

**Chang Hwa Commercial Bank, Ltd.**

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

## INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders  
Chang Hwa Commercial Bank, Ltd.

### Opinion

We have audited the accompanying financial statements of Chang Hwa Commercial Bank, Ltd. (the "Bank"), which comprise the balance sheets as of June 30, 2018, December 31, 2017 and June 30, 2017, the statements of comprehensive income for the three months and the six months ended June 30, 2018 and 2017, the statements of changes in equity and cash flows for the six months ended June 30, 2018 and 2017, and the notes to the financial statements, including a summary of significant accounting policies.

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

### Basis for Opinion

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

### Key Audit Matters

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

The following are the descriptions of the key audit matters in the audit of the financial statements of the Bank for the six months ended June 30, 2018.

#### Impairment Assessment of Loans and Receivables

Loans and receivables are the most important assets of the Bank. As of June 30, 2018, the total amount of loans and receivables was \$1,397,824,950 thousand, accounting for 67% of the Bank's total assets. Refer to Notes 4, 5, 11 and 12 to the Bank's financial statements for related information. In addition, evaluating the impairment of loans and receivables depends on management's estimation of future cash flows. Therefore, we considered the impairment assessment of loans and receivables to be a key audit matter.

When assessing the appropriateness of the impairment of loans and receivables, we understood the internal controls for lending operations and determining provisions for impairment losses. We collected publicly available market information to identify whether there are any instances in which a counterparty may have objective evidence of impairment relating to the loans and receivables of the Bank but has not been included in the Bank's individual impairment assessment. We reviewed whether the Bank considered the value of the collateral appropriately when evaluating the impairment. For the collective impairment assessment, we evaluated the rationality of the assessment model with regard to the main assumptions and the input value used by the Bank. Finally, we examined the rationality and consistency of the incidence of impairment, the account recovery rate, and other parameters which were used by the Bank.

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank 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 Bank's financial reporting process.

#### **Auditors' Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
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 Bank's ability 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 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 to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

The engagement partners on the audit resulting in this independent auditors' report are Tza Li Gung and Tung Feng Lee.

Deloitte & Touche  
Taipei, Taiwan  
Republic of China

August 24, 2018

Notice to Readers

*The accompanying financial statements are intended only to present the 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 financial statements are those generally applied in the Republic of China.*

*For the convenience of readers, the independent auditors' report and the accompanying 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 financial statements shall prevail.*

## CHANG HWA COMMERCIAL BANK, LTD.

### BALANCE SHEETS (In Thousands of New Taiwan Dollars)

ASSETS	June 30, 2018		December 31, 2017		June 30, 2017	
	Amount	%	Amount	%	Amount	%
Cash and cash equivalents (Notes 4, 6 and 39)	\$ 44,439,392	2	\$ 74,835,132	4	\$ 36,820,615	2
Due from the Central Bank and call loans to banks (Notes 4, 6 and 39)	181,790,946	9	165,015,057	8	208,852,078	10
Financial assets at fair value through profit or loss (Notes 4 and 7)	12,252,876	1	13,552,513	1	22,691,133	1
Financial assets at fair value through other comprehensive income (Notes 4 and 8)	93,945,472	4	-	-	-	-
Financial assets for hedging (Notes 4 and 15)	238,471	-	-	-	-	-
Derivative financial assets for hedging (Notes 4 and 15)	-	-	243,372	-	229,525	-
Investments in debt instruments at amortized cost (Notes 4, 5, 9 and 40)	268,726,746	13	-	-	-	-
Receivables, net (Notes 4, 11 and 12)	27,749,968	1	24,670,023	1	21,415,261	1
Current tax assets (Notes 4 and 33)	218,320	-	135,714	-	78,012	-
Discounts and loans, net (Notes 4, 5, 12, 38 and 39)	1,370,074,982	65	1,377,040,660	68	1,340,346,323	68
Available-for-sale financial assets, net (Notes 4, 13 and 40)	-	-	73,175,886	3	80,419,598	4
Held-to-maturity financial assets, net (Notes 4, 5, 14 and 40)	-	-	237,412,046	12	217,334,897	11
OTHER FINANCIAL ASSETS, NET						
Financial assets at cost (Notes 4 and 16)	-	-	4,167,009	-	4,167,009	-
Investments in debt instruments without active market (Notes 4 and 17)	-	-	64,609	-	75,804	-
Other miscellaneous financial assets (Notes 4, 18 and 40)	<u>55,811,721</u>	<u>3</u>	<u>27,015,755</u>	<u>1</u>	<u>13,476,336</u>	<u>1</u>
Other financial assets, net	<u>55,811,721</u>	<u>3</u>	<u>31,247,373</u>	<u>1</u>	<u>17,719,149</u>	<u>1</u>
Property and equipment, net (Notes 4 and 19)	20,617,152	1	20,639,732	1	20,726,679	1
Investment property, net (Notes 4 and 20)	13,744,678	1	13,747,787	1	13,750,692	1
Intangible assets, net (Notes 4 and 21)	375,917	-	436,176	-	380,121	-
Deferred tax assets (Notes 4 and 33)	3,858,366	-	3,175,050	-	2,518,562	-
Other assets, net (Notes 22, 35 and 40)	<u>1,168,788</u>	<u>-</u>	<u>931,879</u>	<u>-</u>	<u>526,260</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$ 2,095,013,795</u></b>	<b><u>100</u></b>	<b><u>\$ 2,036,258,400</u></b>	<b><u>100</u></b>	<b><u>\$ 1,983,808,905</u></b>	<b><u>100</u></b>
<b>LIABILITIES AND EQUITY</b>						
Deposits from the Central Bank and banks (Notes 4, 23 and 39)	\$ 143,330,238	7	\$ 108,151,867	5	\$ 109,225,697	6
Financial liabilities at fair value through profit or loss (Notes 4 and 7)	14,035,790	1	12,309,330	1	15,560,485	1
Securities sold under repurchase agreements (Note 4)	2,562,197	-	3,118,536	-	3,193,792	-
Payables (Notes 4, 24 and 31)	39,785,563	2	34,849,855	2	27,687,577	2
Current tax liabilities (Notes 4 and 33)	629,095	-	954,609	-	779,542	-
Deposits and remittances (Notes 4, 25 and 39)	1,674,630,563	80	1,672,079,784	82	1,628,136,755	82
Bank notes payable (Notes 4 and 26)	46,538,904	2	41,739,657	2	41,722,327	2
Other financial liabilities (Notes 4 and 27)	4,326,747	-	3,662,600	-	3,419,366	-
Reserve for liabilities (Notes 4, 5 and 29)	4,995,341	-	4,758,835	-	4,351,089	-
Deferred income tax liabilities (Notes 4 and 33)	7,924,911	1	7,019,970	1	6,770,700	-
Other liabilities (Notes 4, 28 and 35)	<u>5,395,803</u>	<u>-</u>	<u>2,665,793</u>	<u>-</u>	<u>3,424,512</u>	<u>-</u>
Total liabilities	<u>1,944,155,152</u>	<u>93</u>	<u>1,891,310,836</u>	<u>93</u>	<u>1,844,271,842</u>	<u>93</u>
EQUITY (Notes 4, 31 and 33)						
Capital						
Common stock	94,130,007	5	94,130,007	5	89,647,626	5
Reserve for capitalization	3,765,200	-	-	-	4,482,381	-
Retained earnings						
Legal reserve	31,038,668	1	27,410,736	1	27,410,736	1
Special reserve	12,141,416	1	12,080,950	1	12,080,950	1
Unappropriated earnings	6,263,533	-	11,779,842	-	5,992,441	-
Other equity	<u>3,519,819</u>	<u>-</u>	<u>(453,971)</u>	<u>-</u>	<u>(77,071)</u>	<u>-</u>
Total equity	<u>150,858,643</u>	<u>7</u>	<u>144,947,564</u>	<u>7</u>	<u>139,537,063</u>	<u>7</u>
<b>TOTAL</b>	<b><u>\$ 2,095,013,795</u></b>	<b><u>100</u></b>	<b><u>\$ 2,036,258,400</u></b>	<b><u>100</u></b>	<b><u>\$ 1,983,808,905</u></b>	<b><u>100</u></b>

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

## CHANG HWA COMMERCIAL BANK, LTD.

### STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings per Share)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
INTEREST INCOME (Notes 4, 32 and 39)	\$ 9,602,256	112	\$ 8,502,764	111	\$ 18,780,172	114	\$ 16,783,493	111
INTEREST EXPENSE (Notes 32 and 39)	<u>(3,803,702)</u>	<u>(44)</u>	<u>(2,882,677)</u>	<u>(38)</u>	<u>(7,211,946)</u>	<u>(44)</u>	<u>(5,700,143)</u>	<u>(38)</u>
NET INCOME OF INTEREST	<u>5,798,554</u>	<u>68</u>	<u>5,620,087</u>	<u>73</u>	<u>11,568,226</u>	<u>70</u>	<u>11,083,350</u>	<u>73</u>
NET NON-INTEREST INCOME (LOSS)								
Net service fee income (Notes 4 and 32)	1,165,639	13	1,115,680	15	2,392,113	15	2,480,363	17
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss (Notes 4, 7 and 32)	602,742	7	479,611	6	1,348,707	8	1,233,072	8
Realized gain (loss) on available-for-sale financial assets (Notes 4 and 32)	-	-	22,794	-	-	-	168,701	1
Realized gain (loss) on financial assets at fair value through other comprehensive income (Notes 4 and 32)	148,099	2	-	-	156,451	1	-	-
Foreign exchange gain (loss) (Notes 4 and 37)	766,787	9	221,911	3	762,910	5	(112,211)	(1)
Net other non-interest income (loss) (Note 15)	<u>107,142</u>	<u>1</u>	<u>217,430</u>	<u>3</u>	<u>183,421</u>	<u>1</u>	<u>275,671</u>	<u>2</u>
Net non-interest income (loss)	<u>2,790,409</u>	<u>32</u>	<u>2,057,426</u>	<u>27</u>	<u>4,843,602</u>	<u>30</u>	<u>4,045,596</u>	<u>27</u>
NET REVENUE AND GAINS	<u>8,588,963</u>	<u>100</u>	<u>7,677,513</u>	<u>100</u>	<u>16,411,828</u>	<u>100</u>	<u>15,128,946</u>	<u>100</u>
BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION (Notes 4 and 12)	<u>(813,475)</u>	<u>(9)</u>	<u>21,230</u>	<u>-</u>	<u>(1,154,016)</u>	<u>(7)</u>	<u>(411,348)</u>	<u>(3)</u>
OPERATING EXPENSES								
Employee benefits expenses (Notes 4 and 32)	(2,588,238)	(30)	(2,703,411)	(35)	(5,163,812)	(31)	(5,070,706)	(34)
Depreciation and amortization expenses (Notes 4 and 32)	(178,469)	(2)	(177,636)	(3)	(357,599)	(2)	(354,241)	(2)
Other general and administrative expenses	<u>(1,198,708)</u>	<u>(14)</u>	<u>(1,165,049)</u>	<u>(15)</u>	<u>(2,264,299)</u>	<u>(14)</u>	<u>(2,191,112)</u>	<u>(14)</u>
Total operating expenses	<u>(3,965,415)</u>	<u>(46)</u>	<u>(4,046,096)</u>	<u>(53)</u>	<u>(7,785,710)</u>	<u>(47)</u>	<u>(7,616,059)</u>	<u>(50)</u>

(Continued)

## CHANG HWA COMMERCIAL BANK, LTD.

### STATEMENTS OF COMPREHENSIVE INCOME

(In Thousands of New Taiwan Dollars, Except Earnings per Share)

	For the Three Months Ended June 30				For the Six Months Ended June 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	\$ 3,810,073	45	\$ 3,652,647	47	\$ 7,472,102	46	\$ 7,101,539	47
INCOME TAX EXPENSE (Notes 4 and 33)	<u>(673,858)</u>	<u>(8)</u>	<u>(563,382)</u>	<u>(7)</u>	<u>(907,190)</u>	<u>(6)</u>	<u>(1,145,534)</u>	<u>(8)</u>
NET INCOME	<u>3,136,215</u>	<u>37</u>	<u>3,089,265</u>	<u>40</u>	<u>6,564,912</u>	<u>40</u>	<u>5,956,005</u>	<u>39</u>
OTHER COMPREHENSIVE INCOME (LOSS), net of tax								
Items that will not be reclassified to profit or loss, net of tax:								
Revaluation gains (losses) on investments in equity instruments measured at fair value through other comprehensive income	(456,637)	(6)	-	-	(196,855)	(1)	-	-
Changes in fair value of financial liabilities attributable to changes in credit risk of liabilities	336	-	-	-	1,120	-	-	-
Items that will be reclassified to profit or loss, net of tax:								
Exchange differences on translation (Note 4)	1,001,084	12	200,069	3	750,875	4	(1,031,845)	(7)
Unrealized gains (losses) on valuation of available-for-sale financial assets (Note 4)	-	-	454,618	6	-	-	746,855	5
Gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	68,226	1	-	-	(18,024)	-	-	-
Income tax related to items that will be reclassified to profit or loss (Notes 4 and 33)	<u>(61,702)</u>	<u>(1)</u>	<u>(36,748)</u>	<u>(1)</u>	<u>(48,947)</u>	<u>-</u>	<u>107,725</u>	<u>1</u>
Other comprehensive income (loss), net of tax	<u>551,307</u>	<u>6</u>	<u>617,939</u>	<u>8</u>	<u>488,169</u>	<u>3</u>	<u>(177,265)</u>	<u>(1)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 3,687,522</u>	<u>43</u>	<u>\$ 3,707,204</u>	<u>48</u>	<u>\$ 7,053,081</u>	<u>43</u>	<u>\$ 5,778,740</u>	<u>38</u>
EARNINGS PER SHARE (Note 34)								
Basic	<u>\$ 0.32</u>		<u>\$ 0.32</u>		<u>\$ 0.67</u>		<u>\$ 0.61</u>	
Diluted	<u>\$ 0.32</u>		<u>\$ 0.31</u>		<u>\$ 0.67</u>		<u>\$ 0.61</u>	

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

(Concluded)



**CHANG HWA COMMERCIAL BANK, LTD.**

**STATEMENTS OF CHANGES IN EQUITY**  
(In Thousands of New Taiwan Dollars, Except Shares of Capital Stock)

	Equity Attributable to Owners of the Bank						Other Equity				Total Equity
	Capital Stock		Reserve for Capitalization	Retained Earnings			Exchange Differences on Translation of Foreign Financial Statements	Unrealized Gains (Losses) on Available-for-sale Financial Assets	Unrealized Gains (losses) on Financial Assets Measured at Fair Value Through Other Comprehensive Income	Change in Fair Value of Financial Liability Attributable to Change in Credit Risk of Liability	
	Shares (Thousand)	Amount		Legal Reserve	Special Reserve	Unappropriated Earnings					
BALANCE, JANUARY 1, 2017	8,964,762	\$ 89,647,626	\$ -	\$ 23,784,945	\$ 12,020,521	\$ 11,970,239	\$ (8,125)	\$ 108,319	\$ -	\$ -	\$ 137,523,525
Appropriation of 2016 earnings											
Legal reserve appropriated	-	-	-	3,625,791	-	(3,625,791)	-	-	-	-	-
Special reserve appropriated	-	-	-	-	60,429	(60,429)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(3,765,202)	-	-	-	-	(3,765,202)
Stock dividends	-	-	4,482,381	-	-	(4,482,381)	-	-	-	-	-
Net income for the six months ended June 30, 2017	-	-	-	-	-	5,956,005	-	-	-	-	5,956,005
Other comprehensive income (loss) for the six months ended June 30, 2017, net of tax	-	-	-	-	-	-	(914,345)	737,080	-	-	(177,265)
Total comprehensive income (loss) for the six months ended June 30, 2017	-	-	-	-	-	5,956,005	(914,345)	737,080	-	-	5,778,740
BALANCE, JUNE 30, 2017	<u>8,964,762</u>	<u>\$ 89,647,626</u>	<u>\$ 4,482,381</u>	<u>\$ 27,410,736</u>	<u>\$ 12,080,950</u>	<u>\$ 5,992,441</u>	<u>\$ (922,470)</u>	<u>\$ 845,399</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 139,537,063</u>
BALANCE, JANUARY 1, 2018	9,413,001	\$ 94,130,007	\$ -	\$ 27,410,736	\$ 12,080,950	\$ 11,779,842	\$ (1,251,858)	\$ 797,969	\$ -	\$ (82)	\$ 144,947,564
Effect of retrospective application	-	-	-	-	-	(347,750)	-	(797,969)	4,239,567	-	3,093,848
BALANCE, JANUARY 1, 2018 AS RESTATED	9,413,001	94,130,007	-	27,410,736	12,080,950	11,432,092	(1,251,858)	-	4,239,567	(82)	148,041,412
Appropriation of 2017 earnings											
Legal reserve appropriated	-	-	-	3,627,932	-	(3,627,932)	-	-	-	-	-
Special reserve appropriated	-	-	-	-	60,466	(60,466)	-	-	-	-	-
Cash dividends	-	-	-	-	-	(4,235,850)	-	-	-	-	(4,235,850)
Stock dividends	-	-	3,765,200	-	-	(3,765,200)	-	-	-	-	-
Net income for the six months ended June 30, 2018	-	-	-	-	-	6,564,912	-	-	-	-	6,564,912
Other comprehensive income (loss) for the six months ended June 30, 2018, net of tax	-	-	-	-	-	-	698,634	-	(211,585)	1,120	488,169
Total comprehensive income (loss) for the six months ended June 30, 2018	-	-	-	-	-	6,564,912	698,634	-	(211,585)	1,120	7,053,081
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	-	(44,023)	-	-	44,023	-	-
BALANCE, JUNE 30, 2018	<u>9,413,001</u>	<u>\$ 94,130,007</u>	<u>\$ 3,765,200</u>	<u>\$ 31,038,668</u>	<u>\$ 12,141,416</u>	<u>\$ 6,263,533</u>	<u>\$ (553,224)</u>	<u>\$ -</u>	<u>\$ 4,072,005</u>	<u>\$ 1,038</u>	<u>\$ 150,858,643</u>

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

# CHANG HWA COMMERCIAL BANK, LTD.

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

	For the Six Months Ended June 30	
	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income before income tax	\$ 7,472,102	\$ 7,101,539
Non-cash (income and gains) or expenses and losses		
Expected credit loss recognized on trade receivables	1,154,016	-
Provision for bad debt expenses and guarantee liabilities	-	411,348
Depreciation expense	258,926	268,380
Amortization expense	98,673	85,861
Interest income	(18,780,172)	(16,783,493)
Dividend income	(141,218)	(148,775)
Interest expense	7,211,946	5,700,143
Net gain on financial assets or liabilities at fair value through profit or loss	(4,958,292)	(1,183,400)
Gain on disposal of investments	(18,344)	(168,701)
Unrealized foreign exchange losses (gains)	3,609,585	(49,672)
Other adjustments	(87,849)	(26,722)
Changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank	3,729,701	(432,867)
Decrease in financial assets at fair value through profit or loss	5,930,366	10,491,294
Increase in receivables	(1,713,873)	(1,102,492)
Decrease in discounts and loans	6,078,418	26,498,290
Increase in financial assets at fair value through other comprehensive income	(18,130,446)	-
Increase in available-for-sale financial assets	-	(1,844,715)
Increase in investments in debt instruments at amortized cost	(22,295,004)	-
Increase in held-to-maturity financial assets	-	(12,470,356)
(Increase) decrease in other financial assets	(28,795,967)	5,362,435
(Increase) decrease in other assets	(227,870)	36
Decrease in deposits from the Central Bank and banks	(1,093,369)	(2,859,354)
Increase in deposits and remittances	2,550,779	3,706,938
Increase (decrease) in payables	712,852	(9,782,209)
(Decrease) increase in financial liabilities at fair value through profit or loss	(6,540,300)	73,657
Decrease in reserve for liabilities	(156,769)	(140,256)
Increase in other financial liabilities	664,147	700,402
Increase in other liabilities	<u>2,722,923</u>	<u>132,038</u>
Cash (outflow) inflow generated from operations	(60,745,039)	13,539,349
Interest received	17,935,547	16,029,337
Dividends received	138,106	148,198
Interest paid	(7,234,024)	(5,826,282)
Income taxes paid	(988,800)	(781,580)
Income taxes refunded	<u>-</u>	<u>25,251</u>
Net cash flows (used in) from operating activities	<u>(50,894,210)</u>	<u>23,134,273</u> (Continued)

# CHANG HWA COMMERCIAL BANK, LTD.

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

	For the Six Months Ended June 30	
	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisition of property and equipment	\$ (224,044)	\$ (211,267)
Acquisition of investment property	(215)	-
Acquisition of intangible assets	<u>(37,957)</u>	<u>(37,168)</u>
Net cash flows used in investing activities	<u>(262,216)</u>	<u>(248,435)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in due to the Central Bank and banks	36,271,740	(27,077,531)
Proceeds from issuing bank notes	7,000,000	10,200,000
Repayment of bank notes	(2,200,000)	-
(Decrease) increase in securities sold under repurchase agreement	<u>(556,339)</u>	<u>238,811</u>
Net cash flows from (used in) financing activities	<u>40,515,401</u>	<u>(16,638,720)</u>
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	<u>750,875</u>	<u>(1,031,845)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(9,890,150)	5,215,273
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	<u>172,818,258</u>	<u>167,977,705</u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>\$ 162,928,108</u>	<u>\$ 173,192,978</u>
	June 30	
	2018	2017
<b>Reconciliation of cash and cash equivalents</b>		
Cash and cash equivalents in the balance sheets	\$ 44,439,392	\$ 36,820,615
Call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	<u>118,488,716</u>	<u>136,372,363</u>
Cash and cash equivalents at end of period	<u>\$ 162,928,108</u>	<u>\$ 173,192,978</u>

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

(Concluded)

# **CHANG HWA COMMERCIAL BANK, LTD.**

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

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### **1. ORGANIZATION AND BUSINESS SCOPE**

Chang Hwa Commercial Bank, Ltd. (the “Bank”) was incorporated under Banking Law, Securities and Exchange Law and Taiwan Company Law on March 1, 1947 and got license from the Ministry of Economic Affairs in July 1950. Since February 1962 the Bank’s stocks have been listed and traded on the Taiwan Stock Exchange (“TWSE”).

