136,022	2	11,965,807	2
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 4 and 11)	18,686,598	3	15,164,692	2
RECEIVABLES, NET (Notes 4, 12, 41 and 42)	21,163,400	3	27,807,567	4
CURRENT TAX ASSETS (Notes 4 and 39)	-	-	16	-
ASSETS HELD FOR SALE, NET (Notes 4 and 16)	-	-	29,649	-
DISCOUNTS AND LOANS, NET (Notes 4, 13 and 41)	342,501,981	52	335,751,432	49
INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET (Notes 4 and 14)	963,203	-	789,208	-
OTHER FINANCIAL ASSETS, NET (Notes 4, 15, 41 and 42)	1,984,230	-	1,477,248	-
PROPERTY AND EQUIPMENT, NET (Notes 4, 16 and 42)	6,145,435	1	6,183,951	1
RIGHT-OF-USE ASSETS, NET (Notes 4 and 17)	2,196,115	1	-	-
INVESTMENT PROPERTY, NET (Notes 4, 18 and 42)	1,007,073	-	1,014,721	-
INTANGIBLE ASSETS, NET	906,760	-	408,464	-
DEFERRED TAX ASSETS (Notes 4 and 39)	1,350,850	-	2,290,358	1
OTHER ASSETS, NET (Notes 19, 28, 41 and 42)	8,437,739	1	13,332,712	2
TOTAL	$ 666,288,850	100	$ 683,274,026	100
LIABILITIES AND EQUITY				
LIABILITIES				
Deposits from the Central Bank and banks (Notes 20 and 41)	$ 22,965,260	3	$ 21,359,259	3
Financial liabilities at fair value through profit or loss (Notes 4, 8 and 41)	76,747,276	12	73,866,749	11
Notes and bonds issued under repurchase agreements (Notes 4, 8, 9, 10 and 21)	18,749,841	3	60,303,682	9
Payables (Note 22)	8,484,511	1	7,037,664	1
Current tax liabilities (Notes 4, 39 and 41)	600,802	-	530,563	-
Deposits and remittances (Notes 23 and 41)	421,317,257	63	421,704,877	62
Bank debentures payable (Note 24)	10,450,000	2	7,350,000	1
Principal received on structured notes	30,248,517	5	24,020,358	3
Commercial paper payable, net (Note 25)	2,721,661	-	1,829,716	-
Other borrowings (Note 26)	877,799	-	1,811,543	-
Other financial liabilities	66,667	-	3,716	-
Provisions (Notes 4, 27 and 28)	443,633	-	348,043	-
Lease liabilities (Notes 4, 17 and 41)	2,196,791	-	-	-
Deferred tax liabilities (Notes 4 and 39)	24,660	-	24,413	-
Other liabilities (Notes 29 and 41)	6,017,947	1	4,503,104	1
Total liabilities	601,912,622	90	624,693,687	91
EQUITY (Notes 4 and 30)				
Equity attributable to owners of parent				
Capital				
Common stock	46,061,623	7	46,061,623	7
Capital surplus				
Additional paid-in capital	7,245,723	1	7,245,723	1
Other capital surplus	5,583	-	5,450	-
Total capital surplus	7,251,306	1	7,251,173	1
Retained earnings				
Legal reserve	5,130,089	1	4,639,065	1
Special reserve	1,437,043	-	291,319	-
Unappropriated earnings	3,437,555	1	1,636,748	-
Total retained earnings	10,004,687	2	6,567,132	1
Other equity				
Exchange differences on translation of foreign financial statements	(84,330)	-	45,522	-
Unrealized gain (loss) on equity instruments at fair value through other comprehensive income	556,081	-	(10,074)	-
Unrealized gain (loss) on debt instruments at fair value through other comprehensive income	365,824	-	(1,566,834)	-
Allowance for impairment loss of investments in debt instrument at fair value through other comprehensive income	16,439	-	25,933	-
Total other equity	854,014	-	(1,505,453)	-
Total equity of parent company	64,171,630	10	58,374,475	9
Non-controlling interests	204,598	-	205,864	-
Total equity	64,376,228	10	58,580,339	9
TOTAL	$ 666,288,850	100	$ 683,274,026	100

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

KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUES (Notes 4, 31 and 41)	$ 13,663,389	118	$ 13,221,471	146	3
INTEREST EXPENSES (Notes 4, 31 and 41)	(6,820,339)	(59)	(6,074,574)	(67)	12
NET INTEREST	6,843,050	59	7,146,897	79	(4)
NET REVENUES OTHER THAN INTEREST					
Service fee income, net (Notes 4, 32 and 41)	1,792,082	16	1,811,980	20	(1)
Gains on financial assets or liabilities measured at fair value through profit or loss, net (Notes 4 and 33)	1,652,569	14	609,744	7	171
Realized gain (loss) on financial assets measured at fair value through other comprehensive income (Notes 4 and 34)	1,186,022	10	(448,120)	(5)	365
Foreign exchange loss, net	(136,075)	(1)	(182,874)	(2)	(26)
Reversal of impairment loss (impairment loss) on assets, net (Notes 4 and 35)	27,395	-	(5,607)	-	589
Share of the profit (loss) of associates accounted for using equity method (Notes 4 and 14)	104,810	1	(72,623)	(1)	244
Other non-interest income, net (Notes 16, 36 and 41)	137,521	1	209,819	2	(34)
Total net revenues other than interest	4,764,324	41	1,922,319	21	148
TOTAL NET REVENUE	11,607,374	100	9,069,216	100	28
REVERSAL (PROVISION) OF ALLOWANCE FOR BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION (Note 4)	(365,413)	(3)	49,299	1	(841)

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KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
OPERATING EXPENSES (Notes 17, 28, 37, 38 and 41)					
Employee benefits expense	$ (3,839,045)	(33)	$ (3,683,847)	(40)	4
Depreciation and amortization expense	(827,934)	(7)	(422,486)	(5)	96
Other general and administrative expenses	(1,730,127)	(15)	(2,071,270)	(23)	(16)
Total operating expenses	(6,397,106)	(55)	(6,177,603)	(68)	4
INCOME BEFORE INCOME TAX	4,844,855	42	2,940,912	33	65
INCOME TAX EXPENSE (Notes 4 and 39)	(1,228,194)	(11)	(777,667)	(9)	58
NET INCOME	3,616,661	31	2,163,245	24	67
OTHER COMPREHENSIVE INCOME (Notes 4 and 39)					
Items that will not be reclassified subsequently to profit or loss, net of income tax					
Remeasurement of defined benefit plans	(44,997)	(1)	(81,437)	(1)	(45)
Gain (loss) on equity instruments measured at fair value through other comprehensive income	324,502	3	(134,656)	(2)	341
Share of the other comprehensive gain (loss) of associates accounted for using equity method	108,590	1	(36,235)	-	400
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	8,956	-	3,653	-	145
Items that will be reclassified subsequently to profit or loss, net of income tax					
Exchange differences on translation of foreign financial statements	(112,103)	(1)	55,674	1	(301)
Share of the other comprehensive income of associates accounted for using equity method	(17,750)	-	22,076	-	(180)

(Continued)

KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018		Percentage Increase (Decrease)
	Amount	**%**	**Amount**	**%**	**%**
Gain (loss) on debt instruments measured at fair value through other comprehensive income	$ 1,945,259	17	$ (1,621,539)	(18)	220
Impairment loss (reversal of impairment loss) on debt instruments measured at fair value through other comprehensive income	(9,494)	-	4,165	-	(328)
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	(12,601)	-	-	-	-
Other comprehensive income (loss), net of income tax	2,190,362	19	(1,788,299)	(20)	222
TOTAL COMPREHENSIVE INCOME, NET OF TAX	$ 5,807,023	50	$ 374,946	4	1,449
NET PROFIT ATTRIBUTABLE TO:					
Owners of parent	$ 3,606,608	31	$ 2,145,454	24	68
Non-controlling interests	10,053	-	17,791	-	(43)
	$ 3,616,661	31	$ 2,163,245	24	67
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:					
Owners of parent	$ 5,797,022	50	$ 357,452	4	1,522
Non-controlling interests	10,001	-	17,494	-	(43)
	$ 5,807,023	50	$ 374,946	4	1,449
EARNINGS PER SHARE (Note 40)					
Basic	$ 0.78		$ 0.47		

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
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(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 of 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 associates accounted for using equity method	-	24	-	-	-	-	-	-	24	-	24
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	102,128	-	(102,128)	-	-	-	-
Net income for the year ended December 31, 2018	-	-	-	-	2,145,454	-	-	-	2,145,454	17,791	2,163,245
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	(65,155)	77,750	(1,800,597)	-	(1,788,002)	(297)	(1,788,299)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	2,080,299	77,750	(1,800,597)	-	357,452	17,494	374,946
Share-based payments	-	596	-	-	-	-	-	-	596	-	596
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(1,760)	(1,760)
BALANCE AT DECEMBER 31, 2018	46,061,623	7,251,173	4,639,065	291,319	1,636,748	45,522	(1,550,975)	-	58,374,475	205,864	58,580,339
Appropriation of earnings											
Legal reserve	-	-	491,024	-	(491,024)	-	-	-	-	-	-
Special reserve	-	-	-	1,145,724	(1,145,724)	-	-	-	-	-	-
Change in equity of associates accounted for using equity method	-	(57)	-	-	-	-	-	-	(57)	-	(57)
Disposal of equity instruments at fair value through other comprehensive income	-	-	-	-	(133,062)	-	133,062	-	-	-	-
Net income for the year ended December 31, 2019	-	-	-	-	3,606,608	-	-	-	3,606,608	10,053	3,616,661
Other comprehensive income(loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	(35,991)	(129,852)	2,356,257	-	2,190,414	(52)	2,190,362
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	3,570,617	(129,852)	2,356,257	-	5,797,022	10,001	5,807,023
Share-based payments	-	190	-	-	-	-	-	-	190	-	190
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(11,267)	(11,267)
BALANCE AT DECEMBER 31, 2019	$ 46,061,623	$ 7,251,306	$ 5,130,089	$ 1,437,043	$ 3,437,555	$ (84,330)	$ 938,344	$ -	$ 64,171,630	$ 204,598	$ 64,376,228

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

KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	$ 4,844,855	$ 2,940,912
Adjustments for:		
Depreciation expenses	699,921	322,446
Amortization expenses	128,013	100,040
(Reversal) provision of allowance for bad debts expense, commitments and guarantee liability provisions	365,413	(49,299)
Net gain on financial assets and liabilities measured at fair value through profit or loss, net	(1,652,519)	(565,187)
Interest expense	6,820,339	6,074,574
Interest income	(13,663,389)	(13,221,471)
Dividend income	(226,250)	(183,315)
Share of (profit) loss of associates accounted for using equity method	(104,810)	72,623
Gain on disposal of investment property	-	(69,047)
Gain on disposal of assets held for sale	(5,772)	(8,494)
(Reversal of impairment loss) impairment loss on financial assets	(9,893)	5,607
Reversal of impairment loss on non-financial assets	(17,502)	-
Loss on disposal of foreclosed collateral	14,874	-
Others	138	408
Changes in operating assets and liabilities		
Due from the Central Bank and call loans to banks	212,165	8,069,859
Financial assets at fair value through profit or loss	61,504,191	19,312,449
Financial assets at fair value through other comprehensive income	18,907,327	(29,607,443)
Debt investments measured at amortized cost	830,168	(6,446,000)
Securities purchased under resell agreements	-	595,974
Receivables	6,536,723	(4,437,871)
Discounts and loans	(7,214,461)	(42,186,049)
Other financial assets	(506,982)	607,452
Other assets	4,496,059	(7,879,277)
Deposits from the Central Bank and banks	1,606,001	(6,971,433)
Financial liabilities at fair value through profit or loss	(53,156,969)	(11,237,790)
Notes and bonds issued under repurchase agreements	(41,553,841)	14,858,868
Payables	567,420	(1,488,642)
Deposits and remittances	(387,620)	45,081,743
Other financial liabilities	6,296,061	3,885,932
Other liabilities	1,490,280	2,551,736
Cash outflow generated from operations	(3,180,060)	(19,870,695)
Interest received	13,739,917	12,200,125
Dividends received	237,375	204,915
Interest paid	(5,897,640)	(4,413,959)
Income taxes paid	(7,067)	(38,074)
Net cash flows generated from (used in) operating activities	4,892,525	(11,917,688)

(Continued)

KGI BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of assets held for sale	$ 35,420	$ 25,032
Acquisition of property and equipment	(295,367)	(433,243)
Proceeds from disposal of property and equipment	25,309	27,779
Acquisition of intangible assets	(626,009)	(132,299)
Proceeds from disposal of foreclosed collateral	2,629	-
Proceeds from disposal of investment properties	-	120,102
Net cash flows used in investing activities	(858,018)	(392,629)
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in short-term borrowings	(467,037)	(237,949)
Increase in commercial paper payable	891,945	605,237
Issuance of bank debentures payable	3,100,000	6,350,000
Repayments of long-term borrowings	(466,707)	(855,590)
Payments of lease liabilities	(356,019)	-
Cash dividends paid	-	(3,236,089)
Changes in non-controlling interests	(11,267)	(1,760)
Net cash flows generated from financing activities	2,690,915	2,623,849
EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(1,833)	(8,265)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,723,589	(9,694,733)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	37,316,230	47,010,963
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	$ 44,039,819	$ 37,316,230

Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets as of December 31, 2019 and 2018:

	December 31	
	2019	2018
Cash and cash equivalents in the consolidated balance sheets	$ 8,152,200	$ 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	17,201,021	15,117,176
Securities purchased under agreements to resell qualifying as cash and cash equivalents under the definition of IAS 7 endorsed by FSC	18,686,598	15,164,692
Cash and cash equivalents in the consolidated statements of cash flows	$ 44,039,819	$ 37,316,230

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

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 December 31, 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 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 name became KGI Bank Co., Ltd since January, 2015. The FSC approved the name change on November 10, 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. 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.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the board of directors and authorized for issue on March 26, 2020.