The Bank mainly engages in the following business:

- a. All commercial banking operations allowed by the Banking Law;
- b. Trust operations;
- c. International banking operations;
- d. Overseas branch operations authorized by the respective foreign governments; and
- e. Other operations authorized by the central authority.

The Bank’s head office is located in Taichung City, Taiwan. The Bank has 9 overseas branches in New York, Los Angeles, Tokyo, London, Hong Kong, Singapore, Manila, Kunshan China, Dongguan and Fuzhou and a representative office in Yangon.

CHB Life Insurance Agency Co., Ltd. (“CHB Life Insurance Agency”) was established on October 3, 2001 to provide life insurance agent service. CHB Insurance Brokerage Co., Ltd. (“CHB Insurance Brokerage”) established on April 7, 2003 to provide property insurance broker service.

To integrate resources and to create comprehensive benefits, the Bank had merged CHB Life Insurance Agency and CHB Insurance Brokerage on April 1, 2016. CHB Life Insurance Agency Company and CHB Insurance Brokerage Company are 100% owned subsidiaries by Chang Hwa Commercial Bank. There would be no impact on the equity after the merger.

The assets and the liabilities on the accounts and any rights and obligations as of yet valid on the reference date of the merger of CHB Life Insurance Agency Company and CHB Insurance Brokerage Company were generally assumed by Chang Hwa Commercial Bank.

The financial statements are presented in the Bank’s functional currency, New Taiwan dollars.

### **2. APPROVAL OF FINANCIAL STATEMENTS**

The financial statements were approved by the Bank’s board of directors on August 24, 2018.

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

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

Except for the following, whatever applied, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC would not have any material impact on the Bank’s accounting policies.

#### 1) IFRS 9 “Financial Instruments” and related amendments

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

The requirements for classification, measurement and impairment of financial assets have been applied retrospectively starting from January 1, 2018. IFRS 9 is not applicable to items that have already been derecognized as of December 31, 2017.

#### Classification, measurement and impairment of financial assets

On the basis of the facts and circumstances that existed as of January 1, 2018, the Bank has performed an assessment of the classification of recognized financial assets and has elected not to restate prior reporting periods.

The following table shows the original measurement categories and carrying amount under IAS 39 and the new measurement categories and carrying amount under IFRS 9 for each class of the Bank’s financial assets and financial liabilities as of January 1, 2018.

Financial Asset	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 74,835,132	\$ 74,835,132	
Due from the Central Bank and call loans to banks	Loans and receivables	Amortized cost	165,015,057	165,015,057	
Financial assets at FVTPL	Measured as at FVTPL	Measured as at FVTPL	8,226,633	-	
	Designated as at FVTPL	Designated as at FVTPL	5,325,880	179,831	
		Mandatorily at FVTPL	-	8,405,593	
		Amortized cost	-	4,452,000	
Derivative financial assets for hedging	Derivative financial assets for hedging	Financial assets for hedging	243,372	243,372	
Receivables	Loans and receivables	Amortized cost	24,670,023	25,185,100	
Discounts and loans	Loans and receivables	Amortized cost	1,377,040,660	1,377,040,660	
Available-for-sale financial assets	Available-for-sale financial assets	Measured as at FVTPL	73,175,886	-	
		Measured as at FVTOCI	-	68,264,217	
		Amortized cost	-	4,897,819	
Held-to-maturity financial assets	Held-to-maturity financial assets	Measured as at FVTPL	237,412,046	-	
		Amortized cost	-	237,405,546	
Other financial assets	Financial assets at cost	Measured as at FVTPL	4,167,009	-	
		Measured as at FVTOCI	-	7,678,042	
	Investments in debt instruments without active market	Amortized cost	64,609	-	
		Measured as at FVTOCI	-	69,301	
	Other miscellaneous financial assets	Other miscellaneous financial assets	27,015,755	27,015,755	
Refundable deposits	Loans and receivables	Amortized cost	638,048	638,048	
			<u>\$ 1,997,830,110</u>	<u>\$ 2,001,325,473</u>	

Financial Asset	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
<u>FVTPL</u>	\$ 13,552,513	\$ -	\$ -	\$ 13,552,513	\$ -	\$ -	
Less: Reclassification to amortized cost (IFRS 9) (including revoked fair value options)	-	(4,452,000)	-	(4,452,000)	-	-	
Reclassification to interest receivables	-	(515,089)	-	(515,089)	-	-	
	<u>13,552,513</u>	<u>(4,967,089)</u>	<u>-</u>	<u>8,585,424</u>	<u>-</u>	<u>-</u>	
<u>FVTOCI</u>	-	-	-	-	-	-	
Debt instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	64,740,835	(120,190)	64,620,645	(46,063)	(74,127)	
Add: Reclassification from debt investments without active market (IAS 39)	-	64,609	4,692	69,301	-	4,692	
Equity instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	3,543,972	99,600	3,643,572	99,600	-	
Add: Reclassification from at cost (IAS 39)	-	<u>4,167,009</u>	<u>3,511,033</u>	<u>7,678,042</u>	-	<u>3,511,033</u>	
	-	<u>72,516,425</u>	<u>3,495,135</u>	<u>76,011,560</u>	<u>53,537</u>	<u>3,441,598</u>	
<u>Amortized cost</u>	-	-	-	-	-	-	
Add: Reclassification from available-for-sale	-	4,900,941	(3,122)	4,897,819	(3,122)	-	
Add: Reclassification from FVTPL (IAS 39) (including revoked fair value options)	-	4,452,000	-	4,452,000	-	-	
Add: Reclassification from held-to-maturity (IAS 39)	-	<u>237,412,046</u>	<u>(6,500)</u>	<u>237,405,546</u>	<u>(6,500)</u>	-	
	-	<u>246,764,987</u>	<u>(9,622)</u>	<u>246,755,365</u>	<u>(9,622)</u>	-	
Total	<u>\$ 13,552,513</u>	<u>\$ 314,314,323</u>	<u>\$ 3,485,513</u>	<u>\$ 331,352,349</u>	<u>\$ 43,915</u>	<u>\$ 3,441,599</u>	

- a) Listed bank notes classified as at fair value through profit or loss under IAS 39 were classified as at amortized cost under IFRS 9, because on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows;
- b) Listed stocks, emerging market stocks, and unlisted stocks classified as available-for-sale under IAS 39 were designated as at fair value through other comprehensive income (FVTOCI) under IFRS 9, and the fair value gains or losses accumulated in other equity were transferred directly to retained earnings instead of being reclassified to profit or loss on disposal.

Investments in unlisted stocks previously measured at cost were remeasured at fair value under IFRS 9.

- c) Debt investments classified as available-for-sale, held-to-maturity financial assets, debt investments without active market and at amortized cost under IAS 39 were classified as at: (1) amortized cost under IFRS 9, because on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is to collect contractual cash flows; (2) FVTOCI under IFRS 9, because on initial recognition, the contractual cash flows that are solely payments of principal and interest on the principal outstanding and these investments are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets; (3) FVTPL under IFRS 9, because on initial recognition, the contractual cash flows are solely payments of principal and interest on the principal outstanding but the objective of the Bank's business model is not to collect contractual cash flows and neither is it achieved both by collecting contractual cash flows and selling financial assets; and (4) FVTPL under IFRS 9, because on initial recognition, the contractual cash flows are not solely payments of principal and interest on the principal outstanding.

### Hedge accounting

Due to the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers, all derivative and non-derivative financial assets and financial liabilities which are designated as hedging instruments are presented as financial assets and financial liabilities for hedging starting from January 1, 2018.

#### 2) Amendments to IAS 12 “Recognition of Deferred Tax Assets for Unrealized Losses”

The amendments clarify that the difference between the carrying amount of the debt instrument measured at fair value and its tax base gives rise to a temporary difference, even though there are unrealized losses on that asset, irrespective of whether the Bank expects to recover the carrying amount of the debt instrument by sale or by holding it and collecting contractual cash flows.

In addition, in determining whether to recognize a deferred tax asset, the Bank should assess a deductible temporary difference in combination with all of its other deductible temporary differences, unless the tax law restricts the utilization of losses as deduction against income of a specific type, in which case, a deductible temporary difference is assessed in combination only with other deductible temporary differences of the appropriate type. The amendments also stipulate that, when determining whether to recognize a deferred tax asset, the estimate of probable future taxable profit may include some of the Bank’s assets for more than their carrying amount if there is sufficient evidence that it is probable that the Bank will achieve the higher amount, and that the estimate for future taxable profit should exclude tax deductions resulting from the reversal of deductible temporary differences.

In assessing deferred tax asset, the Bank currently assumes it will recover the asset at its carrying amount when estimating probable future taxable profit; the amendment will be applied retrospectively in 2018.

- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRS (IFRIC) and Interpretations of IAS (SIC) (collectively, the “IFRSs”) endorsed by the FSC for application starting from 2019

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

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

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

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

## 1) IFRS 16 “Leases”

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

### Definition of a lease

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

### The Bank as lessee

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

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

For leases currently classified as finance leases under IAS 17, the carrying amount of right-of-use assets and lease liabilities on January 1, 2019 will be determined as the carrying amount of the leased assets and finance lease payables as of December 31, 2018.

### The Bank as lessor

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

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



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

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

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

As of the date the financial statements were authorized for issue, the Bank is continuously assessing the possible impact that the application of other standards and interpretations will have on the Bank’s 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 financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, Regulations Governing the Preparation of Financial Reports by Securities Firms, and IAS 34 as endorsed and issued into effect by the FSC. Disclosure information included in these financial statements is less than the disclosure information required in a complete set of annual financial statements.

##### Basis of Preparation

The financial statements have been prepared on the historical cost basis except for financial instruments which 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 assets.

The fair value measurements, which are grouped into Levels 1 to 3 based on the degree to which the fair value measurement inputs are observable and based on the significance of the inputs to the fair value measurement in its entirety, are described as follows:

- 1) Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;
- 2) Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for an asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- 3) Level 3 inputs are unobservable inputs for an asset or liability.

##### Other Significant Accounting Policies

Except for the following and the relevant accounting policies of accrued financial instruments and income, refer to the summary of other significant accounting policies in the Bank’s financial statements for the year ended December 31, 2017.

## Financial Instruments

Financial assets and financial liabilities are recognized when the bank entity becomes 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.

### a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

#### 1) Measurement categories

##### 2018

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

#### a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such a financial asset is mandatorily classified or designated as at FVTPL. Financial assets mandatorily classified as at FVTPL include investments in equity instruments which are not designated as at FVTOCI and debt instruments that do not meet the amortized cost criteria or the FVTOCI criteria.

A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 37.

#### b) Financial assets at amortized cost

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

- i. The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii. 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, including cash and cash equivalents, trade receivables at amortized cost, are measured at amortized cost, which equals the gross carrying amount determined using 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 such a financial asset, except for:

- i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii. Financial assets that have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

c) Investments in debt instruments designated at FVTOCI

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

- i. 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 such financial assets; and
- ii. 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 designated 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.

d) Investments in equity instruments designated at FVTOCI

On initial recognition, the Bank may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as 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 designated 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, it will be transferred to retained earnings.

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

2017

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

a) Financial assets at FVTPL

Financial assets are classified as at FVTPL when such financial assets are either held for trading or designated as at FVTPL.

A financial asset may be designated as at FVTPL upon initial recognition if:

- i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii. The financial asset 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's documented risk management or investment strategy, and information about the Banking is provided internally on that basis; or
- iii. The contract contains one or more embedded derivatives so that the entire hybrid (combined) contract can be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 37.

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

b) Held-to-maturity investments

Corporate bonds and foreign bonds, which have credit ratings above a specific credit rating and which the Bank has a positive intent and ability to hold to maturity, are classified as held-to-maturity investments.

Subsequent to initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method less any impairment.

c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

Available-for-sale financial assets are measured at fair value. Changes in the carrying amount of available-for-sale monetary financial assets relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments are recognized in profit or loss. Other changes in the

carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

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

d) Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments without active market and other receivables) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

Cash equivalents include time deposits with original maturities within 3 months from the date of acquisition, which are highly liquid, readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These cash equivalents are held for the purpose of meeting short-term cash commitments.

2) Impairment of financial assets

2018

The Bank recognizes a loss allowance for expected credit losses on financial assets at amortized cost (including trade receivables) and investments in debt instruments that are measured at FVTOCI.

The Bank always recognizes lifetime expected credit losses (i.e. ECLs) for trade receivables, lease receivables and contract assets. For all other financial instruments, the Bank recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures 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 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 recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance 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 such a financial asset.

## 2017

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of such financial assets, that the estimated future cash flows of the investment have been affected.

Financial assets at amortized cost, such as loans and trade receivables, are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience with collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with defaults on receivables.

Financial asset at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of its estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

For a financial asset measured at cost, the amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of its estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of a financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loans, where the carrying amount is reduced through the use of an allowance account. When trade receivables and loans are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss except for uncollectible trade receivables and loans that are written off against the allowance account.

### 3) Derecognition of financial assets

The Bank derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party.

Before 2018, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and 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.

b. Equity instruments

Debt and equity instruments issued by a bank entity 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 a bank entity 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.

c. Financial liabilities

1) Subsequent measurement

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

a) Financial liabilities at Fair value through profit or loss

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

Financial liabilities held for trading are stated at fair value, with any gain or loss arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest or dividend paid on the financial liability.

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

- i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii. 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's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- iii. The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at FVTPL.

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 remaining amount of changes in the fair value of that liability which incorporates any interest or dividends paid on such financial liability is presented in 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. Fair value is determined in the manner described in Note 37.

b) Financial guarantee contracts

2018

Financial guarantee contracts issued by the Bank, if not designated as at FVTPL, are subsequently measured at the higher of:

- i. The amount of the loss allowance reflecting expected credit losses; and
- ii. The amount initially recognized less, where appropriate, the cumulative amount of income recognized in accordance with the revenue recognition policies.

2017

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at FVTPL, are subsequently measured at the higher of the best estimate of the obligation under the contract and the amount initially recognized less the cumulative amortization recognized.

2) Derecognition of financial liabilities

The difference between the carrying amount of a financial liability derecognized and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

d. Derivative financial instruments

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, FX swap, cross currency swap, interest rate swaps and currency option.

Derivatives are initially recognized at fair value at the date on which 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 hedging relationship. When the fair value of a derivative financial instrument is positive, the derivative is recognized as a financial asset; when the fair value of a derivative financial instrument is negative, the derivative is recognized as a financial liability.

Before 2018, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is 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.

### **Hedge Accounting**

The Bank designates certain hedging instruments, which include derivatives, embedded derivatives and non-derivatives in respect of foreign currency risk, as either fair value hedges. Hedges of foreign exchange risk on firm commitments are accounted for as fair value hedges.

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognized in profit or loss in the line item relating to the hedged item.

Before 2018, hedge accounting was discontinued prospectively when the Bank revoked the designated hedging relationship; when the hedging instrument expired or was sold, terminated, or exercised; or when the hedging instrument no longer met the criteria for hedge accounting. Starting from 2018, the Bank discontinues hedge accounting only when the hedging relationship ceases to meet the qualifying criteria; for instance, when the hedging instrument expires or is sold, terminated or exercised. The fair value adjustment to the carrying amount of the hedged instrument arising from the hedged risk for which the effective interest method is used is amortized to profit or loss from the date on which the hedge accounting is discontinued. The adjustment is based on a recalculated effective interest rate at the date on which amortization begins and will be amortized fully upon maturity of the financial instrument.

### **Employee Benefits**

#### Retirement benefits

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

### **Taxation**

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

## **5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY**

In the application of the bank's accounting policies, 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 estimates are revised if the revisions affect only that period or in the period of the revisions and future periods if the revisions affect both current and future periods.

## Estimated Impairment of Financial Assets - 2018

The provision for impairment of trade receivables, investments in debt instruments and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Bank uses judgment in making these assumptions and in selecting the inputs for the impairment calculation, which are based on the Bank's past history, existing market conditions as well as forward-looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Notes 8, 9, 11 and 29. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

## Estimated Impairment of Trade Receivables and Loans - 2017

When there is objective evidence of impairment loss on trade receivables and loans, the Bank takes into consideration the estimation of future cash flows of such assets. The amount of the impairment loss is measured as the difference between such an asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the asset's original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise.

## 6. CASH AND CASH EQUIVALENTS/DUE FROM THE CENTRAL BANK AND CALL LOANS TO BANKS

### a. Cash and cash equivalents

	June 30, 2018	December 31, 2017	June 30, 2017
Cash on hand	\$ 11,075,745	\$ 10,579,908	\$ 10,725,692
Checks for clearing	19,199,061	18,097,350	6,141,742
Due from banks	12,516,033	44,672,316	18,433,966
Foreign currencies on hand	<u>1,648,553</u>	<u>1,485,558</u>	<u>1,519,215</u>
	<u>\$ 44,439,392</u>	<u>\$ 74,835,132</u>	<u>\$ 36,820,615</u>

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

	December 31, 2017
Cash and cash equivalents	\$ 74,835,132
Call loans to banks	<u>97,983,126</u>
	<u>\$ 172,818,258</u>

b. Due from the Central Bank and call loans to banks

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Call loans to banks	\$ 118,488,716	\$ 97,983,126	\$ 136,372,363
Reserve for checking accounts	16,017,164	18,418,622	27,527,428
Reserve for demand accounts	42,486,349	42,558,656	40,388,978
Reserve for foreign deposits	480,638	438,550	416,200
Others	<u>4,318,079</u>	<u>5,616,103</u>	<u>4,147,109</u>
	<u>\$ 181,790,946</u>	<u>\$ 165,015,057</u>	<u>\$ 208,852,078</u>

Cash and cash equivalents are assessed for impairment using approach similar to those used for investments in debt instruments (refer to Note 10). The Bank considers its cash and cash equivalents to have low credit risk so its credit loss evaluation is on a 12-month expected credit loss basis.

## 7. FINANCIAL INSTRUMENTS AT FVTPL

### Financial Assets at FVTPL

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Financial assets designated at FVTPL			
Interest rate-linked combination instruments	<u>\$ 183,638</u>	<u>\$ 5,325,880</u>	<u>\$ 5,206,850</u>
Financial assets held for trading			
Derivative financial assets (not applying hedge accounting)			
Futures	-	182,565	156,743
Forward exchange contracts	-	220,037	198,185
Interest rate swaps	-	713,446	1,063,740
Cross-currency swaps	-	544,088	685,722
Currency swaps	-	1,507,886	2,428,390
Currency call option premiums	-	182,600	267,035
Non-derivative financial assets			
Investment in bills	-	3,026,213	10,604,708
Domestic listed stock	-	-	92,839
Mutual funds	-	-	35,375
Government bonds	<u>-</u>	<u>1,849,798</u>	<u>1,951,546</u>
	<u>-</u>	<u>8,226,633</u>	<u>17,484,283</u>
Financial assets mandatorily classified at FVTPL			
Derivative financial assets (not under hedge accounting)			
Futures	184,775	-	-
Forward exchange contracts	295,487	-	-
Interest rate swaps	944,178	-	-
Cross-currency swaps	74,849	-	-
Currency swaps	6,923,092	-	-
Currency call option premiums	35,176	-	-

(Continued)

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Non-derivative financial assets			
Investment in bills	\$ 1,778,780	\$ -	\$ -
Domestic listed stock	232,291	-	-
Mutual funds	10,112	-	-
Government bonds	1,405,082	-	-
Corporate bonds	<u>185,416</u>	-	-
	<u>12,069,238</u>	<u>-</u>	<u>-</u>
	<u>\$ 12,252,876</u>	<u>\$ 13,552,513</u>	<u>\$ 22,691,133</u>
			(Concluded)

The par values of bonds and notes provided for transactions with repurchase agreements were \$697,200 thousand, \$1,176,200 thousand and \$697,200 thousand as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively.

#### **Financial Liabilities at FVTPL**

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Financial liabilities designated at FVTPL	<u>\$ 8,851,867</u>	<u>\$ 8,759,276</u>	<u>\$ 12,151,164</u>
Financial liabilities held for trading			
Derivative financial liabilities (not applying hedge accounting)			
Forward contracts	512,934	49,782	90,586
Interest rate swaps	1,009,952	685,128	778,962
Cross-currency swaps	26,169	305,686	684,337
Currency swaps	3,599,561	2,325,169	1,585,833
Currency put option premiums	<u>35,307</u>	<u>184,289</u>	<u>269,603</u>
	<u>5,183,923</u>	<u>3,550,054</u>	<u>3,409,321</u>
	<u>\$ 14,035,790</u>	<u>\$ 12,309,330</u>	<u>\$ 15,560,485</u>

- a. The unsecured U.S. dollar-denominated bank notes issued by the Bank were as follows:
- 1) Note B, 20-year term, US\$100,000 thousand, issued at par value without interest payment, callable 3 years after issue date with interest payment, maturity: 2034.12.18. The note was redeemed on December 19, 2017.
  - 2) Note C, 20-year term, US\$260,000 thousand, issued at par value without interest payment, callable 5 years after issue date with interest payment, maturity: 2034.12.17.
- b. The Bank designated the unsecured U.S. dollar-denominated banks notes as financial liabilities at FVTPL to reduce a measurement or recognition inconsistency.

The Bank entered into derivative contracts during the six months ended June 30, 2018 and 2017 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of the Bank is to minimize risks due to changes in fair value and cash flows.

The nominal principal amounts of outstanding derivative contracts as of June 30, 2018, December 31, 2017 and June 30, 2017 were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Currency swaps	\$ 415,216,911	\$ 317,193,943	\$ 289,606,477
Currency options	21,652,196	43,390,297	83,477,771
Forward exchange contracts	25,911,338	18,480,944	22,428,708
Interest rate swaps	400,167,422	389,538,301	392,987,265
Cross-currency swaps	3,669,000	13,063,953	23,751,358

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	June 30, 2018
Investments in equity instruments at FVTOCI	
Domestic listed stocks	\$ 4,426,221
Domestic unquoted stocks	<u>7,421,016</u>
	<u>11,847,237</u>
Investments in debt instruments at FVTOCI	
Government bonds	29,228,337
Corporate bonds	14,901,722
Bank notes	29,645,137
Bonds issued by international organizations	5,744,596
Beneficiary and asset-based securities	60,037
Investments in bills	<u>2,518,406</u>
	<u>82,098,235</u>
	<u>\$ 93,945,472</u>

A part of investments in equity instruments are for strategic instruments and are not held for trading, the management designated these investments as at FVTOCI.

- a. Refer to Note 10 for information relating to their credit risk management and impairment.
- b. The par value of bonds provided for transactions with repurchase agreements was \$1,687,600 thousand as of June 30, 2018.
- c. Government bonds placed as deposits in courts amounted to \$389,600 thousand, government bonds placed as operating deposits amounted to \$330,000 thousand, government bonds placed as a reserve fund for trust compensation amounted to \$170,000 thousand, government bonds pledged for call loans from banks amounted to \$5,000,000 thousand, and the overseas branches' bonds provided as collateral for operations were \$157,021 thousand as of June 30, 2018. Refer to Note 40 for information relating to investments in debt instruments at FVTOCI pledged as security.

## 9. INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST

	<b>June 30, 2018</b>
Investments in bills	\$ 250,424,937
Bank notes	7,306,573
Corporate bonds	8,595,779
Government bonds	<u>2,399,457</u>
	<b><u>\$ 268,726,746</u></b>

- a. Refer to Note 10 for information relating to their credit risk management and impairment.
- b. The overseas branches' bonds provided as collateral for operations as of June 30, 2018 were in the amount to \$305,287 thousand.
- c. Certificates of deposit placed as reserves for clearing at the Central Bank amounted to \$36,000,000 thousand as of June 30, 2018. Certificates of deposit which were issued by the Central Bank and pledged for call loans from banks amounted to \$300,000 thousand as of June 30, 2018.
- d. Refer to Note 40 for information relating to investments in debt instruments at amortized cost pledged as security.

## 10. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

Investments in debt instruments were classified as at FVTOCI and as at amortized cost.

June 30, 2018

	<b>At FVTOCI</b>	<b>At Amortized Cost</b>	<b>Total</b>
Gross carrying amount	\$ 81,876,696	\$ 268,734,485	\$ 350,611,181
Less: Allowance for impairment loss	<u>(169,625)</u>	<u>(7,739)</u>	<u>(177,364)</u>
Amortized cost	81,707,071	<u>\$ 268,726,746</u>	350,433,817
Adjustment to fair value	<u>221,539</u>		<u>221,539</u>
	<b><u>\$ 81,928,610</u></b>		<b><u>\$ 350,655,356</u></b>

The Bank only invests in debt instruments that are rated the equivalent of investment grade or higher and are assessed as having low credit impairment. The credit rating information is supplied by independent rating agencies. The Bank's exposure and the external credit ratings are continuously monitored and assessed for whether there has been a significant increase in credit risk since the last period to the reporting date.

The Bank considers the historical default rates of each credit rating supplied by external rating agencies to estimate 12-month or lifetime expected credit losses. The Bank's current credit risk grading framework comprises the following categories:

Category	Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount as of June 30, 2018
Stage 1	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12-month ECL	0.00%-49.40%	\$ 350,469,926
Stage 2	There has been a significant increase in credit risk since initial recognition	Lifetime ECL - not credit-impaired	0.28%-88.49%	-
Stage 3	There is evidence indicating that the asset is credit-impaired	Lifetime ECL - credit-impaired	40.51%-92.69%	141,255
Write-off	There is evidence indicating that the debtor is experiencing severe financial difficulty and the Bank has no realistic prospect of recovery	Amount is written off	100%	-
				<u>\$ 350,611,181</u>

The allowance for impairment loss of investments in debt instruments at FVTOCI and at amortized cost as of January 1, 2018 and June 30, 2018 grouped by credit rating is reconciled as follows:

Allowance for Impairment Loss	Credit Rating			Total
	Performing (12-month ECL)	Doubtful (Lifetime ECL - Not Credit-impaired)	Defaulted (Lifetime ECL - Credit-impaired)	
Balance at January 1, 2018 per IAS 39	\$ -	\$ -	\$ -	\$ -
Adjustment on initial application of IFRS 9	<u>38,939</u>	<u>27,285</u>	<u>137,112</u>	<u>203,336</u>
Balance at January 1, 2018 per IFRS 9	38,939	27,285	137,112	203,336
New debt instruments purchased	4,936	-	-	4,936
Derecognition	(8,043)	(27,285)	-	(35,328)
Change in exchange rates or others	<u>277</u>	<u>-</u>	<u>4,143</u>	<u>4,420</u>
Balance at June 30, 2018	<u>\$ 36,109</u>	<u>\$ -</u>	<u>\$ 141,255</u>	<u>\$ 177,364</u>

## 11. RECEIVABLES, NET

### a. Details of receivables

	June 30, 2018	December 31, 2017	June 30, 2017
Accounts receivable	\$ 12,723,075	\$ 14,277,857	\$ 10,337,700
Accrued incomes	1,504	3,471	1,644
Interests receivable	4,935,367	3,549,809	3,440,518
Acceptances receivable	5,480,846	4,262,347	4,354,351
Credit cards accounts receivable	2,981,313	1,783,596	2,946,765
Settlement price	598,685	440,397	454,256
Accounts receivable for settlement	379,172	285,538	316,951
Other receivables	1,256,380	648,341	112,706
Less allowance for bad debts, receivables	<u>(606,374)</u>	<u>(581,333)</u>	<u>(549,630)</u>
	<u>\$ 27,749,968</u>	<u>\$ 24,670,023</u>	<u>\$ 21,415,261</u>

### b. Allowance for receivables

#### 1) Movements in the allowance for receivables

	For the Six Months Ended June 30, 2018					
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Realized Credit Impairment	Loss Recognized Based on IFRS 9	Recognized Impairment Difference Based on Regulations of the Procedures For Banking Institutions to Evaluate Assets And Deal With Non- Performing Loans and Bad Debts	Total
Receivables						
Beginning balance	\$ 28,086	\$ 2,295	\$ 25,436	\$ 55,817	\$ 525,516	\$ 581,333
Changes from financial instruments recognized at the beginning of the period:						
Transfers to lifetime expected credit losses	(30)	45	(186)	(171)	-	(171)
Transfers to credit-impaired financial assets	(2)	(52)	499	445	-	445
Transfers to 12-month expected credit losses	79	(489)	(92)	(502)	-	(502)
Financial assets derecognize for the period	(26,200)	(678)	(7,028)	(33,906)	-	(33,906)
Purchase or originated financial assets	24,140	1,072	23,307	48,519	-	48,519

(Continued)



**For the Six Months Ended June 30, 2018**

	<b>12-month Expected Credit Losses</b>	<b>Lifetime Expected Credit Losses</b>	<b>Realized Credit Impairment</b>	<b>Loss Recognized Based on IFRS 9</b>	<b>Recognized Impairment Difference Based on Regulations of the Procedures For Banking Institutions to Evaluate Assets And Deal With Non- Performing Loans and Bad Debts</b>	<b>Total</b>
Recognized impairment difference based on the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing Loans and Bad Debts	\$ -	\$ -	\$ -	\$ -	\$ 21,726	\$ 21,726
Doubtful debts write off	-	-	(11,114)	(11,114)	-	(11,114)
Others	<u>27</u>	<u>3</u>	<u>14</u>	<u>44</u>	-	<u>44</u>
Ending balance	<u>\$ 26,100</u>	<u>\$ 2,116</u>	<u>\$ 30,836</u>	<u>\$ 59,132</u>	<u>\$ 547,242</u>	<u>\$ 606,374</u>

(Concluded)

2) Movements in the total carrying amount of receivables

	<b>For the Six Months Ended June 30, 2018</b>			
	<b>12-month Expected Credit Losses</b>	<b>Significant Increase in Risk Due to Lifetime Expected Credit Losses</b>	<b>Credit Impairment Due to Lifetime Expected Credit Losses</b>	<b>Total</b>
Beginning balance	\$ 25,015,385	\$ 156,888	\$ 79,083	\$ 25,251,356
Changes from financial instruments recognized at the beginning of the period:				
Transfers to lifetime expected credit loss	(25,935)	22,383	(890)	(4,442)
Transfers to credit-impaired financial assets	(5,472)	(5,049)	6,944	(3,577)
Transfers to 12-month expected credit losses	226,547	(5,445)	(558)	220,544
Purchase or originated financial assets	17,419,133	45,683	38,603	17,503,419
Derecognized	(14,506,865)	(88,971)	(19,240)	(14,615,076)
Doubtful debts write off	-	-	(11,114)	(11,114)
Others	<u>14,129</u>	<u>1,073</u>	<u>30</u>	<u>15,232</u>
Ending balance	<u>\$ 28,136,922</u>	<u>\$ 126,562</u>	<u>\$ 92,858</u>	<u>\$ 28,356,342</u>

Refer to Note 12 for the movements in the allowance for receivables as of the six months ended June 30, 2017.

## 12. DISCOUNTS AND LOANS, NET

### a. Details of discounts and loans

	June 30, 2018	December 31, 2017	June 30, 2017
Negotiated and discounted	\$ 5,148,356	\$ 5,010,733	\$ 6,040,663
Overdrafts	1,433,068	1,441,350	1,470,604
Short-term loans	375,907,849	363,295,585	339,698,944
Margin loans receivable	375,219	368,478	295,407
Medium-term loans	440,298,666	454,955,547	440,629,370
Long-term loans	559,484,821	564,200,949	563,923,747
Overdue loans	<u>4,043,894</u>	<u>4,134,997</u>	<u>4,242,807</u>
	1,386,691,873	1,393,407,639	1,356,301,542
Less allowance for bad debts, discounts and loans	<u>(16,616,891)</u>	<u>(16,366,979)</u>	<u>(15,955,219)</u>
	<u>\$ 1,370,074,982</u>	<u>\$ 1,377,040,660</u>	<u>\$ 1,340,346,323</u>

The overdue loans of which the accrual of interest income was stopped internally as of June 30, 2018, December 31, 2017 and June 30, 2017 amounted to \$4,043,894 thousand, \$4,134,997 thousand and \$4,242,807 thousand, respectively. The interest income on overdue loans not accrued for the six months ended June 30, 2018 and 2017 was \$53,986, thousand and \$56,641 thousand, respectively.

The Bank did not write off any loans without a legal claims process during the six months ended June 30, 2018 and 2017.

### b. Allowance for discounts and loans

#### 1) Movements in the allowance for discounts and loans

	For the Six Months Ended June 30, 2018					
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Realized Credit Impairment	Loss Recognized Based on IFRS 9	Recognized Impairment Difference Based on Regulations of the Procedures For Banking Institutions to Evaluate Assets And Deal With Non- Performing Loans and Bad Debts	Total
Loans						
Beginning balance	\$ 1,757,974	\$ 1,239,981	\$ 5,076,651	\$ 8,074,606	\$ 8,292,373	\$ 16,366,979
Changes from financial instruments recognized at the beginning of the period:						
Transfers to lifetime expected credit losses	(13,707)	11,967	(2,087)	(3,827)	-	(3,827)
Transfers to credit-impaired financial assets	(873)	(101,544)	95,420	(6,997)	-	(6,997)
Transfers to 12-month expected credit losses	109,991	(114,856)	(2,375)	(7,240)	-	(7,240)
Financial assets derecognized for the period	(796,638)	(190,770)	(2,833,862)	(3,821,270)	-	(3,821,270)
Purchase or originated financial assets	1,032,205	806,688	4,059,403	5,898,296	-	5,898,296

(Continued)

	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Realized Credit Impairment	Loss Recognized Based on IFRS 9	Recognized Impairment Difference Based on Regulations of the Procedures For Banking Institutions to Evaluate Assets And Deal With Non- Performing Loans and Bad Debts	Total
Recognized impairment difference base on the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing Loans and Bad Debts	\$ -	\$ -	\$ -	\$ -	\$ (727,090)	\$ (727,090)
Doubtful debts write off	(270,180)	(85,883)	(743,961)	(1,100,024)	-	(1,100,024)
Others	7,240	3,827	6,997	18,064	-	18,064
Ending balance	<u>\$ 1,826,012</u>	<u>\$ 1,569,410</u>	<u>\$ 5,656,186</u>	<u>\$ 9,051,608</u>	<u>\$ 7,565,283</u>	<u>\$ 16,616,891</u>

(Concluded)

2) Movements in the total carrying amount of discounts and loans

	For the Six Months Ended June 30, 2018			Total
	12-month Expected Credit Losses	Significant Increase in Risk Due to Lifetime Expected Credit Losses	Credit Impairment Due to Lifetime Expected Credit Losses	
Beginning balance	\$ 1,334,668,075	\$ 45,871,466	\$ 12,868,098	\$ 1,393,407,639
Changes from financial instruments recognized at the beginning of the period:				
Transfers to lifetime expected credit losses	(8,248,436)	7,963,243	(21,317)	(306,510)
Transfers to credit-impaired financial assets	(949,855)	(2,256,925)	3,188,088	(18,692)
Transfers to 12-month expected credit losses	(716,325)	(2,808,380)	(21,304)	(3,546,009)
Purchase or originated financial assets	403,519,862	12,505,476	5,102,847	421,128,185
Doubtful debts write off	(270,180)	(85,883)	(743,961)	(1,100,024)
Derecognized	(404,318,210)	(16,553,703)	(5,872,015)	(426,743,928)
Others	3,546,010	306,510	18,692	3,871,212
Ending balance	<u>\$ 1,327,230,941</u>	<u>\$ 44,941,804</u>	<u>\$ 14,519,128</u>	<u>\$ 1,386,691,873</u>

	For the Six Months Ended June 30, 2017			Total
	Receivables	Discounts And Loans	Other Financial Assets	
Beginning balance	\$ 573,031	\$ 16,122,975	\$ 25,937	\$ 16,721,943
Recovery of written off loans	4,078	684,266	8,119	696,463
Provision for loan losses	12,706	415,277	16,244	444,227
Written off loans	(17,166)	(1,123,223)	(20,997)	(1,161,386)
Others	(23,019)	(144,076)	-	(167,095)
Ending balance	<u>\$ 549,630</u>	<u>\$ 15,955,219</u>	<u>\$ 29,303</u>	<u>\$ 16,534,152</u>

- c. Details of provision for bad debts expense, commitment and guarantee for the three months and the six months ended June 30, 2018 and 2017

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Provision for receivable and loan (including overdue loan) losses	\$ 848,696	\$ 30,536	\$ 1,243,482	\$ 444,227
Provision (reversal) for loan commitment	14,256	-	(108,278)	-
Provision (reversal) for guarantee liability	<u>(49,477)</u>	<u>(51,766)</u>	<u>18,812</u>	<u>(32,879)</u>
	<u>\$ 813,475</u>	<u>\$ (21,230)</u>	<u>\$ 1,154,016</u>	<u>\$ 411,348</u>

- d. Details of receivables and the impaired for loan accounts as of December 31, 2017 and June 30, 2017

Receivables

Item		Total Receivables	
		December 31, 2017	June 30, 2017
Objective evidence of impairment	Individual assessment of impairment	\$ 830,674	\$ 413,655
	Combined assessment of impairment	62,617	86,096
No objective evidence of impairment	Combined assessment of impairment	24,358,065	21,465,140
Total		\$ 25,251,356	\$ 21,964,891

Item		Total Allowance	
		December 31, 2017	June 30, 2017
Objective evidence of impairment	Individual assessment of impairment	\$ 369,671	\$ 380,827
	Combined assessment of impairment	33,122	46,648
No objective evidence of impairment	Combined assessment of impairment	178,540	122,155
Total		\$ 581,333	\$ 549,630

Note: The amount of receivable did not include the amount of allowance for receivables and adjustment for discount (premium).