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:

IFRS 16 "Leases"

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their accounting treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 "Leases", IFRIC 4 "Determining whether an Arrangement contains a Lease", and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

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.

The Bank and its subsidiaries as lessee

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 are 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 range of the 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 amount on January 1, 2019	$ 754,909
Discounted amount 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 IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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 retrospectively for annual reporting periods beginning on or after January 1, 2020.

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

As of the date the consolidated financial statements were authorized for issue, the Bank and its subsidiaries assessed that the application of the above standards and interpretations do not have a material impact on the Bank and its subsidiaries' financial position and financial performance.

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
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

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 the above standards and interpretations will have on the Bank and its subsidiaries' financial position and financial performance, and will disclose the relevant impact when the assessment is completed.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

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

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan liabilities (assets). Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The operating cycle in the banking industry cannot be reasonably identified; thus, asset and liability accounts were not classified as current or noncurrent. Nevertheless, these accounts were properly categorized in accordance with the nature of each account and sequenced according to their liquidity. Please refer to Note 45 for the maturity analysis of assets and liabilities.

Principles for Preparing Consolidated Financial Statements

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

The consolidated entities were as follows:

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

Foreign Currencies

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

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

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

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

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

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

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

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, time deposits that can be terminated on demand without reduction in principal, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Investments in Associates

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

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

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

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

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

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

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

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

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

Financial Instruments

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

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

<u>Financial assets</u>

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.

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.

c. Derecognition of financial assets

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

Equity instruments

Debt and equity instruments issued by the Bank and its subsidiaries are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.
Equity instruments issued by the Bank and its subsidiaries are recognized at the proceeds received, net of direct issue costs.

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

Financial liabilities

a. Subsequent measurement

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

- Financial liabilities at FVTPL

  Financial liabilities are classified as at FVTPL when the financial liabilities are either held for trading or are designated as at FVTPL.

A financial liability may be designated as at FVTPL upon initial recognition when doing so results in more relevant information and if:

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

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

3) The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at FVTPL.

Financial liabilities held for trading are stated at fair value, and remeasurement gains or losses on such financial liabilities are recognized in net revenue other than interest. For a financial liability designated as at FVTPL, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income and will not be subsequently reclassified to profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liability is derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in the fair value of the liability are presented in profit or loss.

b. Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid is recognized in profit or loss.

<u>Derivative financial instruments</u>

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

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

Securities Purchased and Sold Under Resell and Repurchase Agreements

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

Property and Equipment

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

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

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

Assets Held for Sale

The assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within 1 year from the date of classification. When an asset is classified as an asset held for sale, the asset is measured at the lower of its carrying amount or fair value less costs to sell, and depreciation on such asset to cease.

Investment Properties

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

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

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

Nonfinancial Asset Impairment

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

Provisions and Contingent Liabilities

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

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

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

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

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

c. Other long-term employee benefits

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

Taxation

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

a. Current tax

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

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

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

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

b. Deferred tax

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

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

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

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

c. Current and deferred tax for the period

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

Revenue Recognition

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

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

Leasing

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 the installment account and 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 lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Bank and its subsidiaries uses 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.

2018

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Impairment of Discounts and Loans and Receivables

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

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Due from banks	$ 5,835,189	$ 3,922,906
Cash on hand	1,904,246	1,728,250
Checks for clearing	172,725	751,499
Cash in banks	61,184	381,763
Excess margin from futures	178,856	249,944
	$ 8,152,200	$ 7,034,362

Reconciliations of cash and cash equivalents between the consolidated statements of cash flows and the consolidated balance sheets as of December 31, 2019 and 2018 are shown in the consolidated statements of cash flows.

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

	December 31	
	2019	2018
Call loans to banks	$ 10,171,730	$ 6,643,433
Deposit reserve - demand accounts	9,638,736	8,854,579
Deposit reserve - checking accounts	7,029,291	9,467,197
Due from the Central Bank - interbank settlement funds	1,300,735	1,300,216
Deposit reserve - foreign currencies	162,572	165,958
	$ 28,303,064	$ 26,431,383

Under a directive issued by the Central Bank of the ROC, New Taiwan dollar - denominated deposit reserves 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.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2019	2018
Financial assets mandatorily classified as at FVTPL		
Derivative instruments		
Currency swap contracts	$ 9,554,913	$ 7,036,560
Interest rate swap contracts	18,174,926	13,779,444
Option contracts	2,246,081	2,291,406
Others	517,407	752,977
Non-derivative financial assets		
Bank debentures	1,136,171	252,316
Convertible (exchangeable) corporate bonds	441,949	1,397,847
Corporate bonds	140,011	262,706
Commercial papers	10,882,423	7,020,871

(Continued)

	December 31	
	2019	2018
Stocks	$ 31,383	$ 425,169
Government bonds	2,455,959	20,917
Others	6,787	-
	45,588,010	33,240,213
Financial assets designated as at FVTPL		
Government bonds	11,683,340	20,515,907
Corporate bonds	4,983,724	3,571,791
Bank debentures	1,355,059	2,598,117
Others	14,498,443	21,996,724
	32,520,566	48,682,539
Financial assets at FVTPL	$ 78,108,576	$ 81,922,752
Financial liabilities held for trading		
Derivative instruments		
Interest rate swap contracts	$ 20,862,668	$ 16,511,192
Currency swap contracts	9,842,656	6,623,550
Option contracts	14,833,974	20,949,956
Others	657,669	735,272
	46,196,967	44,819,970
Financial liabilities designated as at FVTPL		
Bank debentures payable	29,558,877	27,131,475
Others	991,432	1,915,304
	30,550,309	29,046,779
Financial liabilities at FVTPL	$ 76,747,276	$ 73,866,749

(Concluded)

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

Name	December 31 2019	December 31 2018	Issuance Period	Method of Paying Principal and Interests	Interest Rate
15KGIB1	$ 3,191,236	$ 3,257,698	2015.03.24-2045.03.24 (Note 1)	Principal due on maturity	0%
P16KGIB1	3,311,660	3,380,630	2016.05.03-2046.05.03 (Note 2)	Principal due on maturity	0%
P16KGIB2	3,311,660	3,380,630	2016.05.27-2046.05.27 (Note 2)	Principal due on maturity	0%
P16KGIB3	2,408,480	2,458,640	2016.11.08-2046.11.08 (Note 1)	Principal due on maturity	0%
P17KGIB1	6,021,200	6,146,600	2017.01.23-2047.01.23 (Note 1)	Principal due on maturity	0%
P18KGIB1	6,021,200	6,146,600	2018.01.30-2048.01.30 (Note 3)	Principal due on maturity	0%
P18KGIB2	4,816,960	4,917,280	2018.02.27-2048.02.27 (Note 3)	Principal due on maturity	0%
	29,082,396	29,688,078			
Valuation adjustments	476,481	(2,556,603)			
	$ 29,558,877	$ 27,131,475			

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 December 31, 2019 and 2018 were summarized as follows:

	Contract Amount	
	December 31	
	2019	2018
Interest rate swap contracts	$ 1,020,869,807	$ 1,148,356,086
Currency swap contracts	1,349,173,615	1,460,383,307
Option contracts	566,169,065	651,774,332
Forward exchange contracts	38,228,682	48,505,833
Cross-currency swap contracts	23,246,594	32,681,055
Non-deliverable forward contracts	15,199,191	185,593
Commodity swap contracts	197,412	964,180
Futures contracts	210,742	14,003,511
Asset swap contracts	388,418	1,236,314

As of December 31, 2019 and 2018, financial assets at fair value through profit or loss with aggregate carrying values of $3,046,369 thousand and $7,844,863 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

	December 31	
	2019	2018
Investments in equity instruments at FVTOCI	$ 3,050,977	$ 2,667,879
Investments in debt instruments at FVTOCI	132,194,627	149,001,825
	$ 135,245,604	$ 151,669,704

a. Investments in equity instruments at FVTOCI

	December 31	
	2019	2018
Listed and OTC stocks	$ 2,670,233	$ 2,286,483
Unlisted stocks	380,744	381,396
	$ 3,050,977	$ 2,667,879

For the years ended December 31, 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 $2,658,332 thousand and $1,076,919 thousand and the Bank and its subsidiaries transferred loss of $133,062 thousand and gain of $102,128 thousand from other equity related-unrealized gain (loss) on financial assets at fair value through other comprehensive income to retained earnings.

For the years ended December 31, 2019 and 2018, dividend income were $226,200 thousand and $138,758 thousand, respectively, and those related to investments held as of December 31, 2019 and 2018 were $133,011 thousand and $126,666 thousand, and those related to investments derecognized as of December 31, 2019 and 2018 were $93,189 thousand and $12,092 thousand, respectively.

b. Investments in debt instruments at FVTOCI

	December 31	
	2019	**2018**
Negotiable certificates of deposit issued by the Central Bank	$ 62,617,894	$ 48,698,585
Government bonds	45,460,922	59,624,096
Corporate bonds	17,623,322	27,544,694
Bank debentures	6,492,489	13,134,450
	$ 132,194,627	$ 149,001,825

As of December 31, 2019 and 2018, investments in debt instruments at FVTOCI, with aggregate carrying values of $15,703,472 thousand and $52,166,855 thousand, respectively, had been sold under repurchase agreements (recognized as notes and bonds issued under repurchase agreements).

For 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 impairment loss was assessed based on 12 months expected credit losses. An adjustment in the investment portfolio resulted in the recognition of impairment loss of $16,439 thousand and $25,933 thousand on December 31, 2019 and 2018, respectively.

10. DEBT INVESTMENTS MEASURED AT AMORTIZED COST

	December 31	
	2019	**2018**
Domestic bank debentures	$ 1,505,300	$ 1,536,650
Foreign bank debentures	9,633,920	10,432,738
	11,139,220	11,969,388
Accumulated impairment	(3,198)	(3,581)
Net amount	$ 11,136,022	$ 11,965,807

As of December 31, 2019 and 2018, debt investments measured at amortized cost, with aggregate carrying values of $0 thousand and $291,964 thousand had been sold respectively 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 impairment loss was assessed based on 12 months expected credit losses. An adjustment in the investment portfolio resulted in the recognition of impairment loss of $3,198 thousand and $3,581 thousand on December 31, 2019 and 2018, respectively.

11. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

	December 31	
	2019	**2018**
Commercial papers	$ 11,121,028	$ 10,244,264
Corporate bonds	4,707,118	2,885,400
Bank debentures	2,308,452	200,006
Negotiable certificates of deposit	400,000	1,050,000
Government bonds	150,000	785,022
	$ 18,686,598	$ 15,164,692
Agreed-upon resell amounts	$ 18,689,967	$ 15,167,241
Last maturity date	January 2020	January 2019

12. RECEIVABLES, NET

	December 31	
	2019	**2018**
Accounts receivable - forfaiting	$ 3,947,653	$ 8,122,872
Installment accounts and lease receivables	3,996,787	3,703,463
Credit cards	3,369,075	2,788,881
Interest receivable	2,671,516	2,791,521
Accounts receivables factoring without recourse	6,572,390	8,180,472
Rental deposits	467,748	467,748
PEM receivable	893,598	910,033
Others	828,312	2,559,930
	22,747,079	29,524,920
Less: Unrealized interest	(216,101)	(198,107)
Allowance for bad debts	(1,367,578)	(1,519,246)
Net amount	$ 21,163,400	$ 27,807,567

As of December 31, 2019 and 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 December 31, 2019, the PEM receivable amounting to $893,598 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)

	December 31, 2019	
	USD	TWD
Life insurance policies	$ 14,108	$ 424,744
Non-life insurance policies	15,574	468,854
	29,682	893,598
Less: Allowance for bad debts	(16,212)	(488,079)
Net amount	$ 13,470	$ 405,519

	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

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 year ended December 31, 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	(154)	7,331	-	(7,177)	-	-		-
Transferred to credit - impaired financial assets	(112)	(1,072)	-	1,184	-	-		-
Transferred to 12 months ECL	273	(210)	-	(63)	-	-		-
Derecognizing financial assets during the current period	(27,977)	(1,227)	(5)	(4,298)	-	(33,507)		(33,507)
Purchased or originated new financial assets	27,807	45	-	2,930	-	30,782		30,782
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							(86,706)	(86,706)
Write-off	-	-	-	(56,725)	-	(56,725)		(56,725)
Recovery of written-off	-	-	-	46,129	-	46,129		46,129
Effect of exchange rate changes and others	(23,294)	(400)	1	(27,948)	-	(51,641)		(51,641)
Balance at December 31	$ 46,283	$ 32,925	$ 1	$ 1,137,187	$ -	$ 1,216,396	$ 151,182	$ 1,367,578

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

Changes in total carrying amount of receivables of the Bank and its subsidiaries were as follows:

For the year ended December 31, 2019

	Stage 1	Stage 2		Stage 3		Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	
Balance at January 1	$ 27,184,310	$ 251,010	$ 17	$ 1,891,476	$ -	$ 29,326,813
Conversion from individual financial instruments to lifetime ECL	-	-	-	-	-	-
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	(53,373)	34,435	-	18,938	-	-
Purchased or originated new receivables	8,413,712	489	-	6,318	-	8,420,519
Write-off	-	-	-	(58,770)	-	(58,770)
Derecognition	(14,840,376)	(39,048)	(9)	(76,180)	-	(14,955,613)
Effect of exchange rate changes and others	(178,945)	(1)	-	(23,025)	-	(201,971)
Balance at December 31	$ 20,525,328	$ 246,885	$ 6	$ 1,758,759	$ -	$ 22,530,978

For the year ended December 31, 2018

	Stage 1	Stage 2		Stage 3		Total
	12 Months ECL	Lifetime ECL (Collectively Assessed)	Lifetime ECL (Individually Assessed)	Lifetime ECL (Non-purchased or Originated Credit-impaired Financial Assets)	Lifetime ECL (Purchased or Originated Credit-impaired Financial Assets)	
Balance at January 1	$ 21,697,882	$ 251,185	$ -	$ 1,938,926	$ -	$ 23,887,993
Conversion from individual financial instruments to lifetime ECL	-	(18)	18	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	-	(2)	-	2	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Receivables based on collective assessment	(134,140)	56,284	-	77,856	-	-
Purchased or originated new receivables	14,723,867	44,146	-	35,620	-	14,803,633
Write-off	-	(6,237)	-	(75,492)	-	(81,729)
Derecognition	(9,484,059)	(94,266)	(1)	(78,006)	-	(9,656,332)
Effect of exchange rate changes and others	380,760	(82)	-	(7,430)	-	373,248
Balance at December 31	$ 27,184,310	$ 251,010	$ 17	$ 1,891,476	$ -	$ 29,326,813

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

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

13. DISCOUNTS AND LOANS, NET

	December 31 2019	December 31 2018
Short-term loans	$ 76,377,723	$ 82,152,934
Medium-term loans	195,724,819	191,489,940
Long-term loans	74,566,538	66,094,609
Overdue loans	376,103	420,512
Export negotiations	30,866	56,079
	347,076,049	340,214,074
Less: Allowance for bad debts	(4,464,618)	(4,334,342)
Less: Discounts on discounts and loans	(109,450)	(128,300)
Net amount	$ 342,501,981	$ 335,751,432

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 year ended December 31, 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	(1,218)	11,587	-	(10,369)	-	-		-
Transferred to credit - impaired financial assets	(12,472)	(36,226)	(2,106)	50,804	-	-		-
Transferred to 12 months ECL	3,253	(2,598)	-	(655)	-	-		-
Derecognizing financial assets during the current period	(574,215)	(28,259)	(255)	(98,452)	-	(701,181)		(701,181)
Purchased or originated new financial assets	1,073,941	4	-	118	-	1,074,063		1,074,063
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							14,039	14,039
Write-off	-	-	-	(1,004,464)	-	(1,004,464)		(1,004,464)
Recovery of written-off	-	-	-	703,083	-	703,083		703,083
Effect of exchange rate changes and others	(454,186)	40,140	(3,245)	462,027	-	44,736		44,736
Balance at December 31	$ 1,450,530	$ 80,266	$ 1,479	$ 597,543	$ -	$ 2,129,818	$ 2,334,800	$ 4,464,618

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

Changes in total carrying amount of discounts and loans of the Bank were as follows:

For the year ended December 31, 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	-	-	-	-	-	-
Conversion from individual financial instruments to credit-impaired financial assets	(583,927)	-	(7,020)	590,947	-	-
Roll-out individual financial instruments from credit-impaired financial assets	-	-	-	-	-	-
Discounts and loans based on collective assessment	(764,988)	(80,012)	-	845,000	-	-
Purchased or originated new discounts and loans	481,526,667	55	-	326	338,284	481,865,332
Write-off	-	-	-	(1,004,464)	-	(1,004,464)
Derecognition	(470,962,421)	(299,877)	(10,274)	(655,486)	(268,333)	(472,196,391)
Effect of exchange rate changes and others	(1,792,843)	432	903	(10,994)	-	(1,802,502)
Balance at December 31	$ 343,057,023	$ 1,350,348	$ 7,225	$ 2,591,502	$ 69,951	$ 347,076,049

For the year ended December 31, 2018

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

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

14. INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD, NET

Immaterial associates:

	December 31			
	2019		2018	
	Carrying Amount	%	Carrying Amount	%
CDIB & Partners Investment Holding Corporation	$ 963,142	4.95	$ 789,000	4.95
Others	61		208	
	$ 963,203		$ 789,208	

Aggregate information of associates that are not individually material.

	For the Year Ended December 31	
	2019	2018
The Bank and its subsidiaries' share of:		
Net income	$ 104,810	$ (72,623)
Other comprehensive income	90,840	(14,159)
Total comprehensive income	$ 195,650	$ (86,782)

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

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

15. OTHER FINANCIAL ASSETS, NET

	December 31	
	2019	2018
Due from banks (original maturities over three months)	$ 1,080,750	$ 1,476,948
Overdue receivables	16,063	10,498
Pledged time deposits	300	300
Call loan to security brokers	903,180	-
	2,000,293	1,487,746
Less: Allowance for bad debts - overdue receivables	(16,063)	(10,498)
Net amount	$ 1,984,230	$ 1,477,248

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

16. PROPERTY AND EQUIPMENT, NET

	December 31	
	2019	2018
Land	$ 3,310,707	$ 3,310,707
Buildings and facilities	1,569,093	1,601,481
Machinery and computer equipment	687,986	275,528
Leased assets	-	658,309
Leasehold improvements	241,372	247,663
Transportation equipment	284,730	113
Miscellaneous equipment	40,434	40,737
Prepayments for acquisition of properties	11,113	49,413
	$ 6,145,435	$ 6,183,951

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

	Land	Buildings and Facilities	Machinery and Computer Equipment	Leased Assets	Leasehold Improvements	Transportation Equipment	Miscellaneous Equipment	Prepayments for Acquisition of Properties	Total
Cost									
Balance at January 1, 2018	$ 3,469,618	$ 2,562,835	$ 300,321	$ 715,471	$ 362,483	$ 6,895	$ 61,316	$ 39,004	$ 7,517,943
Additions	-	61,484	90,605	144,864	62,039	-	11,448	62,803	433,243
Deduction	-	(1,943)	(32,301)	(83,062)	(3,092)	(2,315)	(882)	-	(123,595)
Reclassification	(154,654)	(105,395)	51,638	77,538	605	-	690	(52,394)	(181,972)
Effect of exchange rate changes	-	-	(247)	-	(345)	-	(66)	-	(658)
Balance at December 31, 2018	3,314,964	2,516,981	410,016	854,811	421,690	4,580	72,506	49,413	7,644,961
Accumulated depreciation and impairment									
Balance at January 1, 2018	(4,257)	(879,273)	(105,779)	(144,075)	(114,054)	(6,579)	(19,376)	-	(1,273,393)
Depreciation	-	(69,409)	(61,122)	(108,015)	(63,752)	(203)	(13,337)	-	(315,838)
Deduction	-	1,944	32,299	55,498	3,607	2,315	882	-	96,545
Reclassification	-	31,238	(112)	112	(162)	-	-	-	31,076
Effect of exchange rate changes	-	-	226	(22)	334	-	62	-	600
Balance at December 31, 2018	(4,257)	(915,500)	(134,488)	(196,502)	(174,027)	(4,467)	(31,769)	-	(1,461,010)
Balance at December 31, 2018, net	$ 3,310,707	$ 1,601,481	$ 275,528	$ 658,309	$ 247,663	$ 113	$ 40,737	$ 49,413	$ 6,183,951

(Continued)

	Land	Buildings and Facilities	Machinery and Computer Equipment	Leased Assets	Leasehold Improvements	Transportation Equipment	Miscellaneous Equipment	Prepayments for Acquisition of Properties	Total
Cost									
Balance at January 1, 2019	$ 3,314,964	$ 2,516,981	$ 410,016	$ 854,811	$ 421,690	$ 4,580	$ 72,506	$ 49,413	$ 7,644,961
Additions	-	39,447	56,539	-	53,166	107,092	12,841	26,282	295,367
Deduction	-	(6,257)	(46,856)	-	(11,972)	(76,651)	(10,319)	-	(152,055)
Reclassification	-	-	505,999	(854,811)	3,640	446,490	954	(64,582)	37,690
Effect of exchange rate changes	-	-	(330)	-	(364)	-	(95)	-	(789)
Balance at December 31, 2019	3,314,964	2,550,171	925,368	-	466,160	481,511	75,887	11,113	7,825,174
Accumulated depreciation and impairment									
Balance at January 1, 2019	(4,257)	(915,500)	(134,488)	(196,502)	(174,027)	(4,467)	(31,769)	-	(1,461,010)
Depreciation	-	(71,834)	(101,807)	-	(62,932)	(96,616)	(14,270)	-	(347,459)
Deduction	-	6,256	46,597	-	11,814	51,640	10,496	-	126,803
Reclassification	-	-	(47,998)	196,502	-	(147,338)	-	-	1,166
Effect of exchange rate changes	-	-	314	-	357	-	90	-	761
Balance at December 31, 2019	(4,257)	(981,078)	(237,382)	-	(224,788)	(196,781)	(35,453)	-	(1,679,739)
Balance at December 31, 2019, net	$ 3,310,707	$ 1,569,093	$ 687,986	$ -	$ 241,372	$ 284,730	$ 40,434	$ 11,113	$ 6,145,435

(Concluded)

	December 31, 2019
Assets used by the Bank and its subsidiaries	$ 5,493,469
Assets leased under operating leases	651,966
	$ 6,145,435

The Bank approved the sale of three buildings located in Miaoli Gongguan, Tainan Canal and Yongle in the board of directors' meeting held in July 2018, thus, they were transferred from property and equipment to assets held for sale. In addition, no impairment loss was recognized for the buildings after evaluation by the external independent appraiser appointed by the Bank. The buildings located in Yongle were sold in February 2019, the gain on the disposal of assets held for sale was $5,772 thousand. The buildings located in Miaoli Gongguan and Tainan Canal were sold in December 2018, and the gain on the disposal of assets held for sale was $8,494 thousand.

Property and equipment were depreciated on a straight-line basis over the estimated uesful lives as follows:

Buildings and facilities	3-60 years
Machinery and computer equipment	3-10 years
Transportation equipment	5 years
Miscellaneous equipment	3-12 years
Leasehold improvements	Depends on the age or the durable life of the lease, whichever is shorter

The operating leases of the Bank's subsidiaries are mainly based on leased light passenger vehicles with lease terms of 1 to 5 years. The above contracts do not contain market review clauses. 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:

	December 31, 2019
Year 1	$ 101,268
Year 2	58,458
Year 3	17,886
Year 4	2,844
Year 5	334
	$ 180,790

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

	Estimated Useful Lives
Machinery equipment	4-20 years
Transportation equipment	2-5 years

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

17. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	December 31, 2019
Carrying amounts	
Buildings and facilities	$ 2,122,117
Computer equipment	69,655
Transportation equipment	4,194
Miscellaneous equipment	149
	$ 2,196,115

	For the Year Ended December 31, 2019
Additions to right-of-use assets	$ 283,991

	For the Year Ended December 31, 2019
Depreciation of right-of-use assets	
Buildings and facilities	$ 328,402
Computer equipment	15,047
Transportation equipment	1,592
Miscellaneous equipment	14
	$ 345,055

b. Lease liabilities-2019

	December 31, 2019
Carrying amounts	$ 2,196,791

	For the Year Ended December 31, 2019
Interest expense (other interest expenses)	$ 29,809

Ranges of discount rate for lease liabilities were as follows:

	December 31, 2019
Buildings and facilities	0.75%-1.31%
Computer equipment	0.91%-0.92%
Transportation equipment	0.75%-0.92%
Miscellaneous equipment	1.20%

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

	December 31, 2019
Less than 1 year	$ 293,425
1 year to 5 years	1,055,701
Over 5 years	960,806
	$ 2,309,932

c. Material lease activities and terms

The Bank and its subsidiaries lease buildings and facilities, computer equipment, transportation equipment and miscellaneous equipment with lease terms of 1 to 10 years. In the contracts, the Bank and its subsidiaries have the option 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

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

	For the Year Ended December 31, 2019
Expenses relating to short-term leases	$ 34,357
Expenses relating to low-value asset leases	$ 1,601
Total cash outflow for leases	$ 392,037

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

For the year ended December 31, 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 $14,920 thousand. The amount of lease commitments for short-term leases for which the exemption of recognition is applied was $8,243 thousand as of December 31, 2019.

18. INVESTMENT PROPERTY, NET

	December 31	
	2019	2018
Land	$ 816,754	$ 816,754
Buildings and facilities	190,319	197,967
	$ 1,007,073	$ 1,014,721

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

	For the Year Ended December 31	
	2019	2018
Cost		
Beginning balance	$ 1,307,126	$ 1,147,771
Disposal	-	(52,109)
Reclassification	-	211,464
Ending balance	1,307,126	1,307,126
Accumulated depreciation		
Beginning balance	(141,489)	(106,866)
Depreciation	(7,648)	(6,608)
Disposal	-	1,054
Reclassification	-	(29,069)
Ending balance	(149,137)	(141,489)
Accumulated impairment		
Beginning balance	(150,916)	(150,916)
Impairment	-	-
Ending balance	(150,916)	(150,916)
Carrying amount, net	$ 1,007,073	$ 1,014,721

Investment property was depreciated on a straight-line basis over the estimated useful lives as follows:

Buildings and facilities	
Main building and parking spaces	30-60 years

The fair values of the Bank and its subsidiaries' investment properties was assessed by an external independent appraiser. The sales comparison approach and income approach were used in the valuation, whereby the sales comparison approach compares a subject property's characteristics with those of comparable properties which have been recently sold in similar transactions, and the income approach takes the net operating income of the rent collected and divides it by the capitalization rate. Based on these valuations, the fair values of the Bank and its subsidiaries' investment properties as of December 31, 2019 and 2018 were $1,087,033 thousand and $1,099,813 thousand, respectively. Investment properties were categorized into Level 3.

The lease terms of the leasing of investment properties is 1 to 10 years. Some lessees have the priority to rent the leased property under the same terms after the leases have expired. 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 December 31, 2019 was as follows:

	December 31, 2019
Year 1	$ 32,690
Year 2	30,170
Year 3	28,447
Year 4	21,202
Year 5	11,959
Over 5 years	18,250
	$ 142,718

The above items of investment property were depreciated on a straight-line basis over their estimated useful lives as follows:

	Estimated Useful Lives
Buildings and facilities	30-60 years

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

19. OTHER ASSETS, NET

	December 31	
	2019	2018
Guarantee deposits paid	$ 7,120,790	$ 12,340,430
Prepaid expenses	1,138,214	815,358
Operating guarantee deposits and settlement funds	57,100	57,100
Prepaid pension costs	24,145	31,909
Others	97,490	87,915
	$ 8,437,739	$ 13,332,712

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

20. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	December 31	
	2019	2018
Call loans from banks	$ 22,775,114	$ 21,166,613
Deposits from Chunghwa Post Co., Ltd.	190,146	192,646
	$ 22,965,260	$ 21,359,259

21. NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS

	December 31	
	2019	2018
Corporate bonds	$ 8,168,589	$ 29,294,737
Government bonds	7,745,562	15,641,443
Bank debentures	2,480,852	14,788,077
Commercial paper	354,838	579,425
	$ 18,749,841	$ 60,303,682
Repurchase amounts	$ 18,770,951	$ 60,652,969
Last maturity date	March 2020	May 2019

22. PAYABLES

	December 31	
	2019	2018
Accounts payable factoring	$ 1,310,337	$ 1,038,451
Accrued interest	4,487,675	3,534,393
Accrued expenses	967,246	897,568
Checks for clearing	172,725	751,499
Remittances for clearing	576,720	7,274
Others	969,808	808,479
	$ 8,484,511	$ 7,037,664

23. DEPOSITS AND REMITTANCES

	December 31	
	2019	2018
Time deposits	$ 223,721,564	$ 248,719,544
Savings deposits	117,915,084	93,330,058
Demand deposits	64,376,461	58,703,189
Checking deposits	4,742,175	3,689,070
Negotiable certificates of deposit	10,380,300	17,211,000
Remittances	181,673	52,016
	$ 421,317,257	$ 421,704,877

24. BANK DEBENTURES PAYABLE

Name	December 31 2019	December 31 2018	Issuance Period	Method of Payment of Principal and Interest	Interest Rate
P06 KGIB 1	$ 1,000,000	$ 1,000,000	2017.05.19-2020.05.19	Interest payable annually; principal due on maturity	0.90%
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			
Unamortized discount	-	-			
Net amount	$ 10,450,000	$ 7,350,000			

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 compliance with the requirements set by the competent authority. The Bank is allowed to redeem the bonds based on the carrying value of each bond plus interest after approved by the competent authority.

25. COMMERCIAL PAPER PAYABLE, NET

	December 31 2019	December 31 2018
Commercial paper payable	$ 2,722,000	$ 1,830,000
Less: Unamortized discount	(339)	(284)
	$ 2,721,661	$ 1,829,716
Range of interest rates	1.02%-1.32%	1.02%-1.33%
Last maturity date	October 2020	March 2019

26. OTHER BORROWINGS

	December 31 2019	December 31 2018
Note issuance facility	$ 699,799	$ 1,039,821
Short-term secured borrowings	178,000	215,000
Short-term credit borrowings	-	430,037
Long-term credit borrowings	-	126,685
	$ 877,799	$ 1,811,543
Range of interest rates	1.08%-1.31%	1.10%-4.35%
Last maturity date	December 2022	July 2021

27. PROVISIONS

	December 31	
	2019	2018
Provisions for guarantee liabilities	$ 209,308	$ 134,756
Provisions for employee benefits	13,828	14,907
Provisions for loan commitments	93,686	79,477
Others	126,811	118,903
	$ 443,633	$ 348,043

28. RETIREMENT BENEFIT PLANS

a. Defined contribution plan

The Bank and domestic subsidiaries adopted a pension plan under the Labor Pension Act (the LPA), which is a state-managed defined contribution plan. Under the LPA, the Bank and its subsidiaries make monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages. The total pension expenses recognized were $135,582 thousand and $130,974 thousand for the years ended December 31, 2019 and 2018, respectively.

The Bank's foreign subsidiaries recognized their contributions as pension expenses in accordance with their local laws and regulations amounting to $1,619 thousand and $2,349 thousand for the years ended December 31, 2019 and 2018, respectively.

b. Defined benefit plan

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

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

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

	December 31	
	2019	2018
Present value of defined benefit obligation	$ 1,109,881	$ 1,060,662
Fair value of plan assets	(1,120,198)	(1,077,664)
Net defined benefit assets	$ (10,317)	$ (17,002)

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

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2018	$ 983,038	$ (1,067,435)	$ (84,397)
Service cost			
Current service cost	5,145	-	5,145
Net interest expense (income)	13,397	(14,744)	(1,347)
Recognized in profit or loss	18,542	(14,744)	3,798
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(8,341)	(8,341)
Actuarial (gain) loss - changes in demographic assumptions	37,711	-	37,711
Actuarial (gain) loss - changes in financial assumptions	16,515	-	16,515
Actuarial (gain) loss - experience adjustments	35,552	-	35,552
Recognized in other comprehensive income	89,778	(8,341)	81,437
Contributions from the employer	-	(17,840)	(17,840)
Benefits paid	(30,696)	30,696	-
Balance at December 31, 2018	1,060,662	(1,077,664)	(17,002)
Service cost			
Current service cost	3,645	-	3,645
Net interest expense (income)	13,156	(13,525)	(369)
Recognized in profit or loss	16,801	(13,525)	3,276
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(12,941)	(12,941)
Actuarial (gain) loss - changes in demographic assumptions	15,075	-	15,075
Actuarial (gain) loss - changes in financial assumptions	51,733	-	51,733
Actuarial (gain) loss - experience adjustments	(8,870)	-	(8,870)
Recognized in other comprehensive income	57,938	(12,941)	44,997
Contributions from the employer	-	(41,588)	(41,588)
Benefits paid	(25,520)	25,520	-
Balance at December 31, 2019	$ 1,109,881	$ (1,120,198)	$ (10,317)

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

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

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

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

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

The Bank

	December 31	
	2019	**2018**
Discount rates	0.875%	1.250%
Expected rates of salary increase	3.000%	3.000%

CDIB Management Consulting Corporation and subsidiaries

	December 31	
	2019	**2018**
Discount rates	0.700%	0.900%
Expected rates of salary increase	2.500%	2.500%

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

	December 31	
	2019	**2018**
Discount rate		
0.25% increase	$ (35,366)	$ (34,709)
0.25% decrease	$ 36,951	$ 36,298
Expected rate of salary increase		
0.25% increase	$ 35,601	$ 35,097
0.25% decrease	$ (34,272)	$ (33,751)

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

The Bank

	December 31	
	2019	**2018**
The expected contributions to the plan for the next year	$ 17,651	$ 16,371
The average duration of the defined benefit obligation	13 years	13.4 years

CDIB Management Consulting Corporation and subsidiaries

	December 31	
	2019	2018
The expected contributions to the plan for the next year	$ 1,428	$ 428
The average duration of the defined benefit obligation	9.72 years	10.53 years

29. OTHER LIABILITIES

	December 31	
	2019	2018
Temporary receipts and suspense accounts	$ 2,339,369	$ 1,613,132
Guarantee deposits received	3,545,807	2,705,509
Advance receipts	68,343	115,471
Others	64,428	68,992
	$ 6,017,947	$ 4,503,104

30. EQUITY

a. Capital

Common stock

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

Note: Par value of shares is NT$10.

b. Capital surplus

	December 31	
	2019	2018
Additional paid-in capital	$ 7,245,723	$ 7,245,723
Issuance of employee share options	5,398	5,208
Change in capital surplus from investments in associates accounted for using equity method	185	242
	$ 7,251,306	$ 7,251,173

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

The appropriation of earnings for 2019 has not been approved by the board of directors as of the date of the auditors' report.

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

31. NET INTEREST

	For the Year Ended December 31	
	2019	2018
Interest revenues		
Discounts and loans	$ 10,102,767	$ 9,243,075
Securities	2,287,244	2,474,214
Due from and call loans to banks	370,949	448,502
Accounts receivable - forfaiting	205,373	236,506
Others	697,056	819,174
	13,663,389	13,221,471
Interest expenses		
Deposits	5,157,186	4,477,666
Notes and bonds issued under repurchase agreements	760,330	875,948
Structured notes	147,724	124,136
Due to/borrowings from the other banks	434,189	447,386
Others	320,910	149,438
	6,820,339	6,074,574
	$ 6,843,050	$ 7,146,897

32. SERVICE FEE INCOME, NET

	For the Year Ended December 31	
	2019	2018
Service fee revenues		
Insurance commission	$ 675,566	$ 740,501
Trust	425,293	439,720
Loans	424,429	307,250
Cash card	104,250	113,356
Credit card	183,603	151,811
Others	347,568	351,282
	2,160,709	2,103,920

(Continued)

	For the Year Ended December 31	
	2019	2018
Service fee expenses		
Agency	$ 100,983	$ 85,254
Interbank	111,379	59,068
Others	156,265	147,618
	368,627	291,940
	$ 1,792,082	$ 1,811,980

(Concluded)

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

	For the Year Ended December 31	
	2019	2018
Realized gain (loss)		
Bonds	$ (671,050)	$ (693,486)
Stocks	(160,621)	(809,769)
Derivative instruments	4,295,980	2,922,321
Others	69,239	74,774
	3,533,548	1,493,840
Revaluation gain (loss)		
Bonds	(2,552,678)	1,517,585
Derivative instruments	(3,202,903)	862,985
Stocks	168,736	299,422
Others	3,705,866	(3,564,088)
	(1,880,979)	(884,096)
	$ 1,652,569	$ 609,744

For the years ended December 31, 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 $3,884,076 thousand and $2,102,782 thousand, respectively, (b) interest revenues of $1,050,475 thousand and $617,287 thousand, respectively, (c) dividend incomes of $50 thousand and $44,557 thousand, respectively, and (d) interest expenses of $1,401,053 thousand and $1,270,786 thousand, respectively.