Discounts and loans

Item		Total Loans	
		December 31, 2017	June 30, 2017
Objective evidence of impairment	Individual assessment of impairment	\$ 9,579,673	\$ 9,245,487
	Combined assessment of impairment	3,487,746	3,827,724
No objective evidence of impairment	Combined assessment of impairment	1,380,340,220	1,343,228,331
Total		\$ 1,393,407,639	\$ 1,356,301,542

Item		Total Allowance	
		December 31, 2017	June 30, 2017
Objective evidence of impairment	Individual assessment of impairment	\$ 4,077,983	\$ 3,538,878
	Combined assessment of impairment	743,558	878,854
No objective evidence of impairment	Combined assessment of impairment	11,545,438	11,537,487
Total		\$ 16,366,979	\$ 15,955,219

Note: The amount of discounts and loans did not include the amount of allowance for discounts and loans and adjustment for discount (premium).

### 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	December 31, 2017	June 30, 2017
Domestic quoted stocks	\$ 3,643,572	\$ 3,739,656
Government bonds	16,108,800	29,264,472
Corporate bonds	18,564,075	12,937,675
Bank notes	32,409,743	32,005,777
Bonds issued by international organizations	879,046	889,903
Investments in bills	<u>1,570,650</u>	<u>1,582,115</u>
	<u>\$ 73,175,886</u>	<u>\$ 80,419,598</u>

The par values of bonds provided for transactions with repurchase agreements were \$1,784,800 thousand and \$2,258,800 thousand as of December 31, 2017 and June 30, 2017, respectively.

Government bonds placed as deposits in courts were \$281,100 thousand and \$366,100 thousand as of December 31, 2017 and June 30, 2017, respectively. Government bonds placed as operating deposits were all \$330,000 thousand, government bonds placed as reserve fund for trust compensation were all \$170,000, government bonds pledged for call loans from banks were all \$5,000,000 thousand as of December 31, 2017 and June 30, 2017.

Refer to Note 40 for information relating to available-for-sale financial assets pledged as security.

### 14. HELD-TO-MATURITY FINANCIAL ASSETS

	December 31, 2017	June 30, 2017
Investments in bills	\$ 227,528,720	\$ 205,491,692
Bank notes	1,972,932	1,862,806
Corporate bonds	7,910,394	9,614,991
Government bonds	<u>-</u>	<u>365,408</u>
	<u>\$ 237,412,046</u>	<u>\$ 217,334,897</u>

The overseas branches' bonds provided as collateral for operations as of December 31, 2017 and June 30, 2017 amounted to \$449,428 thousand and \$491,499 thousand, respectively.

Certificates of deposit placed as reserves for clearing at the Central Bank amounted to \$36,000,000 thousand as of both December 31, 2017 and June 30, 2017. Certificates of deposit which were issued by the Central Bank and pledged for call loans from banks amounted to \$300,000 thousand as of both December 31, 2017 and June 30, 2017.

Refer to Note 40 for information relating to held-to-mature financial assets pledged as security.

## 15. FINANCIAL ASSETS FOR HEDGING

	June 30, 2018	December 31, 2017	June 30, 2017
Financial assets for hedging			
Fair value hedges - interest rate swaps	\$ 238,471	\$ -	\$ -
Derivative financial assets for hedging			
Fair value hedges - interest rate swaps	<u>-</u>	<u>243,372</u>	<u>229,525</u>
	<u>\$ 238,471</u>	<u>\$ 243,372</u>	<u>\$ 229,525</u>

The Bank used interest rate swaps to minimize its exposure to changes in the fair value of its fixed-rate borrowings by entering into fixed-to-floating interest rate swap contracts. The interest swaps and the corresponding borrowings have the same terms, and management believes that the interest rate swaps are highly effective hedging instruments. The respective, nominal principal amount of the Bank's outstanding interest rate swaps as of June 30, 2018, December 31, 2017 and June 30, 2017 was \$8,200,000 thousand. The maturity period is from April 19, 2021 to September 27, 2026.

The fixed-to-floating interest swaps were designated and effective fair value hedge instruments. During the six months ended June 30, 2018 and 2017, the swaps were effective in hedging the fair value exposure to interest rate movements, and as a result, the carrying amount of the fixed-rate borrowings was adjusted by \$238,904 thousand, \$239,657 thousand and \$222,327 thousand as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively; these amounts were included in profit or loss at the same time that the fair value of the interest rate swap was included in profit or loss.

The information of hedging transactions is as follows:

- a. Hedging type: Fair value hedging.
- b. Hedging objective: To minimize the Bank's risks from changes in fair value due to fluctuating interest rates, by converting fixed-rate notes to floating-rate notes.
- c. Hedging method: By signing interest rate swap contracts, which pay floating rates (interest rate range: 0.6578%-0.6597%) and charge fixed rates (interest rate range: 1.2900%-1.6075%).
- d. Hedging effect: The results of hedging are all in the line with the effective range of hedge accounting as defined by IFRSs. The realized gain or loss from hedging tools was \$28,052 thousand and \$69,891 thousand for the three months ended June 30, 2018 and 2017, and \$29,112 thousand and \$173,462 thousand for the six months ended June 30, 2018 and 2017, respectively, and the realized gain or loss from fair-value hedging was a loss of \$(12,807) thousand and a loss of \$(54,671) thousand, accounted for as net other non-interest income or loss, for the three months ended June 30, 2018 and 2017, respectively, and the realized gain or loss from fair value hedging was a gain of \$753 thousand and a loss of \$(147,102) thousand, accounted for as net other non-interest income or loss, for the six months ended June 30, 2018 and 2017, respectively.

## 16. FINANCIAL ASSETS AT COST

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Domestic unquoted common stocks	<u>\$ 4,167,009</u>	<u>\$ 4,167,009</u>

Management believed that the above unlisted equity investments held by the Bank, whose fair value cannot be reliably measured due to the range of reasonable fair value estimates was so significant; therefore, they were measured at cost less impairment at the end of reporting period.

## 17. INVESTMENTS IN DEBT INSTRUMENTS WITHOUT ACTIVE MARKET

	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Beneficiary securities and asset-based securities	<u>\$ 64,609</u>	<u>\$ 75,804</u>

## 18. OTHER MISCELLANEOUS FINANCIAL ASSETS

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Time deposits with original maturities of more than 3 months	\$ 55,504,765	\$ 26,806,884	\$ 13,385,261
Exchange bills negotiated	11,294	3,210	29,526
Overdue receivable	487,139	465,961	90,852
Call loans to security brokers	152,875	148,400	-
Less: Allowance for bad debts	<u>(344,352)</u>	<u>(408,700)</u>	<u>(29,303)</u>
	<u>\$ 55,811,721</u>	<u>\$ 27,015,755</u>	<u>\$ 13,476,336</u>

The market rates of time deposits with original maturity more than 3 months were 2.15%-4.85% and 1.75%-5.40% for the six months ended June 30, 2018 and 2017, respectively. The time deposits were classified as investments in debt instrument without active market under IAS 39. Refer to Note 3 for information relating to their reclassification and comparative information for 2017.

Refer to Note 12 for the movement of the allowance for bad debts, other financial assets.

Refer to Note 40 for information relating to other miscellaneous financial assets pledged as security.

## 19. PROPERTY AND EQUIPMENT

	Freehold Land	Buildings	Machinery Equipment	Transportation Equipment	Miscellaneous Equipment	Leasehold Improvement	Leased Assets	Construction in Progress and Prepayment for Building and Equipment	Total
<b>Cost</b>									
Balance at January 1, 2018	\$ 14,657,121	\$ 9,107,453	\$ 4,668,094	\$ 723,601	\$ 1,448,399	\$ 967,993	\$ 1,007	\$ 120,129	\$ 31,693,797
Additions	-	11,363	79,210	9,286	16,204	1,472	486	106,023	224,044
Disposals	-	-	(63,233)	(5,823)	(5,088)	-	-	-	(74,144)
Reclassification	-	-	-	445	-	878	(445)	(878)	-
Effect of foreign currency exchange differences	-	7,453	2,002	330	1,163	2,907	-	672	14,527
Balance at June 30, 2018	<u>\$ 14,657,121</u>	<u>\$ 9,126,269</u>	<u>\$ 4,686,073</u>	<u>\$ 727,839</u>	<u>\$ 1,460,678</u>	<u>\$ 973,250</u>	<u>\$ 1,048</u>	<u>\$ 225,946</u>	<u>\$ 31,858,224</u>
<b>Accumulated depreciation and impairment</b>									
Balance at January 1, 2018	\$ -	\$ 4,269,791	\$ 4,069,589	\$ 604,449	\$ 1,291,768	\$ 818,119	\$ 349	\$ -	\$ 11,054,065
Depreciation expense	-	89,954	98,962	21,795	22,374	22,447	70	-	255,602
Disposals	-	-	(62,999)	(5,823)	(5,088)	-	-	-	(73,910)
Reclassification	-	-	-	247	-	-	(247)	-	-
Effect of foreign currency exchange differences	-	1,018	1,213	224	960	1,900	-	-	5,315
Balance at June 30, 2018	<u>\$ -</u>	<u>\$ 4,360,763</u>	<u>\$ 4,106,765</u>	<u>\$ 620,892</u>	<u>\$ 1,310,014</u>	<u>\$ 842,466</u>	<u>\$ 172</u>	<u>\$ -</u>	<u>\$ 11,241,072</u>
Carrying amounts at June 30, 2018	<u>\$ 14,657,121</u>	<u>\$ 4,765,506</u>	<u>\$ 579,308</u>	<u>\$ 106,947</u>	<u>\$ 150,664</u>	<u>\$ 130,784</u>	<u>\$ 876</u>	<u>\$ 225,946</u>	<u>\$ 20,617,152</u>
<b>Cost</b>									
Balance at January 1, 2017	\$ 14,657,121	\$ 9,108,129	\$ 4,652,958	\$ 708,565	\$ 1,430,509	\$ 945,920	\$ 4,253	\$ 53,494	\$ 31,560,949
Additions	-	24,636	75,868	10,734	27,889	40,365	422	31,353	211,267
Disposals	-	-	(65,114)	(5,908)	(12,230)	(21,938)	-	-	(105,190)
Reclassification	-	-	8,087	3,114	-	-	(3,114)	(11,284)	(3,197)
Effect of foreign currency exchange differences	-	(10,892)	(2,997)	(599)	(2,092)	(5,338)	-	(1,613)	(23,531)
Balance at June 30, 2017	<u>\$ 14,657,121</u>	<u>\$ 9,121,873</u>	<u>\$ 4,668,802</u>	<u>\$ 715,906</u>	<u>\$ 1,444,076</u>	<u>\$ 959,009</u>	<u>\$ 1,561</u>	<u>\$ 71,950</u>	<u>\$ 31,640,298</u>
<b>Accumulated depreciation and impairment</b>									
Balance at January 1, 2017	\$ -	\$ 4,113,645	\$ 3,986,898	\$ 570,966	\$ 1,273,907	\$ 811,544	\$ 2,166	\$ -	\$ 10,759,126
Depreciation expense	-	89,447	108,057	22,371	23,643	21,422	151	-	265,091
Disposals	-	-	(64,545)	(5,849)	(11,769)	(21,574)	-	-	(103,737)
Reclassification	-	-	-	1,730	-	-	(1,730)	-	-
Effect of foreign currency exchange differences	-	(314)	(1,581)	(315)	(1,535)	(3,116)	-	-	(6,861)
Balance at June 30, 2017	<u>\$ -</u>	<u>\$ 4,202,778</u>	<u>\$ 4,028,829</u>	<u>\$ 588,903</u>	<u>\$ 1,284,246</u>	<u>\$ 808,276</u>	<u>\$ 587</u>	<u>\$ -</u>	<u>\$ 10,913,619</u>
Carrying amounts at June 30, 2017	<u>\$ 14,657,121</u>	<u>\$ 4,919,095</u>	<u>\$ 639,973</u>	<u>\$ 127,003</u>	<u>\$ 159,830</u>	<u>\$ 150,733</u>	<u>\$ 974</u>	<u>\$ 71,950</u>	<u>\$ 20,726,679</u>

The above items of property and equipment are depreciated on a straight-line basis over the estimated useful life of the asset:

Building	
Main buildings	20-60 years
Air-conditioning	5-10 years
Machinery equipment	4-16 years
Transportation equipment	2-10 years
Miscellaneous equipment	3-10 years
Leasehold improvement	5 years
Leased assets	9 years

## 20. INVESTMENT PROPERTY

	June 30, 2018	December 31, 2017	June 30, 2017
Completed investment property	<u>\$ 13,744,678</u>	<u>\$ 13,747,787</u>	<u>\$ 13,750,692</u>



Except for depreciation recognized, the Bank had no significant additions, disposals, and impairment of investment property during the six months ended June 30, 2018 and 2017. The investment property are depreciated using the straight-line method over their estimated useful lives as follows:

Main buildings	20-60 years
Air-conditioning	5-10 years

The fair values of the Bank's investment property were \$26,269,911 thousand, \$26,269,911 thousand and \$28,823,698 thousand as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively. The fair value valuation was not performed by independent qualified professional valuers; the Bank used the valuation method that market participants would use in determining the fair value and the valuation was arrived at by reference to market evidence of transaction prices for similar properties.

The rental incomes and direct operating expenses generated by the investment property for the three months and six months ended June 30, 2018 and 2017 were as follows:

	For the Three Months Ended		For the Six Months Ended	
	June 30		June 30	
	2018	2017	2018	2017
Rental incomes	<u>\$ 46,389</u>	<u>\$ 45,448</u>	<u>\$ 93,360</u>	<u>\$ 90,877</u>
Direct operating expenses	<u>\$ 27,664</u>	<u>\$ 29,938</u>	<u>\$ 55,222</u>	<u>\$ 59,813</u>

## 21. INTANGIBLE ASSETS

	June 30, 2018	December 31, 2017	June 30, 2017
Computer software	<u>\$ 375,917</u>	<u>\$ 436,176</u>	<u>\$ 380,121</u>

Except for amortization recognized, the Bank had no significant additions, disposals, and impairment of intangible assets during the six months ended June 30, 2018 and 2017.

The intangible asset mentioned above is amortized on a straight-line basis over the estimated useful life (3-5 years).

## 22. OTHER ASSETS

	June 30, 2018	December 31, 2017	June 30, 2017
Refundable deposits	\$ 837,718	\$ 638,049	\$ 255,121
Assumed collateral and residuals	23,462	23,462	23,462
Less: Accumulated impairment	(23,462)	(23,462)	(23,462)
Prepayments	330,764	293,649	270,918
Others	<u>306</u>	<u>181</u>	<u>221</u>
	<u>\$ 1,168,788</u>	<u>\$ 931,879</u>	<u>\$ 526,260</u>

## 23. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	June 30, 2018	December 31, 2017	June 30, 2017
Deposits from the Central Bank	\$ 24,994	\$ 22,509	\$ 22,131
Deposits from banks	27,380,980	27,976,541	24,896,443
Overdrafts on banks	625,772	841,014	983,920
Call loans from banks	114,004,502	77,517,520	81,267,946
Deposits transferred from Chunghwa Post Co., Ltd.	<u>1,293,990</u>	<u>1,794,283</u>	<u>2,055,257</u>
	<u>\$ 143,330,238</u>	<u>\$ 108,151,867</u>	<u>\$ 109,225,697</u>

## 24. PAYABLES

	June 30, 2018	December 31, 2017	June 30, 2017
Checks issued to payees for clearing	\$ 19,408,139	\$ 18,412,071	\$ 10,126,501
Accounts payable	1,333,330	1,789,193	2,246,005
Accrued expenses	2,085,544	2,461,012	1,973,410
Accrued interests	2,081,275	2,094,269	1,570,024
Acceptances	5,753,288	4,339,412	4,431,644
Others	<u>9,123,987</u>	<u>5,753,898</u>	<u>7,339,993</u>
	<u>\$ 39,785,563</u>	<u>\$ 34,849,855</u>	<u>\$ 27,687,577</u>

## 25. DEPOSITS AND REMITTANCES

	June 30, 2018	December 31, 2017	June 30, 2017
Checking account deposits	\$ 37,470,526	\$ 42,033,779	\$ 31,804,913
Demand deposits	408,801,568	412,119,333	403,369,898
Time deposits	392,561,482	373,331,138	362,758,690
Negotiable certificates of deposit	6,264,788	6,747,936	11,910,722
Savings account deposits	828,196,150	835,498,391	817,390,306
Remittances	<u>1,336,049</u>	<u>2,349,207</u>	<u>902,226</u>
	<u>\$ 1,674,630,563</u>	<u>\$ 1,672,079,784</u>	<u>\$ 1,628,136,755</u>

## 26. BANK NOTES PAYABLE

The Bank has issued bank notes to enhance its capital adequacy ratio and raise medium to long-term operating funds. The information of the bank notes are as follows:

The Bank issued \$5,000 million perpetual subordinated bank notes-99-1 on June 29, 2010.

The Bank issued \$3,300 million subordinated bank notes-100-1 on March 11, 2011, divided into Financial Debentures A \$2,200 million with 7-year terms and Financial Debenture B \$1,100 million with 10-year terms.

The Bank issued \$6,700 million subordinated bank notes-100-2 with 10-year terms on April 18, 2011.

The Bank issued \$2,200 million subordinated bank notes A 103-1 with 7-year terms on April 16, 2014.

The Bank issued \$5,300 million subordinated bank notes B 103-1 with 10-year terms on April 16, 2014.

The Bank issued \$2,500 million subordinated bank notes C 103-1 with 10-year terms on April 16, 2014.

The Bank issued \$3,000 million subordinated bank notes A 105-1 with 7-year terms on September 27, 2016.

The Bank issued \$3,300 million subordinated bank notes B 105-1 with 10-year terms on September 27, 2016.

The Bank issued \$1,530 million subordinated bank notes A 106-1 with 7-year terms on March 29, 2017.

The Bank issued \$8,670 million subordinated bank notes B 106-1 with 10-year terms on March 29, 2017.

The Bank issued \$7,000 million perpetual subordinated bank notes 107-1 on April 26, 2018.