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

	For the Year Ended December 31	
	2019	2018
Gain (loss) on disposal of bonds	$ 959,923	$ (586,878)
Dividend income	226,200	138,758
Others	(101)	-
	$ 1,186,022	$ (448,120)

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

	For the Year Ended December 31	
	2019	2018
Debt instruments at fair value through other comprehensive income	$ 9,510	$ (4,207)
Debt investments measured at amortized cost	383	(1,400)
Foreclosed collateral	17,502	-
	$ 27,395	$ (5,607)

36. OTHER NON-INTEREST INCOME

	For the Year Ended December 31	
	2019	2018
Rental income	$ 203,654	$ 172,503
Gain on disposal of investment property	-	69,047
Losses on debt restructuring	(28,342)	(28,289)
Losses on disposal of foreclosed collateral	(14,874)	-
Others	(22,917)	(3,442)
	$ 137,521	$ 209,819

37. EMPLOYEE BENEFITS, DEPRECIATION AND AMORTIZATION EXPENSES

	For the Year Ended December 31	
	2019	2018
Employee benefit expense		
Salaries and wages	$ 3,208,951	$ 3,094,776
Employee insurance	247,593	231,736
Pension	140,477	137,121
Others	242,024	220,214
	$ 3,839,045	$ 3,683,847
Depreciation and amortization expenses	$ 827,934	$ 422,486

The Company’s Articles of Incorporation stipulates to distribute compensation of employees at the rates no less than 0.01% and no higher than 3% of net profit before income tax and employees’ compensation. However, if the Bank had incurred cumulative losses, the profit should be used to offset the losses first.

The distribution of the compensation of employees for 2019 and 2018 approved by the board of directors on March 26, 2020 and March 21, 2019, were $4,559 thousand and $2,382 thousand, respectively.

There was no difference between the amounts of the employees’ compensation resolved by the board of directors and the respective amounts recognized in the financial statements for the year ended December 31, 2019 and 2018.

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 Year Ended December 31	
	2019	**2018**
Taxation	$ 504,887	$ 467,059
Rental	39,490	368,513
Professional services	168,334	260,793
Marketing	172,795	180,603
Computer information	211,682	185,547
Others	632,939	608,755
	$ 1,730,127	$ 2,071,270

39. INCOME TAX

a. Income tax expense

	For the Year Ended December 31	
	2019	**2018**
Current income tax		
Current year	$ 298,994	$ 284,332
Prior year's adjustments	(6,828)	(5,736)
	292,166	278,596
Deferred income tax	936,028	499,071
Income tax expenses	$ 1,228,194	$ 777,667

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

	For the Year Ended December 31	
	2019	**2018**
Income tax expenses calculated at the statutory rate	$ 968,256	$ 578,247
Nondeductible expenses in determine taxable income	(673,940)	(852,490)
Unrecognized temporary differences	533,309	126,236
Prior year's adjustments	(6,828)	(4,236)
Additional income tax under the Alternative Minimum Tax Act	298,994	272,404
Loss carryforwards	108,403	606,451
Others	-	51,055
Income tax expenses recognized in profit or loss	$ 1,228,194	$ 777,667

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 the 2018 unappropriated earnings was 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 Year Ended December 31	
	2019	2018
Current income tax		
Changes in fair value of equity instruments at fair value through other comprehensive income	$ -	$ 12,543
Deferred income tax		
Changes in fair value of debt instruments at fair value through other comprehensive income	12,601	-
Remeasurement of defined benefit plans	(8,956)	(16,196)
Income tax expense (benefit)	$ 3,645	$ (3,653)

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

	December 31	
	2019	2018
Taxes paid to the parent company	$ 600,802	$ 530,563

d. Deferred tax assets and liabilities

	December 31	
	2019	2018
Deferred tax assets		
Loss carryforwards	$ 646,680	$ 1,599,410
Allowance for bad debts	466,637	555,586
Financial instruments valuation	199,385	110,276
Others	38,148	25,086
	$ 1,350,850	$ 2,290,358
Deferred tax liabilities		
Land value increment tax	$ 19,831	$ 19,831
Defined benefit plans	4,829	4,582
	$ 24,660	$ 24,413

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

	December 31	
	2019	2018
Loss carryforwards		
Expiry in 2018	$ -	$ 12,613,743
Expiry in 2019	5,550,934	6,160,060
Expiry in 2020	644,227	-
	$ 6,195,161	$ 18,773,803

f. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2019 comprised:

Unused Amount	Expiry Year
$ 5,550,934	2019
2,624,589	2020
1,240,412	2021
$ 9,415,935	

g. Income tax assessments

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

The income tax returns of CDIB Management Consulting Corporation and CDC Finance & Leasing Corporation through 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 Year Ended December 31	
	2019	2018
Earnings used in the computation of the EPS	$ 3,606,608	$ 2,145,454
Weighted average number of common shares outstanding (shares in thousands)	4,606,162	4,606,162
Basic EPS (in dollars)	$0.78	$0.47

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

For the years ended December 31, 2019 and 2018, the interest revenue from due from banks was both $0 thousand.

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

Cash and cash equivalents

	Amount	%
December 31, 2019	$ 178,856	2
December 31, 2018	244,242	4

Financial assets at fair value through profit or loss

	Amount	%
December 31, 2019	$ 3,930	-
December 31, 2018	219,882	-

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

	Amount	%
December 31, 2018	$ 921,744	8

For the years ended December 31, 2019 and 2018, the interest revenue from bank debentures were $17,946 thousand and $32,009 thousand, respectively.

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

	Amount	%
December 31, 2019	$ 30,691	-
December 31, 2018	30,182	-

e. Credit card receivable (recognized as receivables, net)

	Amount	%
December 31, 2019	$ 23,300	-
December 31, 2018	22,433	-

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

	Amount	%
December 31, 2019	$ 17,097	-

g. Discounts and loans

	Amount	%	Interest Rate (%)
December 31, 2019	$ 1,140,878	-	1.54-15.00
December 31, 2018	1,150,686	-	1.54-15.00

For the years ended December 31, 2019 and 2018, the interest revenues from discounts and loans were $17,513 thousand and $16,667 thousand, respectively.

Balance as of December 31, 2019

Category	Number of Accounts or Name of Related Party	Highest Balance	Ending Balance	Normal	Overdue	Type of Collateral	Is the Transaction at Arm's Length Commercial Term
Consumer loans	40	$ 38,362	$ 18,667	$ 18,667	$ -	None	Yes
Residential mortgage loans	90	1,437,353	1,110,300	1,110,300	-	Real estate	Yes
Others	7	17,070	11,911	11,911	-	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	Is the Transaction at Arm's Length Commercial Term
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

h. Purchase and sale of bonds

	Purchase of Bonds	Sale of Bonds
For the year ended December 31, 2019		
Subsidiary of the parent company	$ 456,295	$ 712,331
For the year ended December 31, 2018		
Subsidiary of the parent company	5,330,933	2,733,358
Other related parties	877,050	-

i. Call loans to securities brokers (recognized as other financial assets, net)

	December 31, 2019 Amount	%
Subsidiary of the parent company	$ 903,180	46

For the years ended December 31, 2019 and 2018, interest revenue from call loans to securities brokers were $6,935 thousand and $4,618 thousand, respectively.

j. Lease arrangements (as a lessee)

Lease liabilities

	December 31, 2019
Subsidiary of the parent company	$ 97,456

	For the Year Ended December 31	
	2019	2018
Interest expense		
Subsidiary of the parent company	$ 1,414	$ -
Lease expense		
Subsidiary of the parent company	84	101,947

The above rental price is determined based on the market price and paid monthly/quarterly.

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

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

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

	Amount	%
December 31, 2018	$ 908,555	4

For the years ended December 31, 2019 and 2018, the interest expense for call loans from banks were $14,477 thousand and $41,016 thousand, respectively.

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

	December 31			
	2019		2018	
	Amount	%	Amount	%
Parent company	$ 600,802	100	$ 530,563	100

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

n. Deposits

	Amount	%	Interest Rate (%)
December 31, 2019	$ 26,822,306	6	0-5.58
December 31, 2018	24,713,558	6	0-5.58

For the years ended December 31, 2019 and 2018, the interest expenses for deposits were $129,615 thousand and $97,128 thousand, respectively.

o. Temporary receipts and suspense accounts (recognized as other liabilities)

	December 31, 2019	
	Amount	**%**
Subsidiary of the parent company	$ 2,188,412	36

The above accounts is temporary receipts of Automated Clearing House (ACH).

p. Service fee revenue

	For the Year Ended December 31	
	Amount	**%**
2019		
Subsidiary of the parent company	$ 323,357	15
Other related parties	235	-
2018		
Subsidiary of the parent company	307,771	15
Other related parties	150	-

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

q. Service fee expenses

	For the Year Ended December 31	
	Amount	**%**
2019	$ 4,733	1
2018	12,306	4

r. Insurance expenses (recognized as employee benefits expenses)

	For the Year Ended December 31	
	Amount	**%**
2019	$ 19,125	-
2018	14,673	-

s. Donations (recognized as other general and administrative expenses)

	For the Year Ended December 31	
	Amount	**%**
2019	$ 10,000	1

t. Other general and administrative expenses

	For the Year Ended December 31	
	Amount	%
2019	$ 91,098	5
2018	89,736	4

u. Outstanding derivative financial instruments

December 31, 2019

Related Party	Contract Type	Contract Period	Contract Amount	Valuation Gain (Loss)	Balance Sheet Account	Balance Sheet Balance
Subsidiaries of the parent company	Asset swap-interest rate swap contracts	March 12, 2019 - September 30, 2022	$ 190,000	$ 5,980	Financial assets at FVTPL	$ 5,980
	Asset swap-option contracts	March 12, 2019 - September 16, 2022	190,000	(20,442)	Financial liabilities at FVTPL	20,442
	Currency swap contracts	October 3, 2019 - August 26, 2020	14,015,287	(165,646)	Financial assets at FVTPL	4,303
					Financial liabilities at FVTPL	169,949

December 31, 2018

Related Party	Contract Type	Contract Period	Contract Amount	Valuation Gain (Loss)	Balance Sheet Account	Balance Sheet Balance
Other related parties	Interest rate swap contracts	March 17, 2017 - April 7, 2047	$ 12,320,368	$ 642,233	Financial assets at FVTPL	$ 150,929
					Financial liabilities at FVTPL	2,366
Subsidiaries of the parent company	Asset swap-interest rate swap contracts	January 18, 2017 - February 1, 2020	602,120	(13,226)	Financial assets at FVTPL	2,740
					Financial liabilities at FVTPL	7,058
	Asset swap-option contracts	January 18, 2017 - December 31, 2019	602,120	52,985	Financial liabilities at FVTPL	14,231
	Interest rate swap contracts	November 4, 2016 - November 6, 2020	636,173	(101)	Financial assets at FVTPL	544
					Financial liabilities at FVTPL	4,544
	Currency swap contracts	July 19, 2018 - February 27, 2019	15,520,165	36,905	Financial assets at FVTPL	49,613
					Financial liabilities at FVTPL	12,709

v. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Salary and short-term employee benefits	$ 177,786	$ 126,827
Post-employment benefits	1,810	1,932
Share-based payment	190	528
	$ 179,786	$ 129,287

In addition to the above, the Bank also paid housing rental, car rental and drivers' salaries, which amounted to $3,526 thousand and $4,392 thousand for the years ended December 31, 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 collateral of the Bank and its subsidiaries were as follows:

Assets	Object	Purpose	December 31 2019	December 31 2018
Financial assets at fair value through profit or loss	Government bonds	Guarantees for provisional seizure	$ 12,209	$ 2,838
Installment accounts and lease receivables	Notes receivable	Commercial paper payable and short-term borrowings	2,506,872	2,380,148
Financial assets at fair value through other comprehensive income	Government bonds	Guarantees for provisional seizure	14,420	20,584
Financial assets at fair value through other comprehensive income	Government bonds	Guarantees and provisions	159,911	160,764
Financial assets at fair value through other comprehensive income	Negotiable certificates of deposit	As collateral for day-term overdraft and U.S. dollar liquidation and other transactions of the guarantee	18,198,972	16,198,186
Other financial assets, net	Time deposits	As collateral for day-term overdraft	1,080,750	1,118,900
Property and equipment, net	Real estate	Commercial paper payable and short-term borrowings	12,305	12,618
Investment property, net	Investment property	Commercial paper payable and short-term borrowings	38,838	40,192
Other financial assets, net	Time deposits	Short-term borrowings	300	300
Other assets, net	Cash in banks - impound account	Commercial paper payable and short-term borrowings	35,255	44,936

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 $220,516 thousand for the remaining contract period starting from December 31, 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:

December 31, 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	$ 1,718,131	$ 2,455,959	$ -	$ 4,174,090
Commercial paper payable	-	10,882,423	-	10,882,423
Others	38,170	-	-	38,170
Financial assets designated as at FVTPL	6,338,783	26,181,783	-	32,520,566
Financial assets at FVTOCI				
Stock investments	2,670,233	-	380,744	3,050,977
Debt investments	26,680,873	42,895,860	-	69,576,733
Negotiable certificates of deposit	-	62,617,894	-	62,617,894
Liabilities				
Financial liabilities at FVTPL				
Financial liabilities designated as at FVTPL	-	30,550,309	-	30,550,309
Derivative financial instruments				
Assets				
Financial assets at FVTPL	3,930	30,308,768	180,629	30,493,327
Liabilities				
Financial liabilities at FVTPL	-	46,016,523	180,444	46,196,967

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

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 the counterparties' 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 method 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 management considers valuation adjustments as necessary and appropriate. For the Bank and its subsidiaries 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, and definitions are the following:

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 Year Ended December 31, 2019		For the Year Ended December 31, 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	$ -	$ -	$ 5,189,130	$ -

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 Year Ended December 31, 2019

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		Profit and Loss	Compre-hensive Income	Purchase or Issue	Transfer to Level 3	Sale, Disposal or Settlement	Transfer from Level 3	
Financial assets at FVTPL	$ 147,234	$ 49,027	$ -	$ -	$ -	$ (15,632)	$ -	$ 180,629
Financial assets at FVTOCI	381,396	-	6,661	-	-	(7,313)	-	380,744

For the Year Ended December 31, 2018

Items	Beginning Balance	Valuation Gains (Losses)		Amount of Increase		Amount of Decrease		Ending Balance
		Profit and Loss	Compre-hensive Income	Purchase or Issue	Transfer to Level 3	Sale, Disposal or Settlement	Transfer from Level 3	
Financial assets at FVTPL	$ 143,196	$ 94,724	$ -	$ -	$ -	$ (90,686)	$ -	$ 147,234
Financial assets at FVTOCI	426,330	-	26,025	-	-	(70,959)	-	381,396

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

For the Year Ended December 31, 2019

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Profit and 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	$ 49,740	$ -	$ -	$ (15,383)	$ -	$ 180,444

For the Year Ended December 31, 2018

Items	Beginning Balance	Valuation Gains (Losses) Recognized as Profit and 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	$ 95,664	$ -	$ -	$ (90,071)	$ -	$ 146,087

In relation to the above, valuation gains and losses are recognized in gain and loss in the period. As of December 31, 2019 and 2018, the gains and losses on assets and liabilities were gain of $185 thousand and $1,147 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 December 31, 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	$ 380,744	Market approach, net asset method	P/B, P/E, Lack of liquidity discount and control discount	1.06-13.10, 11%-27.2%	Multiplier is proportional to fair value, fair value is inversely proportional to discount for lack of liquidity and control
Derivative financial instruments					
Financial assets at FVTPL	180,629	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 and its subsidiaries select the applicable one according to the analysis.
Financial liabilities at FVTPL	180,444	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 and its subsidiaries 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 liquidity 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 and its subsidiaries 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 and its subsidiaries 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

December 31, 2019

	Level 1	Level 2	Level 3	Total
Financial assets				
Debt investments measured at amortized cost	$ -	$ 11,139,220	$ -	$ 11,139,220
Financial liabilities				
Bank debentures payable	-	10,641,460	-	10,641,460

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

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 management, to committees with risk management functions and to the board of directors. 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 business 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, debtor 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 credit business, 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 raise 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) Credit risk hedge or mitigation policies

Considering the asset hedge market and liquidity, the Bank takes the necessary risk reduction strategies, mainly on credit objects and hedge transactions involving assets with doubtful collectability or a long period of duration, including methods for increasing appropriate collateral 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 collateral, liquid securities will be evaluated at their market value; other collateral will be subject to field surveys by appraisal institution for their fair value assessment, which will be used as a basis for demanding additional collateral 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 collateral or other credit enhancements and unused revolving credit without credit card and cash card, the maximum exposure of credit risk from irrevocable off-balance sheet financial instruments was as follows:

Items	December 31 2019	December 31 2018
Irrevocable loan commitments, guarantees and letters of credit issued yet unused	$ 48,223,480	$ 37,251,576

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' carrying amount of maximum exposure credit risk for major credit assets were as follows:

	Discounts and Loans December 31, 2019					
	Stage 1	Stage 2	Stage 3	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	$ 50,171,454	$ 842,330	$ 723,169	$ -		$ 51,736,953
Short-term secured loans	24,640,770	-	-	-		24,640,770
Medium-term loans	128,966,552	106,882	456,700	-		129,530,134
Medium-term secured loans	66,098,880	50,705	45,100	-		66,194,685
Long-term loans	1,675,199	272,462	465,350	-		2,413,011
Long-term secured loans	71,473,302	85,194	525,080	69,951		72,153,527
Overdue loans	-	-	376,103	-		376,103
Export negotiations	30,866	-	-	-		30,866
Total carrying amount	343,057,023	1,357,573	2,591,502	69,951		347,076,049
Allowance for bad debts	(1,450,530)	(81,745)	(597,543)	-		(2,129,818)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (2,334,800)	(2,334,800)
Discounts on loans					(109,450)	(109,450)
Total	$ 341,606,493	$ 1,275,828	$ 1,993,959	$ 69,951	$ (2,444,250)	$ 342,501,981

	Receivables December 31, 2019					
	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	$ 2,816,692	$ 191,782	$ 104,575	$ -		$ 3,113,049
Accounts receivable - forfaiting	3,947,653	-	-	-		3,947,653
Accounts receivable factoring without recourse	6,572,098	111	214	-		6,572,423
Acceptances	281,925	-	-	-		281,925
Installment accounts and lease receivables	3,668,294	48,705	63,687	-		3,780,686
Total carrying amount	17,286,662	240,598	168,476	-		17,695,736
Allowance for bad debts	(43,103)	(32,391)	(57,586)	-		(133,080)
The adjustments under Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans					$ (135,321)	(135,321)
Total	$ 17,243,559	$ 208,207	$ 110,890	$ -	$ (135,321)	$ 17,427,335

	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
Overdue loans	-	-	420,512	-		420,512
Export negotiations	56,079	-	-	-		56,079
Total carrying amount	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 carrying amount	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

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

	December 31	
	2019	2018
Financial assets at FVTPL		
Debt instruments	$ 33,078,636	$ 35,640,472
Derivatives instruments	30,493,327	23,860,387

5) Collateral and credit enhancements

The Bank and its subsidiaries' pledged collateral 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 collateral 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:

	December 31, 2019			
	Total Carrying Amount	**Credit Impairment**	**Amount of Risk Exposure (Amortized Cost)**	**Collateral Value**
Impaired asset:				
Receivables:				
Credit card	$ 104,575	$ 27,085	$ 77,490	$ -
Accounts receivable factoring without recourse	214	13	201	-
Installment accounts and lease receivables	63,687	30,488	33,199	-
Discounts and loans	2,661,453	597,543	2,063,910	2,410,802
Total amount of impaired asset	$ 2,829,929	$ 655,129	$ 2,174,800	$ 2,410,802

	December 31, 2018			
	Total Carrying Amount	**Credit Impairment**	**Amount of Risk Exposure (Amortized Cost)**	**Collateral 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

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 $1,064,868 thousand and $581,078 thousand for the years ended December 31, 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

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Public and private enterprises	$ 220,692,107	63.59	$ 223,928,501	65.82
Natural persons	126,046,099	36.31	115,908,259	34.07
Non-profit organizations	337,843	0.10	377,314	0.11
Total	$ 347,076,049	100.00	$ 340,214,074	100.00

b) By region

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Domestic	$ 259,269,771	74.70	$ 249,109,901	73.22
Overseas	87,806,278	25.30	91,104,173	26.78
Total	$ 347,076,049	100.00	$ 340,214,074	100.00

c) By collateral

	December 31, 2019		December 31, 2018	
	Amount	%	Amount	%
Credit	$ 183,987,284	53.01	$ 199,322,970	58.59
Secured				
Financial collateral	8,251,419	2.38	7,522,386	2.21
Real estate	130,830,276	37.69	112,842,633	33.17
Guarantees	16,624,750	4.79	14,661,938	4.31
Other	7,382,320	2.13	5,864,147	1.72
Total	$ 347,076,049	100.00	$ 340,214,074	100.00

7) Management policies on foreclosed collateral

Foreclosed collateral are recorded at cost, using lower-at-cost or net fair value as of the balance sheet date. If collateral 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 competent authority requires.

	December 31	
	2019	2018
Foreclosed collateral	$ 588,985	$ 1,802,487
Allowance for impairment	(588,985)	(1,802,487)
	$ -	$ -

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 carrying amount is recognized as net other non-interest income. Please refer to Note 36 for details.

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			December 31, 2019				
			Non-performing Loan (NPL) (Note 1)	**Total Loans**	**NPL Ratio (Note 2)**	**Loan Loss Reserves (LLR)**	**Coverage Ratio (Note 3)**
Corporate banking	Secured		$ 92,042	$ 81,043,580	0.11%	$ 999,765	1,086.21%
	Unsecured		134,564	146,452,112	0.09%	1,674,612	1,244.47%
Consumer banking	Mortgage (Note 4)		23,498	56,169,271	0.04%	844,093	3,592.26%
	Cash card		133,100	13,243,858	1.00%	320,797	241.02%
	Micro credit (Note 5)		207,616	24,270,640	0.86%	351,414	169.26%
	Others (Note 6)	Secured	13,892	25,875,914	0.05%	273,690	1,970.15%
		Unsecured	-	20,674	-	247	-
Total			604,712	347,076,049	0.17%	4,464,618	738.31%
			Overdue Receivables	**Accounts Receivable**	**Delinquency Ratio**	**Allowance for Credit Losses**	**Coverage Ratio**
Credit card			22,830	3,113,049	0.73%	62,442	273.51%
Accounts receivable factoring without recourse (Note 7)			8	6,572,423	0.00%	88,340	1,088,060.08%

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

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". 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	December 31, 2019		December 31, 2018	
	Excluded NPL	Excluded Overdue Receivables	Excluded NPL	Excluded Overdue Receivables
Amounts of executed contracts on negotiated debts not reported (Note 1)	$ 8,483	$ 117	$ 11,518	$ 88
Amounts of executed debt settlement program and rehabilitation program not reported (Note 2)	53,852	6,597	44,921	4,653
Total	$ 62,335	$ 6,714	$ 56,439	$ 4,741

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

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

c) Concentration of credit risk

December 31, 2019

Top 10 Ranking	Group (Industry Category)	Total Credit	Percentage of Net Worth (%)
1	A Group - real estate activities for sale and rental	$ 8,001,538	12.47
2	B Group - activities of other holding companies	6,587,563	10.27
3	C Group - manufacture of man-made fibers	5,573,808	8.69
4	D Group - real estate development activities	4,920,000	7.67
5	E Group - real estate activities for sale and rental	4,859,521	7.57
6	F Group - smelting and refining of iron and steel	4,328,309	6.74
7	G Group - manufacture of computers	4,127,652	6.43
8	H Group - manufacture of electric wires and cables	4,078,035	6.35
9	I Group - manufacture of monitors and terminals	3,654,104	5.69
10	J Group - real estate development activities	3,594,237	5.60

December 31, 2018

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

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 default and credit impaired financial assets

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

a) Quantitative index

i. When the borrower's payment of the contract is overdue for 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 the credit asset of default and credit impairment if it no longer meets the definition of default and credit impairment.

The debt instrument investment may also be deemed to have a credit impairment 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 debt certificate or supporting documents with the assessment that credit assets evaluated as impossible to obtain repayment.