The outstanding balance and details of subordinated bank notes are as follows:

<b>Bank Note, Interest Rate and Maturity Date</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
<u>Hedged financial liabilities at fair value</u>			
103-1 Note A, 7-year terms, interest payable annually, interest rate 1.70%, maturity date: April 16, 2021	\$ 2,200,000	\$ 2,200,000	\$ 2,200,000
103-1 Note B, 10-year terms, interest payable annually, interest rate 1.85%, maturity date: April 16, 2024	3,000,000	3,000,000	3,000,000
105-1 Note A, 7-year terms, interest payable annually, interest rate 1.09%, maturity date: September 27, 2023	1,000,000	1,000,000	1,000,000
105-1 Note B, 10-year terms, interest payable annually, interest rate 1.20%, maturity date: September 27, 2026	2,000,000	2,000,000	2,000,000
Valuation adjustment	<u>238,904</u>	<u>239,657</u>	<u>222,327</u>
	<u>8,438,904</u>	<u>8,439,657</u>	<u>8,422,327</u>
<u>Non-hedged bank notes payable</u>			
99-1, No maturity date, interest payable annually, interest rate from first to tenth year is 3.15%, after tenth year is 4.15%	5,000,000	5,000,000	5,000,000
100-1 Note A, 7-year terms, interest payable annually, interest rate 1.65%, maturity date: March 11, 2018	-	2,200,000	2,200,000
100-1 Note B, 10-year terms, interest payable annually, interest rate 1.72%, maturity date: March 11, 2021	1,100,000	1,100,000	1,100,000

(Continued)

<b>Bank Note, Interest Rate and Maturity Date</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
100-2, 10-year terms, interest payable annually, floating rate, maturity date: April 18, 2021	\$ 6,700,000	\$ 6,700,000	\$ 6,700,000
103-1 Note B, 10-year terms, interest payable annually, interest rate 1.85%, maturity date: April 16, 2024	2,300,000	2,300,000	2,300,000
103-1 Note C, 10-year terms, interest payable annually, floating rate, maturity date: April 16, 2024	2,500,000	2,500,000	2,500,000
105-1 Note A, 7-year terms, interest payable annually, interest rate 1.09%, maturity date: September 27, 2023	2,000,000	2,000,000	2,000,000
105-1 Note B, 10-year terms, interest payable annually, interest rate 1.20%, maturity date: September 27, 2026	1,300,000	1,300,000	1,300,000
106-1 Note A, 7-year terms, interest payable annually, interest rate 1.50%, maturity date: March 29, 2024	1,530,000	1,530,000	1,530,000
106-1 Note B, 10-year terms, interest payable annually, interest rate 1.85%, maturity date: March 29, 2027	8,670,000	8,670,000	8,670,000
107-1, no maturity date, interest payable annually, interest rate 2.66%	<u>7,000,000</u>	<u>-</u>	<u>-</u>
	<u>38,100,000</u>	<u>33,300,000</u>	<u>33,300,000</u>
	<u>\$ 46,538,904</u>	<u>\$ 41,739,657</u>	<u>\$ 41,722,327</u> (Concluded)

The Bank engaged in derivative transactions as hedging tools for the 103-1 Note A, 103-1 Note B, 105-1 Note A and 105-1 Note B fixed interest rate bank notes to avoid fair value risks due to changes in interest rates. The interest rate swaps nominal principal was accounted as hedging derivative financial assets. (Refer to Note 15).

## 27. OTHER FINANCIAL LIABILITIES

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Principal received on structured notes	\$ 3,674,312	\$ 3,040,687	\$ 3,098,915
Appropriations for loans	651,690	621,529	319,935
Lease payable	<u>745</u>	<u>384</u>	<u>516</u>
	<u>\$ 4,326,747</u>	<u>\$ 3,662,600</u>	<u>\$ 3,419,366</u>

The principal received on structured notes were the time deposits which linked to currency options. The related income of structured notes were determined by the target interest rates.

## 28. OTHER LIABILITIES

	June 30, 2018	December 31, 2017	June 30, 2017
Advance receipts	\$ 740,148	\$ 753,160	\$ 813,200
Guarantee deposits	4,633,719	1,894,206	2,584,129
Deferred revenue	<u>21,936</u>	<u>18,427</u>	<u>27,183</u>
	<u>\$ 5,395,803</u>	<u>\$ 2,665,793</u>	<u>\$ 3,424,512</u>

## 29. RESERVE FOR LIABILITIES

	June 30, 2018	December 31, 2017	June 30, 2017
Reserve for employee benefits	\$ 4,096,216	\$ 4,254,235	\$ 3,846,407
Reserve for guarantee liabilities	533,949	504,600	504,682
Reserve for loan commitments	<u>365,176</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,995,341</u>	<u>\$ 4,758,835</u>	<u>\$ 4,351,089</u>

- a. For the details of the reserve for employee benefits, refer to Note 30.
- b. Under guidelines of Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans, reserve for guarantees was allocated based on the status of the loan collateral and the length of time overdue. Except for provision, the reserve for guarantees of the Bank had no significant changes for the six months ended June 30, 2018 and 2017.

## 30. RETIREMENT BENEFIT PLANS

Employee benefits expenses in respect of the Bank's defined benefit retirement plans were calculated using the prior year's actuarially determined pension cost discount rate as of December 31, 2017 and 2016 and the amount were \$81,659 thousand, \$56,275 thousand, \$161,886 thousand and \$165,721 thousand for the three months and six months ended June 30, 2018 and 2017, respectively.

## 31. EQUITY

- a. Capital

### Common stock

	June 30, 2018	December 31, 2017	June 30, 2017
Number of stocks authorized (in thousands)	<u>11,000,000</u>	<u>11,000,000</u>	<u>9,000,000</u>
Stocks authorized	<u>\$ 110,000,000</u>	<u>\$ 110,000,000</u>	<u>\$ 90,000,000</u>
Number of stocks issued and fully paid (in thousands)	<u>9,413,001</u>	<u>9,413,001</u>	<u>8,964,762</u>
Stocks issued	<u>\$ 94,130,007</u>	<u>\$ 94,130,007</u>	<u>\$ 89,647,626</u>

Fully paid common stocks, which have a par value of \$10, carry one vote per stock and carry a right to dividends.

As of January 1, 2017, the Bank's authorized and registered capital was \$90,000,000 thousand divided into 9,000,000 thousand stocks at \$10 par value; the total paid-in capital was \$89,647,626 thousand. In August 2017, the Bank increased its registered capital by \$20,000,000 thousand. In August 2017, the Bank resolved capitalization of earnings and increased its paid-in capital by \$4,482,381 thousand. The amount of the Bank's authorized and registered capital at December 31, 2017 were \$110,000,000 thousand divided into 11,000,000 thousand shares and, also at those dates, the amounts of total paid-in capital were \$94,130,007 thousand divided into 9,413,001 thousand outstanding stocks, at \$10 par value.

The Bank approved of capitalization of earnings as new stocks be issued in stockholders' meeting. Capitalization of earnings amounted to NT\$3,765,200 thousand and NT\$4,482,381 thousand, divided into 376,520 thousand stocks and 448,238 thousand stocks, as equity on June 8, 2018 and June 16, 2017, respectively.

b. Distribution of earnings and dividend policy

Under the dividend policy as set forth in the Bank's amended Articles of Incorporation, where the Bank made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as legal reserve 30% of the remaining profit, setting aside or reversing special reserve in accordance with the laws and regulations, and then any remaining profit together with any undistributed retained earnings shall be used by the Bank's board of directors as the basis for proposing distribution plan, and 30% to 100% of the basis for proposing distribution plan should be resolved in the stockholders' meeting for distribution of dividends and bonus to stockholders. For the policies on distribution of employees' compensation and remuneration to directors and supervisors after amendment, refer to Note 32h, "employee benefits expenses".

To ensure the Bank has cash for present and future expansion plans and to raise the profitability, the Bank prefers to distribute more stock dividends, but cash dividends shall not be less than 10% of total dividends distributed. If the cash dividends are less than \$0.1 per share, the Bank will not distribute any cash dividends, unless otherwise adopted in the stockholders' meeting.

Appropriation of earnings to legal reserve shall be made until the legal reserve equals the Bank's paid-in capital. Legal reserve may be used to offset deficit. If the Bank has no deficit and the legal reserve has exceeded 25% of the Bank's paid-in capital, the excess may be transferred to capital or distributed in cash.

Items referred to under Rule No. 1010012865, Rule No. 1010047490 and Rule No. 1030006415 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs" should be appropriated to or reversed from a special reserve by the Bank.

Under Rule No. 10510001510 issued by the FSC on May 25, 2016, the Bank should appropriate 0.5%-1.0% net income as a special reserve when distributing surplus earnings for 2016, 2017 and 2018. Since 2017, the Bank should reverse an amount which is the same as the distributed surplus earnings mentioned above for the expense of employees' bridging-over arrangements and settlements caused by the development of financial technology.

The Bank cannot distribute cash dividends or purchase treasury stocks if the Bank has any of the situations cited in Item 1, Section 1, Article 44 of the Banking Law.

The maximum amount of cash dividends cannot exceed 15% of the Bank's total capital if the Bank's capital surplus is less than the capital based on Section 1.

The restriction of the cash dividends stated above does not apply if the Bank's capital surplus exceeds the capital or the Bank's financial position satisfied the criteria by the authority and also the Bank appropriates the legal reserve based on the Banking Law.

The appropriations of earnings for 2017 and 2016 were approved in the stockholders' meetings on June 8, 2018 and June 16, 2017, respectively. The appropriations of earnings and dividends per stock were as follows:

	<b>Appropriation of Earnings</b>		<b>Dividends Per Stock (NT\$)</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Legal reserve	\$ 3,627,932	\$ 3,625,791	\$ -	\$ -
Special reserve	60,466	60,429	-	-
Dividends of common stock - cash	4,235,850	3,765,202	0.45	0.42
Dividends of common stock - stock	3,765,200	4,482,381	0.40	0.50

c. Special reserve

	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Special reserves appropriated following first-time adoption of IFRSs	\$ 11,778,829	\$ 11,778,829	\$ 11,778,829
Others	<u>362,587</u>	<u>302,121</u>	<u>302,121</u>
	<u>\$ 12,141,416</u>	<u>\$ 12,080,950</u>	<u>\$ 12,080,950</u>

### 32. NET INCOME

a. Net income of interest

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Interest income				
Loans	\$ 7,368,714	\$ 6,912,399	\$ 14,476,129	\$ 13,678,402
Due from and call loans to banks	1,245,737	827,796	2,409,602	1,598,986
Investments in marketable securities	908,873	725,937	1,747,814	1,439,925
Others	<u>78,932</u>	<u>36,632</u>	<u>146,627</u>	<u>66,180</u>
	<u>9,602,256</u>	<u>8,502,764</u>	<u>18,780,172</u>	<u>16,783,493</u>
Interest expense				
Deposits	(2,889,353)	(2,324,373)	(5,552,832)	(4,631,242)
Due to central bank and call loans from banks	(686,194)	(363,492)	(1,236,488)	(722,228)
Others	<u>(228,155)</u>	<u>(194,812)</u>	<u>(422,626)</u>	<u>(346,673)</u>
	<u>(3,803,702)</u>	<u>(2,882,677)</u>	<u>(7,211,946)</u>	<u>(5,700,143)</u>
Net income of interest	<u>\$ 5,798,554</u>	<u>\$ 5,620,087</u>	<u>\$ 11,568,226</u>	<u>\$ 11,083,350</u>

b. Net service fee income

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Service fee income				
Fees from import and export	\$ 82,935	\$ 84,382	\$ 171,308	\$ 173,957
Remittance fees	119,954	118,697	241,890	239,783
Loan fees	100,745	151,622	257,290	292,876
Fees from trust	212,682	200,507	497,756	361,738
Fees from trust business	82,960	64,764	154,009	127,327
Fees from insurance agency	509,367	485,909	984,909	1,262,630
Others	<u>279,388</u>	<u>255,866</u>	<u>555,695</u>	<u>489,322</u>
	<u>1,388,031</u>	<u>1,361,747</u>	<u>2,862,857</u>	<u>2,947,633</u>
Service charge				
Interbank charges	(37,670)	(35,634)	(75,876)	(71,929)
Charges from trust	(6,498)	(11,282)	(17,468)	(20,719)
Custodian charges	(25,672)	(23,159)	(52,903)	(41,864)
Charges from insurance agency	(44,883)	(61,794)	(82,502)	(105,954)
Others	<u>(107,669)</u>	<u>(114,198)</u>	<u>(241,995)</u>	<u>(226,804)</u>
	<u>(222,392)</u>	<u>(246,067)</u>	<u>(470,744)</u>	<u>(467,270)</u>
Net service fee income	<u>\$ 1,165,639</u>	<u>\$ 1,115,680</u>	<u>\$ 2,392,113</u>	<u>\$ 2,480,363</u>

c. Gain (loss) on financial assets or liabilities measured at FVTPL

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Realized gain (loss) on financial assets or liabilities measured at FVTPL				
Stocks and beneficiary certificates	\$ (3,480)	\$ 4,897	\$ (4,832)	\$ 25,919
Bonds	(7,995)	13,799	(4,515)	13,105
Bills	-	5	11	5
Derivative financial instruments	794,533	758,642	1,540,258	1,137,017
Net interest loss	(83,449)	(54,822)	(162,740)	(106,196)
Stock dividends and bonus	<u>3,112</u>	<u>383</u>	<u>3,112</u>	<u>383</u>
	<u>702,721</u>	<u>722,904</u>	<u>1,371,294</u>	<u>1,070,233</u>
Valuation gain (loss) on financial assets or liabilities measured at FVTPL				
Stocks and beneficiary certificates	(8,209)	(3,938)	(10,837)	(21,505)
Bonds	106,722	2,968	355,170	7,520
Bills	356	(1,721)	288	(1,427)
Derivative financial instruments	<u>(198,848)</u>	<u>(240,602)</u>	<u>(367,208)</u>	<u>178,251</u>
	<u>(99,979)</u>	<u>(243,293)</u>	<u>(22,587)</u>	<u>162,839</u>
	<u>\$ 602,742</u>	<u>\$ 479,611</u>	<u>\$ 1,348,707</u>	<u>\$ 1,233,072</u>



d. Realized gain (loss) on financial assets at fair value through other comprehensive income

	<b>For the Three Months Ended June 30, 2018</b>	<b>For the Six Months Ended June 30, 2018</b>
Stock dividends and bonus	\$ 138,106	\$ 138,106
Disposal gains		
Bonds	9,995	18,361
Disposal losses		
Beneficiary securities	(1)	(1)
Bonds	<u>(1)</u>	<u>(15)</u>
	<u>\$ 148,099</u>	<u>\$ 156,451</u>

e. Realized gain (loss) on available-for-sale financial assets

	<b>For the Three Months Ended June 30, 2017</b>	<b>For the Six Months Ended June 30, 2017</b>
Disposal gains		
Stock	\$ 20,924	\$ 59,706
Bonds	<u>2,182</u>	<u>114,089</u>
	<u>23,106</u>	<u>173,795</u>
Disposal losses		
Stock	-	(4,519)
Bonds	<u>(312)</u>	<u>(575)</u>
	<u>(312)</u>	<u>(5,094)</u>
	<u>\$ 22,794</u>	<u>\$ 168,701</u>

f. Depreciation and amortization expense

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Property and equipment	\$ 127,170	\$ 132,846	\$ 255,602	\$ 265,091
Investment property	1,666	1,646	3,324	3,289
Intangible assets and other deferred assets	<u>49,633</u>	<u>43,144</u>	<u>98,673</u>	<u>85,861</u>
	<u>\$ 178,469</u>	<u>\$ 177,636</u>	<u>\$ 357,599</u>	<u>\$ 354,241</u>

g. Employee benefits expenses

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Short-term employee benefits	\$ 2,326,339	\$ 2,385,979	\$ 4,648,593	\$ 4,505,677
Post-employment benefits				
Defined contribution plans	45,439	69,355	89,153	83,059
Defined benefit plans	81,659	56,275	161,886	165,721
High-yield savings account for employees	129,744	127,034	256,139	249,455
Other post-employment benefits	2,277	2,040	4,399	4,066
Termination benefits	<u>2,780</u>	<u>62,728</u>	<u>3,642</u>	<u>62,728</u>
	<u>\$ 2,588,238</u>	<u>\$ 2,703,411</u>	<u>\$ 5,163,812</u>	<u>\$ 5,070,706</u>

h. Employees' compensation and remuneration of directors

The Bank accrued employees' compensation and remuneration of directors at the rates of 1%-6% and no higher than 0.8%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors. The employees' compensation and remuneration of directors for the three months and the six months ended June 30, 2018 and 2017 were as follows:

Accrual rate

	<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
Employees' compensation	5.00%	5.00%
Remuneration of directors	0.40%	0.40%

Amount

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>Cash</b>	<b>Cash</b>	<b>Cash</b>	<b>Cash</b>
Employees' compensation	<u>\$ 192,000</u>	<u>\$ 228,000</u>	<u>\$ 384,000</u>	<u>\$ 372,000</u>
Remuneration of directors	<u>\$ 15,300</u>	<u>\$ 18,800</u>	<u>\$ 30,600</u>	<u>\$ 30,000</u>

If there is a change in the amounts after the annual financial statements were authorized for issue, the differences are recorded as a change in the accounting estimate.

The appropriations of employees' compensation and remuneration of directors for 2017 and 2016 having been resolved by the board of directors on March 20, 2018 and March 23, 2017, respectively, were as below:

	<b>For the Year Ended December 31</b>	
	<b>2017</b>	<b>2016</b>
	<b>Cash</b>	<b>Cash</b>
Employees' compensation	\$ 749,711	\$ 745,076
Remuneration of directors	59,977	59,606

There was no difference between the actual amounts of employees' compensation and remuneration of directors paid and the amounts recognized in the financial statements for the year ended December 31, 2017 and 2016.

Information on the employees' compensation and remuneration of directors resolved by the Bank's board of directors in 2018 and 2017 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

### 33. INCOME TAX

- a. Major components of tax expense recognized in profit or loss

	<b>For the Three Months Ended</b>		<b>For the Six Months Ended</b>	
	<b>June 30</b>		<b>June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Current income tax				
In respect of the current period	\$ 133,538	\$ 528,182	\$ 713,382	\$ 1,068,133
Income tax on unappropriated earnings	5,396	-	5,396	-
Adjustments for prior periods	-	75,796	-	75,796
Deferred income tax				
In respect of the current period	534,924	(40,596)	671,473	1,605
Adjustments to deferred tax attributable to changes in tax rates and laws	-	-	(483,061)	-
Income tax expense recognized in profit or loss	<u>\$ 673,858</u>	<u>\$ 563,382</u>	<u>\$ 907,190</u>	<u>\$ 1,145,534</u>

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

b. Income tax recognized in other comprehensive income

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<u>Deferred tax</u>				
Effect of change in tax rate	\$ -	\$ -	\$ (24,422)	\$ -
In respect of the current year:				
Exchange differences on translation	61,944	31,350	52,241	(117,499)
Unrealized gains (losses) on valuation of available-for-sale financial assets	-	5,398	-	9,774
Unrealized gains of financial assets at fair value through other comprehensive income	<u>(242)</u>	<u>-</u>	<u>(3,294)</u>	<u>-</u>
Total income tax benefit recognized in other comprehensive income	<u>\$ 61,702</u>	<u>\$ 36,748</u>	<u>\$ 48,947</u>	<u>\$ (107,725)</u>

c. Income tax assessments

The Bank's income tax returns through 2015 had been examined and cleared by the tax authority.