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 carrying amount held by borrowers or the counterparty after borrowers or the counterparty 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 year ended December 31, 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	(19)	19	-	-	-	-		-
Transferred to credit-impaired financial assets	(5)	(22)	-	27	-	-		-
Transferred to 12 months ECL	511	(277)	-	(234)	-	-		-
Derecognized financial assets in the current period	(63,461)	(464)	-	(430)	-	(64,355)		(64,355)
Purchased or originated new financial assets	41,901	236	-	-	-	42,137		42,137
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							130,007	130,007
Write-off	-	-	-	-	-	-		-
Recovery of written-off	-	-	-	-	-	-		-
Effect of exchange rate changes and others	(21,008)	339	-	724	-	(19,945)		(19,945)
Balance at December 31	$ 108,889	$ 727	$ -	$ 1,757	$ -	$ 111,373	$ 192,447	$ 303,820

There was no significant increase in the expected credit loss of the Bank and its subsidiaries' credit assets during the duration of the off-balance-sheet guarantees and loan commitments for the year ended December 31, 2019. A net increase in the total carrying amount of $41,818,329 thousand resulted in an increase of $87,844 thousand in the above-mentioned provisions compared to the prior period.

For the year ended December 31, 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	(34)	34	-	-	-	-		-
Transferred to credit-impaired financial assets	(9)	(12)	-	21	-	-		-
Transferred to 12 months ECL	544	(141)	-	(403)	-	-		-
Derecognized financial assets in the current period	(92,303)	(3)	-	-	-	(92,306)		(92,306)
Purchased or originated new financial assets	93,819	321	-	-	-	94,140		94,140
The adjustments under regulations governing the procedures for banking institutions to evaluate assets and deal with non-performing/non-accrual loans							34,999	34,999
Write-off	-	-	-	-	-	-		-
Recovery of written-off	-	-	-	-	-	-		-
Effect of exchange rate changes and others	(12,077)	64	-	326	-	(11,687)		(11,687)
Balance at December 31	$ 150,970	$ 896	$ -	$ 1,670	$ -	$ 153,536	$ 62,440	$ 215,976

There was no significant increase in the expected credit loss of the Bank and its subsidiaries' credit assets during the duration of the off-balance-sheet guarantees and loan commitments for the year ended December 31, 2018. A net increase in the total carrying amount of $27,028,541 thousand resulted in an increase of $25,146 thousand in the above-mentioned provisions compared 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) Financial assets held for liquidity management and maturity analysis of non-derivative financial liabilities

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)

December 31, 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	$ 10,123,296	$ -	$ -	$ 166,850	$ -	$ 10,290,146
Notes and bonds issued under repurchase agreements	5,791,571	-	-	-	-	5,791,571
Deposits and remittances	56,190,343	73,918,182	63,886,282	71,397,928	17,967,649	283,360,384
Bank debentures payable	-	-	1,000,000	-	9,450,000	10,450,000
Other capital outflow on maturity	3,174,240	977,602	610,172	632,082	2,508,531	7,902,627
Total	$ 75,279,450	$ 74,895,784	$ 65,496,454	$ 72,196,860	$ 29,926,180	$ 317,794,728

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

Maturity analysis of non-derivative financial liabilities (USD)

(In Thousands of U.S. Dollars)

December 31, 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	$ 196,000	$ 185,000	$ 30,000	$ -	$ -	$ 411,000
Notes and bonds issued under repurchase agreements	34,308	129,787	-	-	-	164,095
Deposits and remittances	1,475,688	1,040,336	497,607	710,207	16,677	3,740,515
Bank debentures payable	-	-	-	-	1,014,758	1,014,758
Other capital outflow on maturity	23,118	31,544	7,225	460	235,970	298,317
Total	$ 1,729,114	$ 1,386,667	$ 534,832	$ 710,667	$ 1,267,405	$ 5,628,685

(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

4) Maturity analysis of derivative instruments

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

Maturity analysis of derivative instruments (NTD)

December 31, 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	$ (164,347,333)	$ (268,369,855)	$ (133,746,346)	$ (83,336,388)	$ (981,280)	$ (650,781,202)
Cash inflow	151,878,212	246,852,094	130,914,798	78,914,741	-	608,559,845
Interest rate derivatives instruments						
Cash outflow	(191,930)	(404,974)	(11,308)	-	(23,503,490)	(24,111,702)
Cash inflow	166,765	379,890	11,010	-	-	557,665
Cash outflow subtotal	(164,539,263)	(268,774,829)	(133,757,654)	(83,336,388)	(24,484,770)	(674,892,904)
Cash inflow subtotal	152,044,977	247,231,984	130,925,808	78,914,741	-	609,117,510
Net cash flow	$ (12,494,286)	$ (21,542,845)	$ (2,831,846)	$ (4,421,647)	$ (24,484,770)	$ (65,775,394)

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)

Maturity analysis of derivative instruments (USD)

(In Thousands of U.S. Dollars)

December 31, 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	$ (5,750,775)	$ (9,001,291)	$ (4,941,888)	$ (3,195,125)	$ (39,760)	$ (22,928,839)
Cash inflow	6,494,421	9,827,038	4,757,470	3,276,983	71,760	24,427,672
Interest rate derivatives instruments						
Cash outflow	(64,773)	(104,723)	(61,874)	(7,424)	(59,508)	(298,302)
Cash inflow	42,890	93,676	46,775	2,148	-	185,489
Others						
Cash outflow	(42)	-	-	-	-	(42)
Cash inflow	301	-	-	-	-	301
Cash outflow subtotal	(5,815,590)	(9,106,014)	(5,003,762)	(3,202,549)	(99,268)	(23,227,183)
Cash inflow subtotal	6,537,612	9,920,714	4,804,245	3,279,131	71,760	24,613,462
Net cash flow	$ 722,022	$ 814,700	$ (199,517)	$ 76,582	$ (27,508)	$ 1,386,279

(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

5) Maturity analysis of off-balance sheet items

The table below shows the Bank's maturity analysis of the off-balance sheet items based on the remaining time between the reporting date and the contractual period. For the financial guarantee contracts issued, the maximum guaranteed amount included in the guarantee may be required to be fulfilled in the earliest period.

December 31, 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	$ 15,435,073	$ 4,342,895	$ 3,866,860	$ 11,583,264	$ 12,995,388	$ 48,223,480

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

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 non-cancelable 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

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

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

December 31, 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	$ 151,970,909	$ 126,185,567	$ 293,006,276	$ 163,421,009	$ 140,933,669	$ 180,673,425	$ 1,056,190,855
Main capital outflow on maturity	127,341,482	129,000,673	375,874,625	225,921,766	211,322,106	217,972,573	1,287,433,225
Gap	24,629,427	(2,815,106)	(82,868,349)	(62,500,757)	(70,388,437)	(37,299,148)	(231,242,370)

December 31, 2018	0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 149,159,389	$ 245,722,737	$ 299,698,283	$ 202,917,488	$ 75,145,312	$ 149,115,349	$ 1,121,758,558
Main capital outflow on maturity	103,871,470	206,384,796	376,122,829	261,937,068	189,060,528	198,159,116	1,335,535,807
Gap	45,287,919	39,337,941	(76,424,546)	(59,019,580)	(113,915,216)	(49,043,767)	(213,777,249)

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

(In Thousands of U.S. Dollars)

December 31, 2019	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Main capital inflow on maturity	$ 7,178,580	$ 10,541,976	$ 5,173,672	$ 3,582,959	$ 2,980,884	$ 29,458,071
Main capital outflow on maturity	7,717,297	10,837,581	5,899,218	4,610,817	2,933,121	31,998,034
Gap	(538,717)	(295,605)	(725,546)	(1,027,858)	47,763	(2,539,963)

(In Thousands of U.S. Dollars)

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

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 Management Standard" 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 Management Standard" 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 Management Standard", 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 regularly reports to both the Risk Management Committee and CDFH's Risk Management Committee. Besides, the above reports are presented to the Board quarterly 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 basis 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 a 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 Year Ended December 31, 2019			For the Year Ended December 31, 2018		
	Average	**Highest**	**Lowest**	**Average**	**Highest**	**Lowest**
Interest rate risk	$ 139,196	$ 226,896	$ 66,552	$ 172,030	$ 263,393	$ 72,541
Equity securities risk	1,145	10,137	-	13,929	27,333	3,477
Foreign exchange risk	5,129	12,638	1,458	5,034	34,521	2,163

6) Interest rate risk in the 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 senior 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 currencies and with material influence on the Bank and its subsidiaries were as follows:

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	December 31, 2019		
	Foreign Currency	**Exchange Rate**	**New Taiwan Dollar**
Financial assets			
Monetary items			
USD	$ 5,748,558	30.11	$ 173,066,073
EUR	459,981	33.76	15,528,947
HKD	3,767,759	3.87	14,566,157
CNY	1,005,243	4.32	4,345,667
ZAR	1,003,988	2.14	2,149,539
JPY	7,580,733	0.28	2,100,621
GBP	42,533	39.55	1,682,188
CAD	60,132	23.08	1,387,854
AUD	26,957	21.10	568,800
SGD	18,231	22.37	407,817
NZD	19,918	20.27	403,736
Financial liabilities			
Monetary items			
USD	7,193,801	30.11	216,576,559
CNY	4,143,416	4.32	17,911,985
EUR	290,357	33.76	9,802,438
ZAR	3,007,386	2.14	6,438,814
AUD	111,802	21.10	2,359,021
JPY	5,261,286	0.28	1,457,902
HKD	252,039	3.87	974,382
GBP	8,083	39.55	319,679
NZD	5,250	20.27	106,419

(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

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

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

December 31, 2019

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 303,272,809	$ 19,249,480	$ 36,383,885	$ 58,866,755	$ 417,772,929
Interest rate-sensitive liabilities	131,600,466	133,057,975	28,756,714	11,734,678	305,149,833
Interest rate sensitivity gap	171,672,343	(113,808,495)	7,627,171	47,132,077	112,623,096
Net worth					60,871,214
Ratio of interest rate-sensitive assets to liabilities (%)					136.91
Ratio of interest rate-sensitive gap to net worth (%)					185.02

December 31, 2018

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

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

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

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

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

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

December 31, 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	$ 2,853,130	$ 113,902	$ 45,528	$ 1,017,195	$ 4,029,755
Interest rate-sensitive liabilities	3,559,953	402,898	336,081	998,504	5,297,436
Interest rate sensitivity gap	(706,823)	(288,996)	(290,553)	18,691	(1,267,681)
Net worth					109,641
Ratio of interest rate-sensitive assets to liabilities (%)					76.07
Ratio of interest rate-sensitive gap to net worth (%)					(1,156.21)

December 31, 2018

(In Thousands of U.S. Dollars)

Item	1 to 90 Days	91 to 180 Days	181 Days to 1 Year	Over 1 Year	Total
Interest rate-sensitive assets	$ 2,871,990	$ 149,671	$ 42,301	$ 1,547,530	$ 4,611,492
Interest rate-sensitive liabilities	4,215,405	768,422	465,888	892,835	6,342,550
Interest rate sensitivity gap	(1,343,415)	(618,751)	(423,587)	654,695	(1,731,058)
Net worth					25,518
Ratio of interest rate-sensitive assets to liabilities (%)					72.71
Ratio of interest rate-sensitive gap to net worth (%)					(6,783.67)

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

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

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

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

e. Transfers of financial assets

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

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

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

December 31, 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					
Financial assets at FVTPL	$ 3,210,485	$ 3,046,369	$ 3,210,485	$ 3,046,369	$ 164,116
Financial assets at FVTOCI	16,624,605	15,703,472	16,624,605	15,703,472	921,133

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 FVTPL	8,359,623	7,844,863	8,359,623	7,844,863	514,760
Financial assets at FVTOCI	55,513,141	52,166,855	55,513,141	52,166,855	3,346,286

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:

December 31, 2019						
Financial Assets Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	**Gross Amounts of Recognized Financial Assets (a)**	**Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheet (b)**	**Net Amount of Recognized Financial Assets Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Received**	
Securities purchased under resell agreements	$ 18,686,598	$ -	$ 18,686,598	$ 18,655,848	$ 30,750	$ -
Derivative financial instruments	30,493,327	-	30,493,327	5,239,990	3,229,772	22,023,565
Total	$ 49,179,925	$ -	$ 49,179,925	$ 23,895,838	$ 3,260,522	$ 22,023,565