### 34. EARNINGS PER STOCK

The computation of earnings per stock was retrospectively adjusted for the effects. The basic and diluted after-tax earnings per stock of the three months and the six months ended June 30, 2017 were adjusted retrospectively as follows:

**Unit: NT\$ Per Stock**

	<b>Before Adjusted Retrospectively</b>		<b>After Adjusted Retrospectively</b>	
	<b>For the Three Months Ended June 30, 2017</b>	<b>For the Six Months Ended June 30, 2017</b>	<b>For the Three Months Ended June 30, 2017</b>	<b>For the Six Months Ended June 30, 2017</b>
Basic earnings per stock	<u>\$ 0.33</u>	<u>\$ 0.63</u>	<u>\$ 0.32</u>	<u>\$ 0.61</u>
Diluted earnings per stock	<u>\$ 0.33</u>	<u>\$ 0.63</u>	<u>\$ 0.31</u>	<u>\$ 0.61</u>

The earnings and weighted average number of common stocks outstanding in the computation of earnings per stock were as follows:

	<b>For the Three Months Ended June 30</b>		<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Net profit for the period	<u>\$ 3,136,215</u>	<u>\$ 3,089,265</u>	<u>\$ 6,564,912</u>	<u>\$ 5,956,005</u>

Weighted average number of common stocks outstanding (in thousand stocks):

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Weighted average number of common stocks in computation of basic earnings per stock	9,789,521	9,789,521	9,789,521	9,789,521
Effect of potentially dilutive common stocks:				
Employees' compensation issued	<u>21,695</u>	<u>21,318</u>	<u>36,358</u>	<u>34,871</u>
Weighted average number of common stocks used in the computation of diluted earnings per stock	<u>9,811,216</u>	<u>9,810,839</u>	<u>9,825,879</u>	<u>9,824,392</u>

If the Bank offered to settle compensation or bonuses paid to employees in cash or stocks, the Bank assumed the entire amount of the compensation or bonus would be settled in stocks and the resulting potential stocks were included in the weighted average number of stocks outstanding used in the computation of diluted earnings per share, as the effect is dilutive. Such dilutive effect of the potential stocks is included in the computation of diluted earnings per stock until the number of stocks to be distributed to employees is resolved in the following year.

### 35. OPERATING LEASE ARRANGEMENTS

a. The Bank as lessee

Operating leases relate to leases of land, houses and cars with lease terms between 3 and 10 years. All operating lease contracts over 5 years contain clauses for 5-year market rental reviews. The Bank does not have a bargain purchase option to acquire the leased land, houses and cars at the expiration of the lease periods.

As of June 30, 2018, December 31, 2017 and June 30, 2017, refundable deposits paid under operation leases amounted to \$44,699 thousand, \$43,272 thousand and \$38,184 thousand, respectively.

The future minimum lease payments of non-cancellable operating lease commitments were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Not later than 1 year	\$ 556,514	\$ 594,797	\$ 403,758
Later than 1 year and not later than 5 years	1,073,018	1,275,879	1,395,154
Later than 5 years	<u>285,381</u>	<u>362,369</u>	<u>364,455</u>
	<u>\$ 1,914,913</u>	<u>\$ 2,233,045</u>	<u>\$ 2,163,367</u>

b. The Bank as lessor

Operating leases relate to the investment property owned by the Bank with lease terms between 5 to 10 years, with an option to extend an additional 10 years. All operating lease contracts contain market review clauses in the event that the lessee exercises its option to renew. The lessee does not have a bargain purchase option to acquire the property at the expiry of the lease period.

As of June 30, 2018, December 31, 2017 and June 30, 2017, refundable deposits received under operation leases amounted to \$55,479 thousand, \$55,014 thousand and \$50,526 thousand, respectively.

The future minimum lease payments of non-cancellable operating lease were as follows:

	June 30, 2018	December 31, 2017	June 30, 2017
Not later than 1 year	\$ 239,811	\$ 229,761	\$ 115,903
Later than 1 year and not later than 5 years	515,846	504,391	588,975
Later than 5 years	<u>83,096</u>	<u>78,584</u>	<u>77,442</u>
	<u>\$ 838,753</u>	<u>\$ 812,736</u>	<u>\$ 782,320</u>

### 36. CAPITAL RISK MANAGEMENT

The description of the goals and procedures of the capital risk management of the Bank is the same as the description in the Bank's financial statements for the year ended December 31, 2017.

The following table illustrates the Bank's self-owned capital, risk-weighted assets and calculated capital adequacy. The Bank has conformed to the capital management regulation in the local authority for the six months ended June 30, 2018 and 2017.

Item		Period	June 30, 2018	December 31, 2017	June 30, 2017
Self-owned capital	Common equity Tier I		\$ 130,871,063	\$ 128,325,492	\$ 122,840,668
	Other Tier I capital		8,295,854	1,853,200	1,860,893
	Tier II capital		57,562,890	58,525,280	52,528,324
	Self-owned capital		196,729,807	188,703,972	177,229,885
Risk-weighted assets	Credit risk	Standardized approach	1,315,251,506	1,318,331,599	1,323,514,141
		IRB	-	-	-
		Securitization	12,007	12,922	15,161
	Operation risk	Basic indicator approach	-	-	-
		Standardized approach/optional standard	53,616,863	53,616,863	50,906,050
		Advanced internal rating based approach	-	-	-
	Market price risk	Standardized approach	20,614,125	19,542,238	15,533,725
		Internal model approach	-	-	-
		Total	1,389,494,501	1,391,503,622	1,389,969,077
Capital adequacy ratio			14.16%	13.56%	12.75%
Common equity Tier I to risk-weighted assets ratio			9.42%	9.22%	8.84%
Tier I capital to risk-weighted assets ratio			10.02%	9.36%	8.97%
Leverage ratio			6.22%	5.96%	5.87%

Note 1: The ratios are calculated in accordance with the Regulations Governing the Capital Adequacy and Capital Category of Banks.

Note 2: Annual financial statements should include the capital adequacy ratio in current and previous period. Besides, semiannual financial statements should disclose the ratio from the end of the last year.

Note 3: Formula:

- a. Self-owned capital = Common equity Tier I + Other Tier I capital + Tier II capital
- b. Risk-weighted assets = Credit risk-weighted assets + (Operation risk capital + Market price risk capital) x 12.5

- c. Capital adequacy = Self-owned capital ÷ Risk-weighted assets
- d. Common equity Tier I capital to risk-weighted assets ratio = Common equity Tier I capital ÷ Risk-weighted assets
- e. Tier I capital to risk-weighted assets ratio = (Common equity Tier I + Other Tier I capital) ÷ Risk-weighted assets
- f. Leverage ratio = Tier I capital ÷ Adjusted average assets

### 37. FINANCIAL INSTRUMENTS

- a. Fair value of financial instruments that are not measured at fair value

#### Fair value of financial instruments not carried at fair value

##### June 30, 2018

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Financial assets at amortized cost	\$ 268,726,746	\$ 7,412,490	\$ 261,329,416	\$ -	\$ 268,741,906
<u>Financial liabilities</u>					
Bank notes payable	46,538,904	-	8,438,904	39,069,670	47,508,574

##### December 31, 2017

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Investments in debt instrument without active market	\$ 64,609	\$ -	\$ 69,302	\$ -	\$ 69,302
Held-to-maturity investments	237,412,046	3,496,314	233,983,010	-	237,479,324
<u>Financial liabilities</u>					
Bank notes payable	41,739,657	-	8,439,657	34,358,719	42,798,376

##### June 30, 2017

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Investments in debt instruments without active market	\$ 75,804	\$ -	\$ 79,692	\$ -	\$ 79,692
Held-to-maturity investments	217,334,897	3,610,182	213,815,092	-	217,425,274
<u>Financial liabilities</u>					
Bank notes payable	41,722,327	-	8,422,327	34,383,513	42,805,840

b. Fair value of financial instruments that are measured at fair value on a recurring basis

1) Fair value hierarchy

Fair Value Measurement of Financial Instruments	June 30, 2018			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial products</u>				
Assets				
Financial assets at FVTPL	\$ 3,795,319	\$ 1,040,282	\$ 2,755,037	\$ -
Financial assets mandatorily measured at FVTPL	3,611,681	1,040,282	2,571,399	-
Stocks and mutual funds	242,403	242,403	-	-
Bond investments	1,590,498	797,879	792,619	-
Others	1,778,780	-	1,778,780	-
Financial assets designated at FVTPL	183,638	-	183,638	-
Financial assets at fair value through other comprehensive income	93,945,472	58,707,741	27,816,715	7,421,016
Stock investments	11,847,237	4,426,221	-	7,421,016
Bond investments	79,579,829	51,763,114	27,816,715	-
Others	2,518,406	2,518,406	-	-
Liabilities				
Financial liabilities at FVTPL	8,851,867	-	8,851,867	-
<u>Derivative financial products</u>				
Assets				
Financial assets at FVTPL	8,457,557	184,775	8,272,782	-
Other financial assets				
Financial assets for hedging	238,471	-	238,471	-
Liabilities				
Financial liabilities at FVTPL	5,183,923	-	5,183,923	-



Fair Value Measurement of Financial Instruments	December 31, 2017			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial products</u>				
Assets				
Financial assets at FVTPL	\$ 10,201,891	\$ 6,207,079	\$ 3,994,812	\$ -
Trading assets	4,876,011	1,239,990	3,636,021	-
Bond investments	1,849,798	1,239,990	609,808	-
Others	3,026,213	-	3,026,213	-
Financial assets designated at FVTPL	5,325,880	4,967,089	358,791	-
Available-for-sale financial assets	73,175,886	45,906,930	27,268,956	-
Stock investments	3,643,572	3,643,572	-	-
Bond investments	67,961,664	40,692,708	27,268,956	-
Others	1,570,650	1,570,650	-	-
Liabilities				
Financial liabilities at FVTPL	8,759,276	-	8,759,276	-
<u>Derivative financial products</u>				
Assets				
Financial assets at FVTPL	3,350,622	182,565	3,168,057	-
Other financial assets				
Derivative financial assets for hedging	243,372	-	243,372	-
Liabilities				
Financial liabilities at FVTPL	3,550,054	-	3,550,054	-

Fair Value Measurement of Financial Instruments	June 30, 2017			
	Total	Level 1	Level 2	Level 3
<u>Non-derivative financial products</u>				
Assets				
Financial assets at FVTPL	\$ 17,891,318	\$ 6,157,453	\$ 11,733,865	\$ -
Trading assets	12,684,468	1,164,965	11,519,503	-
Stocks and mutual funds	128,214	128,214	-	-
Bond investments	1,951,546	1,036,751	914,795	-
Others	10,604,708	-	10,604,708	-
Financial assets designated at FVTPL	5,206,850	4,992,488	214,362	-
Available-for-sale financial assets	80,419,598	46,347,808	34,071,790	-
Stock investments	3,739,656	3,739,656	-	-
Bond investments	75,097,827	41,026,037	34,071,790	-
Others	1,582,115	1,582,115	-	-
Liabilities				
Financial liabilities at FVTPL	12,151,164	-	12,151,164	-
<u>Derivative financial products</u>				
Assets				
Financial assets at FVTPL	4,799,815	156,743	4,643,072	-
Other financial assets				
Derivative financial assets for hedging	229,525	-	229,525	-
Liabilities				
Financial liabilities at FVTPL	3,409,321	-	3,409,321	-

There were no transfers between Levels 1 and 2 in the current and prior periods.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the six months ended June 30, 2018

Financial Assets	<u>Financial Assets at Fair Value Through Other Comprehensive Income Equity Instrument</u>
Beginning balance	\$ 7,678,043
Realized losses on other comprehensive income (unrealized gain (loss) on financial assets at fair value through other comprehensive income)	<u>(257,027)</u>
Ending balance	<u>\$ 7,421,016</u>

3) Definition for the hierarchy classifications of fair value measurements

a) Level 1

Level 1 inputs are quoted prices unadjusted in active markets for identical financial instruments. An active market indicates the market that is in conformity with all of the following conditions: The products in the market are identical; it is easy to find a knowledgeable and willing transaction counterparty; and price information is available to the public.

The fair values of the Bank and its subsidiaries' investments in listed stocks, beneficiary certificates, on-the-run Taiwan central government bonds and derivative instruments with quoted market prices are included in Level 1.

b) Level 2

Level 2 inputs are inputs other than quoted prices with reference to an active market that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). The fair values of the Bank's investments in off-the-run government bonds, corporate bonds, bank debentures, convertible bonds and most derivative bank debentures issued by the Bank are included in Level 2.

c) Level 3

The input parameters used are not based on observable market data. (Unobservable input parameters are those such as option pricing models using historical volatility which cannot represent the expected value of all market participants.) The fair values of the Bank's investments in derivatives and equity investments without an active market are included in Level 3.

4) Valuation techniques and assumptions applied for the purpose of measuring fair value

a) Determination of fair value

A quoted market price is used as the fair value when a financial instrument has an active market. Such market prices are provided by the Stock Exchange Corporation, Bloomberg and Reuters, which are all the foundation of fair values for listed equity securities and debt instruments with a quoted market price in an active market.

If the market quotation from the Stock Exchange Corporation, commission merchants, underwriters or pricing service institutions can be frequently and readily obtained and the price represents actual and frequent at arm's length transactions, then a financial instrument is deemed to have an active market. If the above conditions are not met, the market is deemed inactive. In general, a significant price variance between the purchase price and selling price or a significantly increasing price variance are both indicators of an inactive market.

In addition to the above financial instruments with an active market, other financial instruments at fair value are assessed by valuation techniques or by referencing counterparties with other financial instruments at fair value with similar conditions and characteristics in actual practice, including market information obtained by exercising valuation models at the balance sheet date (such as yield curves used by TPEx and TAIBIR (page 02) secondary market fixing rates used by the Taiwan Depository & Clearing Corporation).

When a financial instrument has no standardized valuation and has a greater level of complexity, such as interest rate swaps, currency swaps and options, the Bank and its subsidiaries usually adopt the valuation generally accepted by market users. The inputs used for these financial instruments' valuations are usually observable information in the market.

For financial instruments with greater complexity, the fair value is assessed through the valuation model developed by valuation methods and techniques generally accepted by competitors. These kinds of valuation models are usually applicable for derivative instruments, debt instruments without quoted market price (including debt instruments of embedded derivatives) or other debt instruments with low market liquidity. Certain inputs used in these valuation models are not observable in the market, and the Bank and its subsidiaries need to make appropriate estimates based on assumptions.

- b) The types and nature of the valuation methods for financial instruments used by the Bank and its subsidiaries are as follows:
- i. NTD central government bonds: The bond market rate and theoretical interest rate are price-per-hundred conversions announced by TPEX.
  - ii. NTD corporate bonds and bank notes: The corporate bond reference rate is announced by TPEX, and the Bank uses the appropriate credit rate and the remaining period to calculate the yield rate and convert it to price-per-hundred.
  - iii. NTD convertible corporate bonds: The closing prices of outright purchase/sale trading are listed on TPEX on the valuation day. If the price is not available, the price is referenced from the outright purchase/sale trading information listed on TPEX.
  - iv. Securitization instruments: Prices are those quoted from Bloomberg.
  - v. NTD short-term bills: The TAIBIR (page 02) secondary market fixing rates used by the Taiwan Depository & Clearing Corporation are discounted from future cash flows.
  - vi. Foreign securities: The latest prices quoted from Bloomberg, Reuters or other systems on the valuation day are used, if there is no available price or valuation, then the price used is that which is quoted from counterparties.
  - vii. Listed stocks, call/put warrants and depositary receipts: The closing price listed on TWSE or TPEX is adopted.
  - viii. Unlisted stocks: The fair value is referenced from related financial information or estimated using the price or parameter of listed companies which have similar service attributes.
  - ix. Beneficiary certificates: Closed-end funds use the closing price in an active market as the fair value and open-end funds use the net asset value of the fund as the fair value.
  - x. Derivatives:
    - i) Call/put warrants and stock index futures: Prices quoted from an active market are deemed the fair values.
    - ii) Foreign currency forward contracts, currency swaps, interest rate swaps, cross currency swaps and operating deposits of transactions: Discounted future cash flows are adopted.
    - iii) Options: The Black-Scholes model, binomial tree model and Monte Carlo method are mainly adopted for valuation.
    - iv) Certain derivatives use the quoted price from counterparties.

xi. Mixing Tools: The price from the active market, deal brokers and evaluation models is used.

c) Adjustments for credit risks and the definitions are as follows:

Credit valuation adjustment (CVA) is a measurement for derivatives which are not transacted through the stock market, or for over-the-counter derivatives. CVA reflects the fair value of should a counterparty default and the possibility of not collecting the derivative's full market value.

CVA is calculated by applying the loss given default (LGD) to the exposure at default (EAD), along with the consideration of the counterparty's probability of default (PD) (assuming the condition that the Bank does not default).

c. Financial risk management objectives and policies

1) Market risk

a) The source and definition of market risk

Market risk is the uncertainty of changes in fair value of on- and off-balance-sheet financial instruments due to changes in market risk factors. Market risk factors include interest rates, exchange rates, equity security prices and commodity prices.

The major market risks of the Bank are equity securities price risks, interest rate risks, and exchange rate risks. The majority of equity securities risk includes domestic public stock, over-the-counter stock, emerging market stock, domestic stock index options and stock index futures. The main position of interest rate risk includes bonds and interest derivative instruments, such as interest rate swap. The main position of exchange rate risk includes the Bank's investments denominated in foreign currencies, such as foreign currency spots, currency futures and foreign currency options.

b) Market risk management policy

The Bank classifies the financial instruments held by the Bank as trading book and banking book, and determines the market risk as interest rate risk, exchange rate risk, and equity security price risk. The Bank establishes "Market Risk Management Regulation", "Derivative Financial Trading Process" and various financial instrument related regulations to manage the market risk of overall foreign exchange position, normal position, interest rate position of trading book and equity security position. The overall interest rate risk management of banking book belongs to Assets and Liabilities Management Committee.

The market risk management regulations are as follows:

- i. Establish the market risk management process to ensure the risk would be identified, measured, monitored and reported.
- ii. Measure and monitor the market risk and keep it under the risk limit and minimize unexpected loss from market risk.
- iii. Follow the regulations of Basel Accord.
- iv. Establish the market risk management system and economic capital allocation process.

- v. Monitor the credit line management of financial instrument, sensitivity analysis, stress testing and the calculation of VaR. Report the result of market risk monitoring to Risk Management Committee periodically and Board of Director quarterly.

c) Market risk management procedures

According to “Whole Risk Management Policy”, Risk Management Department is the second line of defense against the market risk. Risk Management Department performs the market risk management, establishes related management process, and reports to the appropriate level of the management. Besides, Risk Management Department establishes independent risk management process and ensures it remains effective.

i. Identifying and measuring

The effective market risk management process begins with identifying the inherent risk of operating activities and financial instruments. The Bank reviews the risk identifying method timely when the market environment changes and makes necessary adjustment to ensure the effective operation of the market risk management process. The Bank’s risk management department identifies market risk factors and measures the market risk. The market risk factors refer to the factors which affect the interest rate, exchange rate or the fair value of equity instruments. The market risk factors include the position, profits and loss, loss from stress testing, PVO1, Delta, VaR, etc.

ii. Monitoring and reporting

The Bank controls market risk by managing risk limits. The risk management department sets various trading limits, such as position limits, stop-loss limits, and maximum potential loss. The trading limits are implemented only after they are reported to and approved by the Board of Directors.

The risk management department calculates exposures and estimated gains and losses on positions daily to make sure that the positions held and losses do not exceed the limits approved by the Board of Directors and prepares reports to the high-level management and the Board of Directors periodically for their sufficient understanding of the implementation of the market risk management and, if necessary, issuance of additional guidance.

The risk management department reports important market risk issues, such as discovery of possible loss on positions in each trading book or identification of weakness in the market risk management system, to the Risk Management Committee in order to improve the effectiveness of the market risk management.

iii. Stress testing

The stress testing is one of the important tools for risk management. It is used for verifying effects on the investment portfolio due to some extremely disadvantageous but possible stressful events and for analyzing exposure level and risk tolerance in such situations and furthermore evaluating the portfolio loss or the impact on the capital. Chang Hwa Bank performs stress testing for forecasting risk and for assessment and reinforcement of statistical models or historical data limitations.

d) Trading book market risk management

The trading book refers to the position of financial instruments held for trading or hedging. The position of financial instruments held for trading refers to the position which earns profits from actual or expected short-term price fluctuations.

i. Strategy

The Bank determines the risk limitation of the investment portfolio of trading book by evaluating trading strategy, trading category, and annual performance.

ii. Management policy and procedures

The Bank follows “Market Risk Management Rules”, “Derivative Financial Trading Process” and various financial instrument related regulations as the important management rules of trading book.

iii. Valuation policy

The trading positions are valued real time or daily. The hedging derivatives are valued at least twice a month. The resources of fair value of financial instruments are categorized as: (1) those derived from quoted prices in active markets; (2) the latest price without active market; (3) valuation without active market.

iv. Risk measuring methods

i) The sensitivity of the interest rate changes of investment portfolio is measured by DVO1. The sensitivity of the foreign exchange derivatives is measured by the sensitivity factors (Delta, Gamma, and Vega).

ii) With regard to the Bank’s Value at Risk assumptions and calculation methods, please refer to item i.

iii) The Bank performs the stress test quarterly and report the result to Risk Management Committee periodically.

e) Trading book interest rate risk management

i. Definition of interest rate risk

Interest rate risk is fair value changes in interest rate risk position held by the Bank due to interest rate changes. The risks are mainly in debt securities and interest rate derivatives.

ii. Management procedures on trading book interest rate risk

The Bank defines the trading limit of trading book and the stop-loss limit of different financial instruments by assessing the credit and the financial position of the issuers.

iii. Measuring methods

The interest rate factor sensitivity of debt securities and interest rate derivatives is measured by DVO1. With regard to the Bank’s Value at Risk assumptions and calculation methods, please refer to item i.

f) Banking book interest rate risk management

i. Definition of banking book interest rate risk

The banking book interest rate risk means the unfavorable change of interest rate of non-trading-book interest rate position which changes the present value of revenues and costs or assets and liabilities and causes decrease of earnings or impairment of economic value.

ii. Management strategy on banking book interest rate risk

According to the Bank's interest rate risk management policy, the Bank has set various measurement indicators and limits on banking book interest rate risk. To pursue profits and steady growth of stockholder value without exposure to extreme loss risks, the Bank applies appropriate management strategy including on- and off-balance-sheet adjustments and maintains appropriate amounts of assets and liabilities.

iii. Banking book interest rate risk report/range of measuring system

The Bank mainly applies standard method for interest rate risk sensitivity gap analysis to measure banking book interest rate risks. The responsible department periodically measures banking book interest rate risks and reports to related departments and to the Asset and Liability Management Committee in order to adopt appropriate strategies for adjusting banking book interest rate risk combinations. Assessment information of banking book interest rate risk would be presented to the Board of Directors periodically to let the high-level management control such risks.

g) Exchange rate risk management

i. Definition of exchange rate risk

Exchange rate risk is the gain or loss resulting from exchange or translation of two different foreign currencies at different times. The Bank's exchange rate risk mainly comes from spot and forward exchange positions.

ii. Exchange rate risk management policy, procedures and measuring methods

The risk management department sets the position limit and stop-loss limit of trading book investment combinations in order to control exchange rate risk. If the losses reach the stop-loss limit, the trading department should decrease risk exposure positions so as to control losses.

The risk management department applies sensitivity analysis or Value at Risk to measure exchange rate risk and calculates stress loss of risk position held. In sensitivity analysis, Delta is applied to measure the exchange rate risk of the first order change and Gamma is applied to measure the exchange rate risk of the second order change. In addition, Vega is used to measure the first order risk of implied volatility rate. With regard to the Bank's Value at Risk assumptions and calculation methods, please refer to Item i.

h) Equity security price risk management

i. Definition of equity security price risk

Equity security price risk is the valuation effect on the position held by the Bank when the equity security price changes. The Bank's equity security price risk mainly comes from public and over-the-counter stocks, index futures and options.

ii. Equity security price risk management purpose

The risk management department applies sensitivity analysis or Value at Risk to measure equity security price risk and calculates stress loss of risk position held. In sensitivity analysis, Delta, Gamma and Vega are, applied to measure the independent equity security price risk of the first order change, or market value is applied to indicate the exposure risks on positions of stocks. With regard to the Bank's Value at Risk assumptions and calculation methods, please refer to Item i.



iii. Equity security price risk management procedures

The Bank sets restrictions on credit extensions with the same person, the same concerned party or the same affiliate to control the risk concentration. Risk Management Department monitors unrealized gain or loss of the holding position daily. If unrealized loss is over the stop-loss threshold, Risk Management Department would notice the department who hold the position to subject to the related regulations. The department who holds the position should report to Risk Management Committee if unrealized loss is over the stop-loss threshold but the department still holds the position.

iv. Measuring methods

The equity security price risk of Trading Book is monitored and controlled by VaR, please refer to item i.

The Bank would perform stress testing for the equity security price risk of non-trading position and report the result to Risk Management Committee.

i) Market risk measuring method

i. Value at Risk, “VaR”

The Bank uses VaR model and stress testing to evaluate the risk of trading portfolio the market risk and the maximum expected loss of positions held through assumptions of changing market situation. VaR is the statistical estimation of potential losses of existing positions arising from unfavorable market changes. VaR refers to the maximum potential loss that Chang Hwa Bank might be exposed to within the confidence interval (99%), which means there is a certain probability (1%) that the actual loss would exceed VaR. Significant loss caused by excessive market volatility could not be avoided by using VaR.

The Bank uses historical simulation method to calculate VaR. The historical simulation method is based on historical data to estimate the future cash flow and assess the market risk of financial instrument. There are more and more financial institutions using the historical simulation method. However, there are some limitations for using the method. One of the limitations is that the assumption used in the method may not reflect the real situation. Besides, the simulation result may not be representative if the historical data used are too small. The Bank would use proxy to respond to the limitations mentioned above.

According to the Bank’s “Risk Management Committee Establishment Points”, the risk appetite of trading book market risk, operating limits and VaR limits should be approved by the Risk Management Committee. VaR is an important internal risk control in the Bank. The VaR limits of investment portfolio are approved annually by the Risk Management Committee and reported to the Board of Directors. In addition, the daily actual VaR is monitored by the Bank’s risk management department.

- ii. As of June 30, 2018 and 2017, the Bank's VaR factors based on historical simulation method were as follows:

<b>For the Six Months Ended June 30, 2018</b>				
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>Ending Balance</b>
Exchange VaR	\$ 108,273	\$ 134,932	\$ 91,647	\$ 130,178
Interest rate VaR	6,535	9,460	3,956	3,976
Equity securities VaR	<u>4,958</u>	<u>8,113</u>	<u>2,124</u>	<u>8,085</u>
Value at risk	<u>\$ 119,766</u>	<u>\$ 152,505</u>	<u>\$ 97,727</u>	<u>\$ 142,239</u>
<b>For the Six Months Ended June 30, 2017</b>				
	<b>Average</b>	<b>Highest</b>	<b>Lowest</b>	<b>Ending Balance</b>
Exchange VaR	\$ 167,493	\$ 199,991	\$ 129,991	\$ 170,646
Interest rate VaR	18,899	32,732	8,393	12,788
Equity securities VaR	<u>2,745</u>	<u>4,219</u>	<u>1,422</u>	<u>1,636</u>
Value at risk	<u>\$ 189,137</u>	<u>\$ 236,942</u>	<u>\$ 139,806</u>	<u>\$ 185,070</u>

2) Primary foreign currencies

The significant foreign-currency financial assets and liabilities as of June 30, 2018, December 31, 2017 and June 30, 2017 were as follows:

**(Foreign Currencies/New Taiwan Dollars in Thousands)**

<b>June 30, 2018</b>			
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 7,018,079	30.5750	\$ 214,577,765
GBP	11,499	39.9900	459,845
AUD	1,016,478	22.4550	22,825,013
HKD	1,525,610	3.8960	5,943,777
CAD	90,157	23.0500	2,078,119
ZAR	1,403,666	2.2100	3,102,102
JPY	45,941,286	0.2769	12,721,142
EUR	379,814	35.3800	13,437,819
RMB	17,887,977	4.5990	82,266,806
Non-monetary items			
USD	16,059	30.5750	491,004

(Continued)

(Foreign Currencies/New Taiwan Dollars in Thousands)

	<b>June 30, 2018</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial liabilities</u>			
Monetary items			
USD	\$ 9,809,552	30.5750	\$ 299,927,052
GBP	35,442	39.9900	1,417,326
AUD	967,701	22.4550	21,729,726
HKD	1,341,322	3.8960	5,225,791
CAD	98,795	23.0500	2,277,225
ZAR	2,172,129	2.2100	4,800,405
JPY	53,312,684	0.2769	14,762,282
EUR	441,180	35.3800	15,608,948
NZD	59,487	20.6100	1,226,027
RMB	16,346,633	4.5990	75,178,165
Non-monetary items			
USD	302,172	30.5750	9,238,909

(Concluded)

(Foreign Currencies/New Taiwan Dollars in Thousands)

	<b>December 31, 2017</b>		
	<b>Foreign Currencies</b>	<b>Exchange Rate</b>	<b>New Taiwan Dollars</b>
<u>Financial assets</u>			
Monetary items			
USD	\$ 7,722,935	29.6800	\$ 229,216,711
GBP	77,177	39.9300	3,081,678
AUD	1,078,448	23.1350	24,949,894
HKD	1,676,715	3.7960	6,364,810
SGD	62,182	22.2000	1,380,440
CAD	98,652	23.6300	2,331,147
ZAR	2,541,371	2.3900	6,073,877
JPY	54,065,112	0.2633	14,235,344
EUR	397,523	35.4500	14,092,190
RMB	19,089,541	4.5490	86,838,322
Non-monetary items			
USD	182,180	29.6800	5,407,102
<u>Financial liabilities</u>			
Monetary items			
USD	10,074,286	29.6800	299,004,808
GBP	69,356	39.9300	2,769,385
AUD	977,697	23.1350	22,619,020
HKD	1,384,142	3.7960	5,254,203
CAD	97,024	23.6300	2,292,677
ZAR	2,671,901	2.3900	6,385,843
JPY	59,662,672	0.2633	15,709,182
EUR	419,560	35.4500	14,873,402
RMB	15,662,646	4.5490	71,249,377
Non-monetary items			
USD	303,153	29.6800	8,997,581

(Foreign Currencies/New Taiwan Dollars in Thousands)

	June 30, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 7,649,731	30.4200	\$ 232,704,817
GBP	113,658	39.6400	4,505,403
AUD	1,192,012	23.4450	27,946,721
HKD	1,332,084	3.8960	5,189,799
CAD	109,661	23.4500	2,571,550
ZAR	2,099,561	2.3300	4,891,977
JPY	55,794,296	0.2717	15,159,310
EUR	538,329	34.8100	18,739,232
RMB	17,270,734	4.4880	77,511,054
Non-monetary items			
USD	187,889	30.4200	5,715,583
<u>Financial liabilities</u>			
Monetary items			
USD	9,383,905	30.4200	285,458,390
GBP	92,556	39.6400	3,668,920
AUD	989,892	23.4450	23,208,018
HKD	1,073,958	3.8960	4,184,140
CAD	107,152	23.4500	2,512,714
ZAR	2,497,097	2.3300	5,818,236
JPY	56,549,772	0.2717	15,364,573
EUR	515,162	34.8100	17,932,789
NZD	52,253	22.2900	1,164,719
RMB	15,846,819	4.4880	71,120,524
Non-monetary items			
USD	408,549	30.4200	12,428,061

For the three months ended June 30, 2018 and 2017, net foreign exchange gains were \$766,787 thousand and \$221,911 thousand, respectively. For the six months ended June 30, 2018 and 2017, net foreign exchange gains (losses) were \$762,910 thousand and \$(112,211) thousand, respectively. It is impractical to disclose net foreign exchange gains (losses) by each significant foreign currency due to the variety of the foreign currency transactions and functional currencies of the Bank and entities under its control.

3) Credit risk

a) Credit risk source and definition

Credit risk means the possible loss due to failure of debtors or counterparties to fulfill their contractual obligations or their ability to fulfill contractual obligations is impaired. Credit risk arises from the operation, on- and off-balance-sheet items, including credit loans, derivatives transactions and securities investment, etc. Because the business becomes more complex, the credit risk is often generated with other risks that affect one another. For example, exchange rate risk also exists in foreign currency debt investment. Secured loans will be affected by the price volatility of the collateral and market liquidity risk of the collateral.

b) Credit risk management policy

- i. To meet the needs of risk management, the Bank continues to enhance corporate and personal finance credit application management system and various risk management techniques and efficiency.
- ii. The Bank continues to develop methods of credit risk quantification models to elevate credit risk management techniques, which enable the Bank's capital requirement and expected loss to become more risk sensitive.
- iii. The Bank continues to develop and implement credit risk stress testing in compliance with the requirements of the competent authority supervising risk management and improve the effectiveness of the Bank's risk management.
- iv. The Bank is building a complete after-loan monitoring mechanism to efficiently identify and manage potential problematic loans, establish appropriate monitoring procedures, track the frequency and the specific responsive measures in order to achieve active management in the process of credit risk identification, measurement, monitoring and reporting
- v. The Bank is building a knowledge base to facilitate learning and assessment. To meet the business demand, it holds risk management seminars and trainings to shape the Bank's risk management culture

The Bank's credit risk management procedures and measuring methods for major business are described as follows:

- i. Credit business (including loan commitments and guarantees)

2018

- i) A determined signification increase in credit risk since initial recognition.

At the end of every reporting period, the Bank evaluates the risk of default on credit assets occurring over their expected lifetime to determine whether the credit risk has increased significantly since their initial recognition.

For this credit risk evaluation, the Bank considers corroborative information (including forward-looking information) which indicates a significant increase in credit risk since initial recognition of the credit assets. The key indicators include:

- Quantitative indicators

A change in internal credit rating

The Bank classifies each type of credit asset into three categories according to credit quality, internal credit rating and external credit rating (refer to the following table). A financial instrument is determined as having a significant increase in credit risk since initial recognition if its internal credit rating is at the level of 16-18 or if the scoring of a housing loan debtor is lower than 340.

Credit Quality	Internal Credit Rating	External Credit Rating (Moody's)
Normal	1	Aaa
	2	Aa1
	3	Aa2
	4	Aa3
	5	A1
	6	A2
	7	A3
	8	Baa1
	9	Baa2
	10	Baa3
	11	Ba1
	12	Ba2
	13	Ba3
	14	B1
	15	B2
	16	B3
	Non-performing	17
18		Caa2
19		Caa3
20		D
21		D

- Qualitative indicators

A credit account is rated as ordinary-delinquent in accordance with the Bank's "Detailed Rules for the Processing of Ordinary-delinquent Accounts".

The result of the credit review shows that the credit application and the loan application are inconsistent.

ii) Definition of the credit-impaired financial assets

A credit account that meets one of the following conditions is classified under Stage 3 (Credit-impaired):

- The debtor's payment of the principal or interest is past due for more than 3 months from the end of the credit term; or the Bank has already petitioned or withdrawn the debtor's collateral.
- The case has been agreed to be repaid in installments and is exempt from being listed as an overdue loan.
- The case was negotiated and adopted in accordance with the debt negotiation mechanism set by the Association of Banks in 2006.
- The case has been negotiated and agreed upon in accordance with "The Statute for Consumer Debt Clearance" (excluding secured debt fulfilled under the original contractual conditions).
- The case is ruled to undergo restructuring or liquidation by the court.
- The case is ruled to be restricted by the court.

- The case is declared bankrupt by the court.
- The case involves credit accounts of a debtor, excluding credit card accounts, which is partly transferred to class A and B non-performing loans (excluding the sixth item of class B: The credit account is totally guaranteed and the interest payment is not past due during the inheritance period after the death of the debtor and the collateral provider), as well as overdue loans or bad debt loans.
- The case is an enterprise account which has applied for relief from the Ministry of Economic Affairs.
- The case involves a credit account which has an internal credit rating at the level of 19-21.
- The case is a mortgage loan credit account of the Bank which has no rating score.
- The case is a credit account which is determined as Stage 3 by the internal or external auditors, or the risk management department of the Bank.

iii) Expected credit loss measurement

The Bank classify credit assets into the following nine categories by the credit risk characteristics of the debtor's industry and organization size:

<b>Business</b>	<b>Combination</b>	<b>Credit Risk Characteristics</b>
Corporate banking loans	Government	No significant increase in credit risk, significant increase in credit risk, credit impairment.
	Large enterprise	
	Small enterprise	
	legal person/group	
	Overseas credit account	
	Other groups	
Individual banking loans	Individual-residential loan group	
	Individual-other groups (unsecured)	
	Individual-other groups (secured)	

The Bank measures the expected credit loss as follows:

- Stage 1, no significant increase in credit risk

The Bank measures the loss allowance for Stage 1 financial instruments at an amount equal to the 12-month ECL based on past loss experience. The ECL is the difference between the respective asset's EAD carrying amount and the present value of its estimated future cash flows, estimated at the forward-looking adjusted PD and discounted at the effective interest rate.

- Stage 2, significant increase in credit risk

The Bank measures the loss allowance for Stage 2 financial instruments at an amount equal to the lifetime ECL. The ECL is the difference between the respective asset's EAD carrying amount and the present value of its computed outcome which is discounted at the effective interest rate. The computed outcome is the product of the unpaid principal for each year end over instruments expected lifetime, the forward-looking adjusted PD, and the LGD.

- Stage 3, credit impairment

The Bank measures the loss allowance for Stage 3 financial instruments at an amount equal to the lifetime ECL. The ECL is the difference between the asset's EAD carrying amount and the present value of its estimated future cash flows, estimated assuming the credit impairment situation is given and discounted at effective interest rate.

The PD and EAD and LGD are used to measure the impairment loss for financial assets in the credit business:

- PD is meaning of using past credit-impaired situations to predict the probability of credit impairment in normal situation in a year. The PD for Stage 3 financial instruments is determined as 100%. The PD for Stages 1 and 2 are based on the categories and the remaining lifetime for each credit account. The credit accounts are divided into groups by remaining lifetimes. The PD of each group is determined as the PD of each credit quality stage. The Bank shall update the probability of default at least once a year.
- The EAD is the total expected exposure amount of default which includes the unsecured line of credit.
- The exposure amount of impairment-tested off-balance sheet assets (e.g. guarantees, letters of credit issued yet unused, irrevocable loan commitments issued, and revocable loan commitments issued) is converted into the equivalent exposure amount of on-balance sheet assets through a credit conversion factor ("CCF"). The CCF is determined according to the standardized approach of the Capital Adequacy Ratio as either 0%, 20%, 50% or 100% by referring to the respective off-balance sheet item's characteristics
- The LGD is one minus the present value of the annual recovery rate. The annual recovery rate refers to the annual recovery amount of principal (including litigation expenses) and interest over non-performing loans plus accrued interest and litigation expenses.

#### iv) Forward-looking information

The Bank classifies credit assets as either corporate banking - domestic, corporate banking - overseas, corporate banking - Singapore branch or individual banking business. The forward-looking adjusted PD for each the above categories is estimated using the domestic economic growth rate, global economic growth rate, Southeast Asia economic growth rate and the domestic unemployment rate, respectively, and is adjusted based on the reasonableness of each rate's predicted trend.

Macroeconomic indicators are provided by the Bank's Research Design Division of the Product Development Department after the indicators have been announced by the relevant data source institution. The International Operations Department reviews the adequacy of the exposure amount of the Singapore branch and the Southeast Asia economic growth rate that it uses, which shall be updated at least once a year. The Department of Budget is the institution from which the domestic economic growth rate and domestic unemployment rate are sourced. The International Monetary Fund is the institution from which the global economic growth rate and the Southeast Asia economic growth rate are sourced.



The total amount of undiscounted ECLs at the time of initial recognition of the credit impaired financial assets - loans which were purchased or originated is as follows:

**June 30, 2018**

Loans \$ 4,705,582

2017

Levels are as follows:

i) Classification of credit assets

The Bank's credit assets are grouped into five categories. Except for normal credit assets, the remaining unsound credit assets are evaluated based on the status of the loan collateral and the length of time overdue, and grouped into "special-mentioned", "substandard", and "losses".