December 31, 2019						
Financial Liabilities Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	**Gross Amounts of Recognized Financial Liabilities (a)**	**Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet (b)**	**Net Amount of Recognized Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Pledged**	
Notes and bonds issued under repurchase agreements	$ 18,749,841	$ -	$ 18,749,841	$ 18,745,805	$ 4,036	$ -
Derivative financial instruments	46,196,967	-	46,196,967	5,239,990	6,207,146	34,749,831
Total	$ 64,946,808	$ -	$ 64,946,808	$ 23,985,795	$ 6,211,182	$ 34,749,831

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 Recognized Financial Liabilities Offset in the Balance Sheet (b)**	**Net Amount of Recognized Financial Assets Presented in the Balance Sheet (c)=(a)-(b)**	**Related Amount Not Offset in the Balance Sheet (d)**		**Net Amount (e)=(c)-(d)**
				Financial Instruments (Note)	**Cash Collateral Received**	
Securities purchased under resell agreements	$ 15,164,692	$ -	$ 15,164,692	$ 15,164,692	$ -	$ -
Derivative financial instruments	23,860,387	-	23,860,387	7,962,286	2,407,631	13,490,470
Total	$ 39,025,079	$ -	$ 39,025,079	$ 23,126,978	$ 2,407,631	$ 13,490,470

December 31, 2018						
Financial Liabilities Under Offsetting, Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheet (b)	Net Amount of Recognized Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)	Related Amount Not Offset in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial 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

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

46. CAPITAL MANAGEMENT

a. Objective 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' 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 December 31, 2019	December 31, 2018
Eligible capital	Common equity Tier 1 capital		$ 61,407,180	$ 55,803,540
	Additional Tier 1 capital		2,758,339	2,734,552
	Tier 2 capital		8,967,084	5,374,424
	Eligible capital		73,132,603	63,912,516
Risk-weighted assets	Credit risk	Standardized approach	402,609,068	404,225,330
		Internal rating-based approach	-	-
		Securitization	-	-
	Operational risk	Basic indicator approach	19,501,634	18,688,007
		Standardized approach/ alternative standardized approach	-	-
		Advanced measurement approach	-	-
	Market risk	Standardized approach	53,279,138	54,311,738
		Internal model approach	-	-
	Total risk-weighted assets		475,389,840	477,225,075
Capital adequacy ratio			15.38%	13.39%
Ratio of common equity to risk-weighted assets			12.92%	11.69%
Ratio of Tier 1 capital to risk-weighted assets			13.50%	12.27%
Leverage ratio			8.56%	7.89%

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 capital/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	**December 31 2019**	**December 31 2018**	**Trust Liabilities**	**December 31 2019**	**December 31 2018**
Bank deposits	$ 1,838,862	$ 585,926	Payables	$ 149,274	$ 151,212
Short-term investment	27,804,068	28,539,061	Account payable on securities under custody	5,664,385	4,839,320
Financial assets at FVTPL	10,440	11,640	Other liabilities	74,328	57,865
Receivables	25,931	50,719	Donations	1,906	1,811
Other financial assets	16,545	16,450	Trust capital	43,984,697	29,835,976
Real estate, net	13,522,176	534,259	Accumulated earnings	33,505	675,725
Intangible assets - surface rights	984,534	984,534			
Securities under custody	5,664,385	4,839,320			
Others	41,154	-			
Total	$ 49,908,095	$ 35,561,909	Total	$ 49,908,095	$ 35,561,909

Income Statements of Trust Accounts

(In Thousands of New Taiwan Dollars)

	For the Year Ended December 31 2019	**For the Year Ended December 31 2018**
Trust income and gains		
Dividend income	$ 10,834	$ 9,976
Interest income	1,452,195	1,506,809
Rental income	27,657	28,367
Other income	7,471	8,800
Total trust income and gains	1,498,157	1,553,952
Trust expenses		
Property transaction losses	(655,279)	(1,171,300)
Administrative expenses	(50,820)	(32,716)
Loss on financial assets at FVTPL, net	-	(3,753)
Other expenses	(22,958)	(11,531)
Total trust expenses	(729,057)	(1,219,300)
Net income	$ 769,100	$ 334,652

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

Trust Property Accounts

(In Thousands of New Taiwan Dollars)

	December 31	
	2019	**2018**
Investment Portfolio		
Bank deposits	$ 1,838,862	$ 585,926
Short-term investments		
Funds	25,711,359	26,786,220
Bonds	1,824,642	1,410,880
Common shares	70,200	73,200
Structured notes	93,766	93,766
ETF	104,101	174,995
Financial assets at FVTPL	10,440	11,640
Other financial assets	42,476	67,169
Real estate, net	13,522,176	534,259
Intangible assets - surface rights	984,534	984,534
Securities under custody	5,664,385	4,839,320
Other assets	41,154	-
Total	$ 49,908,095	$ 35,561,909

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

a. Business or trading behaviors

Please refer to Note 41 for related-party transactions.

b. Integration of business activities

The Bank has become a full-functioning financial platform for customers by conducting cross-selling activities with the subsidiaries of the parent company through the banking, securities and life insurance channels.

c. Cross utilization of information or locations and business utilities

In compliance with Article 43 of the “Financial Holding Companies Act”, “Financial Holding Subsidiaries Cross-selling Activities Acts”, “Self-disciplinary Standards” and other related regulations from the FSC, the Bank has advocated cross-selling activities among the subsidiaries of the parent company. In addition, the Bank, which joined the cross selling business, discloses protection measures of customer information on the official website to limit the use of the data and secure customer information and related rights when handling cross-selling activities.

d. Allocation of revenues, costs, expenses, profits and losses

Revenue, costs, expenses, and profits or losses arising from integrated business activities among the Bank and the subsidiaries of the parent company are allocated to each counterparty based on the cross-selling contract or other reasonable allocation methods.

49. PROFITABILITY

(%)

Items		December 31, 2019	December 31, 2018
Return on total assets	Before income tax	0.72	0.46
	After income tax	0.54	0.34
Return on net worth	Before income tax	7.88	4.90
	After income tax	5.88	3.60
Profit margin		31.16	23.85

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 on an annual basis.

50. ADDITIONAL DISCLOSURES

a. Information about significant transactions:

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

2) Endorsements/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 issued 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 credit business 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 year ended December 31, 2019					
Interest revenue, net	$ 3,176,630	$ 2,291,637	$ 1,233,990	$ 140,793	$ 6,843,050
Net revenue (loss) - intersegment	901,080	816,878	(1,820,728)	102,770	-
Non-interest profits and gains (losses), net	1,294,991	610,468	2,682,636	176,229	4,764,324
Net revenue	5,372,701	3,718,983	2,095,898	419,792	11,607,374
Reversal (provision) of allowance for bad debts expense, commitments, and guarantee liability provision	104,245	(516,126)	537	45,931	(365,413)
Operating expenses	(3,120,901)	(834,489)	(350,585)	(2,091,131)	(6,397,106)
Income (loss) before income tax	2,356,045	2,368,368	1,745,850	(1,625,408)	4,844,855
Income tax expense	-	-	-	(1,228,194)	(1,228,194)
Net income (loss)	$ 2,356,045	$ 2,368,368	$ 1,745,850	$ (2,853,602)	$ 3,616,661

(Continued)

	Retail Banking Segment	Corporate Banking Segment	Global Markets Segment	Others	Total
For the year ended December 31, 2018					
Interest revenue, net	$ 3,131,110	$ 2,324,133	$ 1,541,619	$ 150,035	$ 7,146,897
Net revenue (loss) - intersegment	809,351	587,116	(1,635,877)	239,410	-
Non-interest profits and gains (losses), net	1,414,698	409,104	(86,118)	184,635	1,922,319
Net revenue	5,355,159	3,320,353	(180,376)	574,080	9,069,216
Reversal (provision) of allowance for bad debts expense, commitments, and guarantee liability provision	239,441	(263,735)	305	73,288	49,299
Operating expenses	(3,191,443)	(681,927)	(331,973)	(1,972,260)	(6,177,603)
Income (loss) before income tax	2,403,157	2,374,691	(512,044)	(1,324,892)	2,940,912
Income tax expense	-	-	-	(777,667)	(777,667)
Net income (loss)	$ 2,403,157	$ 2,374,691	$ (512,044)	$ (2,102,559)	$ 2,163,245

(Concluded)

b. Geographical information

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

	For the Year Ended December 31	
	2019	2018
Taiwan	$ 11,620,015	$ 9,076,171
Others	(12,641)	(6,955)
	$ 11,607,374	$ 9,069,216

c. Information about major customers

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

KGI BANK CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEE PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

No.	Endorsements/Guarantee Provider	Counterparty		Limits on Each Counterparty's Endorsements/ Guarantee Amounts	Maximum Balance for the Period	Ending Balance	Actual Amount Drawn Down	Endorsements/Guarantee Amount Collateralized by Properties	Ratio of Accumulated Amount of Endorsements/Guarantee to Net Worth Shown in the Provider's Latest Financial Statements	Maximum Endorsements/ 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	$ 4,079,965	$ 1,655,830	$ -	$ -	$ -	0.00%	$ 4,079,965 (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
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Holding Company	Security Type and Issuer	Relationship with the Holding Company	Financial Statement Account	December 31, 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	$ 649,415	76.04	$ 649,415	
	CDIB International Leasing Corporation	Subsidiary	Investments accounted for using equity method	-	61,026	100.00	61,026	
CDC Finance & Leasing Corporation	Stock							
	Hwahong Corporation	Associate	Investments accounted for using equity method	23,750	61	19.00	61	
	Pacific Electric Wire and Cable Co., Ltd.	-	Financial assets at fair value through other comprehensive income	546,231	-	0.07	-	

Note 1: The Bank and its subsidiaries recognized the related income or loss of investees as required by regulations.

Note 2: No securities were treated as collateral or pledge.

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 INVESTEES
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Investee Company	Location	Main Business	Balance as of December 31, 2019			Consolidated Investment (Note 1)				Note
			Percentage of Ownership (%)	Carrying Value	Investment Gain (Loss)	Shares Currently Held	Virtual Shares (Note 2)	Number of Shares	Percentage of Ownership (%)	
Financial industry-related										
Taipei Foreign Exchange Inc.	Taipei City, Taiwan	Foreign exchange trading, financial derivatives trading	0.40	$ 3,364	$ 480	80,000	-	80,000	0.40	
Taiwan Futures Exchange	Taipei City, Taiwan	Futures exchange and settlement	0.51	104,759	6,250	21,682,077	-	21,682,077	6.12	
Financial Information Service Co., Ltd.	Taipei City, Taiwan	Telecommunication service; information system service	1.23	131,990	17,307	6,410,160	-	6,410,160	1.23	
Taiwan Asset Management Co., Ltd.	Taipei City, Taiwan	Purchasing for financial institutions' loans	0.57	73,834	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	3,991	445	344,476	-	344,476	5.74	
Taiwan Financial Asset Service Company	Taipei City, Taiwan	Other activities auxiliary to financial service activities	2.94	47,524	350	5,000,000	-	5,000,000	2.94	
Taiwan Mobile Payment	Taipei City, Taiwan	Communication and IT service	1.00	3,418	-	600,000	-	600,000	1.00	
CDIB Management Consulting Corporation	Taipei City, Taiwan	Management consultancy activities	100.00	781,667	(81,142)	153,171,873	-	153,171,873	100.00	
Euroc II Venture Capital Corp.	Taipei City, Taiwan	Venture capital corporation	7.50	6,330	-	675,444	-	675,444	7.50	
Euroc III Venture Capital Corp.	Taipei City, Taiwan	Venture capital corporation	5.00	4,090	-	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	1,444	125	125,000	-	125,000	5.00	
CDIB & Partners Investment Holding Corp.	Taipei City, Taiwan	General investment corporation	4.95	963,142	104,959	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) The equity securities, such as convertible bonds and warrants, are regulated by Article 11 Paragraph 1 of the Securities and Exchange Act Enforcement Rules. (3) The derivative 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
DECEMBER 31, 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 December 31, 2019	Net Loss of the investee (Note 2)	% Ownership of Direct or Indirect Investment	Investment Loss (Note 2)	Carrying Value as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 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	$ (106,919)	100	$ (106,919)	$ 61,026	$ -

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amount Authorized by the Investment Commission, MOEA	Limit on Investment
$903,180 (US$30,000 thousand)	US$30,000 thousand	$469,001

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 YEAR ENDED DECEMBER 31, 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	$ 21,578	Note 4	0.00
1	CDC Finance & Leasing Corporation	KGI Bank Co., Ltd.	2	Cash and cash equivalents	21,578	Note 4	0.00
0	KGI Bank Co., Ltd.	CDIB Management Consulting Corporation	1	Deposit and remittances	76,306	Note 4	0.01
2	CDIB Management Consulting Corporation	KGI Bank Co., Ltd.	2	Cash and cash equivalents	76,306	Note 4	0.01

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.