In order to manage problematic credit loans, the Bank has set up "Operating Points of Assets Assessment", "Assessment Operating Details of Handling Debts to Normal Borrowers", "Principle of Overdue Loans, Delinquent Loans and Doubtful Debts Handling Authority", "Regulations Governing Overdue Loans, Delinquent Loans and Doubtful Collection" and other regulations managing credit loans and collection of loans.

ii) Credit quality level

For risk management purposes, the Bank has set up internal rating models for credit risks in accordance with the nature and scale of a business.

With the use of statistical method and judgment by experts, the Bank has developed a credit rating model for clients. After taking into account client-related information, the Bank developed a corporate credit rating model and classified as 21 levels. The Bank reviews the model periodically to examine if the outcome matches reality and adjusts each parameter to optimize the result.

The Bank evaluates the credit rating of borrowers at least once a year. In addition, to ensure the estimates used are reasonable and to make sure the outcome calculated matches reality, the Bank annually conducts validity test and back-testing of the models using data on customers' actual defaults.

The Bank classifies the credit qualities of corporate loans as strong, medium, weak and non-rating.

The Bank developed a scoring model for housing loans, credit loans and credit card applications by statistical method and by the judgment of experts to measure the credit risk of consumer finance. The loan reviewer would get advice from the scoring result. The scoring result is classified in 10 percentile range. The Bank reviews semi-annually the stability of the scoring model to maintain the effectiveness semi-annually.

ii. Call loans to banks

The Bank evaluates the credit status of counterparties before deals are closed. The Bank grants different limits to counterparties based on their respective credit ratings as suggested by domestic and foreign credit rating agencies. The Bank assesses the credit limits of counterparties by level and financial status; the Bank efficiently manages counterparties' credit risks through regular and special reviews, monitoring and reporting. Additionally, in accordance with the application of IFRS 9, the Bank performs credit impairment assessments for call loans to banks, transfers the related credit losses to each of the three stages of credit impairment, and measures the related expected credit loss, so as to ensure adequate allowance for losses, in accordance with regulations.

iii. Debt instruments and derivative financial instruments

The Bank identifies and manages the credit risks from debt instruments through the use of external credit ratings of the debt instruments along with the evaluation of credit qualities of bonds, regional conditions and counterparty risks.

The other banks with which the Bank conducts derivative transactions are mostly considered investment grade. The Bank monitors the credit limits (including lending limits) by counterparties. The credits extended to counterparties who are general customers are monitored in accordance with the related contract terms and conditions and the credit limits for derivatives established in normal credit granting processes.

The Bank classifies the credit qualities of debt instruments as strong, medium, weak and non-rating.

A change in an external credit rating announced by international credit rating institutions (e.g. S&P and Moody's) is one of the quantitative indicators for judging a significant increase in the credit risk of financial assets at amortized cost and investments in debt instruments at FVTOCI. The measurement of ECL is calculated using the PD and LGD announced periodically by international credit rating institutions. The international credit rating institutions consider forward-looking information when establishing credit ratings. Thus, when the Bank measures ECL using such credit ratings it holds that an adequate evaluation of the forward-looking information, which was used by the institutions for establishing such credit rating, is inherent therein.

c) Credit risk hedging or mitigation policies

i. Collateral

The Bank has a series of measures for credit granting to reduce credit risks. One of the procedures is asking for collateral from the borrowers. To secure the loans, the Bank manages and assesses the collateral following the procedures that suggest the scope of collateralization and valuation of collateral and the process of disposition. In credit contracts, the Bank stipulates the security mechanism for loans and the conditions and terms for collateral offsetting to state clearly that the Bank reserves the right to reduce granted limit, to reduce repayment period, to demand immediate settlement or to offset the debts of the borrowers with their deposits in the Bank in order to reduce the Bank's credit risks.

ii. Credit line credit risks and control over concentration of credit risks

To avoid the concentration of credit risks, the Bank has included credit limits for a single counterparty and for a single group in its credit-related guidelines. The Bank has also included credit limits for an individual (entity) and for related enterprises (group) in the guidelines for investment and regulations for risk control on equity investments. To manage the concentration risk on the assets, the Bank has set credit limits by industry, conglomerate, transactions collateralized by stocks, and other categories and integrated within one system to supervise concentration of credit risk in these categories.

The table below analyzes the collateral held as security and other credit enhancements, and their financial effect in respect of the financial assets recognized in the Bank's balance sheet:

June 30, 2018

	Carrying Amount	Maximum Exposure to Credit Risk Mitigated by			Total
		Collateral	Master Netting Arrangement	Other Credit Enhancements	
Discounts and loans	\$ 1,386,691,873	\$ 905,998,506	\$ -	\$ -	\$ 905,998,506
Financial assets at FVTPL	12,252,876	779,732	-	-	779,732
Investments in debt instruments at FVTOCI	82,098,235	2,538,103	-	-	2,538,103
Investments in debt instruments at amortized cost	268,726,746	1,347,256	-	-	1,347,256

The carrying amount of financial assets with maximum exposure is as follow:

	Discounts and Loans			
	June 30, 2018			
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses	Total
Credit rating				
Levels 1-15	\$ 835,110,474	\$ 358,538	\$ -	\$ 835,469,012
Levels 16-18	-	42,976,599	2,840,409	45,817,008
Levels 19-21	-	-	9,500,143	9,500,143
No rating	<u>492,120,467</u>	<u>1,606,667</u>	<u>2,178,576</u>	<u>495,905,710</u>
Total carrying amount	<u>\$ 1,327,230,941</u>	<u>\$ 44,941,804</u>	<u>\$ 14,519,128</u>	<u>\$ 1,386,691,873</u>
Expected credit losses	1,826,012	1,569,411	5,656,185	9,051,608
Recognized impairment based on the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing Loans and Bad Debts				<u>7,565,283</u>
				<u>\$ 16,616,891</u>

	Guarantee Payments			
	June 30, 2018			
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses	Total
Carrying amount	\$ 40,840,173	\$ 195,627	\$ 131,141	\$ 41,166,941
Expected credit losses	147,702	3,739	44,882	196,323

<b>Loan Commitments</b>				
<b>June 30, 2018</b>				
	<b>Stage 1 12-month Expected Credit Losses</b>	<b>Stage 2 Lifetime Expected Credit Losses</b>	<b>Stage 3 Lifetime Expected Credit Losses</b>	<b>Total</b>
Carrying amount - non-cancellable	\$ 76,843,834	\$ 2,908,304	\$ 21,807	\$ 79,773,945
Carrying amount - cancellable	<u>603,248,111</u>	<u>8,010,196</u>	<u>1,021,537</u>	<u>612,279,844</u>
Subtotal	<u>\$ 680,091,945</u>	<u>\$ 10,918,500</u>	<u>\$ 1,043,344</u>	<u>\$ 692,053,789</u>
Expected credit losses - non-cancellable	\$ 76,298	\$ 16,675	\$ 7,789	\$ 100,762
Expected credit losses - cancellable	<u>262,788</u>	<u>76</u>	<u>1,549</u>	<u>264,413</u>
Subtotal	<u>\$ 339,086</u>	<u>\$ 16,751</u>	<u>\$ 9,338</u>	<u>\$ 365,175</u>

### December 31, 2017

<b>Maximum Exposure to Credit Risk Mitigated by</b>				
	<b>Collateral</b>	<b>Master Netting Arrangement</b>	<b>Other Credit Enhancements</b>	<b>Total</b>
Discounts and loans	\$ 907,832,465	\$ -	\$ -	\$ 907,832,465
Financial assets at FVTPL	1,628,170	-	-	1,628,170
Available-for-sale financial assets	3,343,666	-	-	3,343,666
Held-to-maturity financial assets	1,049,985	-	-	1,049,985

### June 30, 2017

<b>Maximum Exposure to Credit Risk Mitigated by</b>				
	<b>Collateral</b>	<b>Master Netting Arrangement</b>	<b>Other Credit Enhancements</b>	<b>Total</b>
Discounts and loans	\$ 891,890,106	\$ -	\$ -	\$ 891,890,106
Financial assets at FVTPL	8,708,872	-	-	8,708,872
Available-for-sale financial assets	3,351,724	-	-	3,351,724
Held-to-maturity financial assets	1,299,972	-	-	1,299,972

#### d) Maximum exposure to credit risk

The maximum credit risk exposures of various financial instruments held by the Bank are the same as per book amounts. Refer to the notes to the financial statements.

As of June 30, 2018, December 31, 2017 and June 30, 2017, the maximum exposure to credit risk (before deducting the guarantees or other credit enhancement instruments and the irrepealably maximum amount of exposure) were as follows:

<b>Financial Instrument Type</b>	<b>June 30, 2018</b>	<b>December 31, 2017</b>	<b>June 30, 2017</b>
Unused loan commitments (excluding credit card)	\$ 79,773,945	\$ 82,204,969	\$ 82,501,359
Credit card commitments	394,462	333,092	338,791
Unused issued letters of credit	24,191,878	24,509,270	23,382,832
Guarantees in guarantee business	41,166,941	40,993,464	40,626,564

e) Situation of credit risk concentration

Prominent concentration of credit risks occurs when transaction parties for financial instruments prominently concentrate on one party, or on a few that are in similar business lines or exhibit similar economic characteristics. The characteristics of concentration of credit risks include the nature of business activities engaged by debtors. The Bank has not engaged in transactions that involved a prominent concentration to one client or one transaction party, but has engaged in transaction parties of similar industry type or from similar region.

The Bank's information on prominent concentration of credit risk was as follows:

Industry Type	June 30, 2018	
	Carrying Amount	Percentage of Item (%)
Financial and insurance	\$ 63,484,992	5
Manufacturing	350,546,478	25
Wholesale and retail	122,838,023	9
Real estate and leasing	104,823,547	7
Service	43,348,572	3
Individuals	453,615,229	33
Others	248,035,032	18
	<u>\$ 1,386,691,873</u>	

Industry Type	December 31, 2017	
	Carrying Amount	Percentage of Item (%)
Financial and insurance	\$ 63,727,242	5
Manufacturing	346,068,730	24
Wholesale and retail	121,573,560	9
Real estate and leasing	106,791,248	8
Service	42,254,353	3
Individuals	460,827,924	33
Others	252,164,582	18
	<u>\$ 1,393,407,639</u>	

Industry Type	June 30, 2017	
	Carrying Amount	Percentage of Item (%)
Financial and insurance	\$ 63,353,265	5
Manufacturing	338,217,959	25
Wholesale and retail	119,928,756	9
Real estate and leasing	102,627,614	8
Service	40,603,806	3
Individuals	453,467,982	33
Others	238,102,160	17
	<u>\$ 1,356,301,542</u>	

	<b>June 30, 2018</b>	
<b>Geographic Location</b>	<b>Carrying Amount</b>	<b>Percentage of Item (%)</b>
Asia	\$ 1,278,895,382	93
America	85,837,841	6
Europe	16,298,221	1
Others	<u>5,660,429</u>	-
	<u>\$ 1,386,691,873</u>	

	<b>December 31, 2017</b>	
<b>Geographic Location</b>	<b>Carrying Amount</b>	<b>Percentage of Item (%)</b>
Asia	\$ 1,331,401,566	96
America	45,125,881	3
Europe	15,557,266	1
Others	<u>1,322,926</u>	-
	<u>\$ 1,393,407,639</u>	

	<b>June 30, 2017</b>	
<b>Geographic Location</b>	<b>Carrying Amount</b>	<b>Percentage of Item (%)</b>
Asia	\$ 1,291,568,691	95
America	44,894,183	4
Europe	18,405,839	1
Others	<u>1,432,829</u>	-
	<u>\$ 1,356,301,542</u>	

	<b>June 30, 2018</b>	
<b>Securities Type</b>	<b>Carrying Amount</b>	<b>Percentage of Item (%)</b>
Unsecured	\$ 480,693,367	35
Secured		
Properties	752,603,392	54
Others	<u>153,395,114</u>	11
	<u>\$ 1,386,691,873</u>	

<b>Securities Type</b>	<b>December 31, 2017</b>	
	<b>Carrying Amount</b>	<b>Percentage of Item (%)</b>
Unsecured	\$ 485,575,174	35
Secured		
Properties	756,683,671	54
Others	<u>151,148,794</u>	11
	<u>\$ 1,393,407,639</u>	
<b>Securities Type</b>	<b>June 30, 2017</b>	
	<b>Carrying Amount</b>	<b>Percentage of Item (%)</b>
Unsecured	\$ 464,411,436	34
Secured		
Properties	740,210,147	55
Others	<u>151,679,959</u>	11
	<u>\$ 1,356,301,542</u>	

f) Financial assets credit quality and non-performing impairment analysis

Part of financial assets held by the Bank, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at FVTPL, securities investments purchased under resell agreements, deposit refunds, operating deposits, and settlement deposits are exposed to low credit risks because the counterparties have rather high credit ratings.

Besides the above, the credit quality analyses of other financial assets were as follows:

i. Credit quality analysis of loans and receivables

(In Thousands of New Taiwan Dollars)

Item	December 31, 2017										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
<u>In-balance-sheet items</u>											
Receivables	\$ 7,277,403	\$ 7,133,960	\$ 262,378	\$ 9,677,649	\$ 24,351,390	\$ 6,675	\$ 893,291	\$ 25,251,356	\$ 402,793	\$ 178,540	\$ 24,670,023
Credit cards	-	-	-	1,767,829	1,767,829	-	27,073	1,794,902	13,470	5,132	1,776,300
Other	7,277,403	7,133,960	262,378	7,909,820	22,583,561	6,675	866,218	23,456,454	389,323	173,408	22,893,723
Discounts and loans	312,155,722	775,041,018	178,227,169	112,492,548	1,377,916,457	2,423,763	13,067,419	1,393,407,639	4,821,541	11,545,438	1,377,040,660

(In Thousands of New Taiwan Dollars)

Item	June 30, 2017										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
<u>In-balance-sheet items</u>											
Receivables	\$ 6,132,873	\$ 5,564,192	\$ 178,065	\$ 9,581,473	\$ 21,456,603	\$ 8,537	\$ 499,751	\$ 21,964,891	\$ 427,475	\$ 122,155	\$ 21,415,261
Credit cards	-	-	-	2,929,250	2,929,250	-	29,059	2,958,309	10,349	8,600	2,939,360
Other	6,132,873	5,564,192	178,065	6,652,223	18,527,353	8,537	470,692	19,006,582	417,126	113,555	18,475,901
Discounts and loans	334,691,316	728,968,392	169,354,644	107,681,381	1,340,695,733	2,532,598	13,073,211	1,356,301,542	4,417,732	11,537,487	1,340,346,323



- ii. Credit quality analysis of loans neither past due nor impaired based on credit ratings of clients

(In Thousands of New Taiwan Dollars)

Item	December 31, 2017				
	Neither Past Due Nor Impaired				
	High	Medium	Weak	Non-ratings	Total
Consumer finance	\$ 79,446,798	\$ 178,875,718	\$ 135,582,083	\$ 63,257,678	\$ 457,162,277
Corporation finance	232,708,924	596,165,300	42,645,086	49,234,870	920,754,180
Total	\$ 312,155,722	\$ 775,041,018	\$ 178,227,169	\$ 112,492,548	\$ 1,377,916,457

(In Thousands of New Taiwan Dollars)

Item	June 30, 2017				
	Neither Past Due Nor Impaired				
	High	Medium	Weak	Non-ratings	Total
Consumer finance	\$ 79,420,123	\$ 172,514,404	\$ 139,204,484	\$ 58,417,691	\$ 449,556,702
Corporation finance	255,271,193	556,453,988	30,150,160	49,263,690	891,139,031
Total	\$ 334,691,316	\$ 728,968,392	\$ 169,354,644	\$ 107,681,381	\$ 1,340,695,733

iii. Credit quality analysis of non-credit financial assets

(In Thousands of New Taiwan Dollars)

Item	December 31, 2017										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
Available-for-sale financial assets	\$ 73,009,452	\$ -	\$ -	\$ 136,434	\$ 73,145,886	\$ -	\$ 150,000	\$ 73,295,886	\$ 120,000	\$ -	\$ 73,175,886
Bonds	67,825,230	-	-	136,434	67,961,664	-	-	67,961,664	-	-	67,961,664
Stocks	3,613,572	-	-	-	3,613,572	-	150,000	3,763,572	120,000	-	3,643,572
Bills	1,570,650	-	-	-	1,570,650	-	-	1,570,650	-	-	1,570,650
Held-to-maturity financial assets	237,412,046	-	-	-	237,412,046	-	-	237,412,046	-	-	237,412,046
Bonds	9,883,326	-	-	-	9,883,326	-	-	9,883,326	-	-	9,883,326
Bills	227,528,720	-	-	-	227,528,720	-	-	227,528,720	-	-	227,528,720
Other financial assets	64,609	-	-	-	64,609	-	137,111	201,720	137,111	-	64,609
Securities	64,609	-	-	-	64,609	-	(Note)	201,720	137,111	-	64,609
							(Note)				

Note: Cost on the reclassification date.

(In Thousands of New Taiwan Dollars)

Item	June 30, 2017										
	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	High	Medium	Weak	Non-ratings	Subtotal (A)				Objective Evidence of Impairment	Nonobjective Evidence of Impairment	
Available-for-sale financial assets	\$ 80,255,547	\$ -	\$ -	\$ 134,051	\$ 80,389,598	\$ -	\$ 150,000	\$ 80,539,598	\$ 120,000	\$ -	\$ 80,419,598
Bonds	74,963,776	-	-	134,051	75,097,827	-	-	75,097,827	-	-	75,097,827
Stocks	3,709,656	-	-	-	3,709,656	-	150,000	3,859,656	120,000	-	3,739,656
Bills	1,582,115	-	-	-	1,582,115	-	-	1,582,115	-	-	1,582,115
Held-to-maturity financial assets	217,334,897	-	-	-	217,334,897	-	-	217,334,897	-	-	217,334,897
Bonds	13,429,897	-	-	-	13,429,897	-	-	13,429,897	-	-	13,429,897
Bills	203,905,000	-	-	-	203,905,000	-	-	203,905,000	-	-	203,905,000
Other financial assets	75,804	-	-	-	75,804	-	140,534	216,338	140,534	-	75,804
Securities	75,804	-	-	-	75,804	-	(Note)	216,338	140,534	-	75,804
							(Note)				

Note: Cost on the reclassification date.

g) Aging analysis of financial assets that are past due but not impaired

The aging analyses of financial assets that were past due but not impaired of the Bank were as follows:

(In Thousands of New Taiwan Dollars)

Item	December 31, 2017		
	Past Due Up to One Month	Past Due Over One Month	Total
Discounts and loans			
Consumer finance	\$ 1,500,703	\$ 504,613	\$ 2,005,316
Corporation finance	355,843	62,604	418,447

(In Thousands of New Taiwan Dollars)

Item	June 30, 2017		
	Past Due Up to One Month	Past Due Over One Month	Total
Discounts and loans			
Consumer finance	\$ 1,557,229	\$ 591,156	\$ 2,148,385
Corporation finance	51,495	332,718	384,213

4) Liquidity risk management

a) The definition of liquidity risk

Liquidity risk is the potential loss that the Bank may suffer due to inability to liquidate assets or raise enough funds in reasonable time to perform obligations when due and to meet the demands of assets growth.

b) Liquidity risk management procedures

According to the Bank's liquidity risk management policy, the Bank clearly sets various indicators and limits for liquidity risk. The responsible department should implement operation procedures for funding liquidity, monitor and prepare maturity analysis periodically to assess liquidity risk. In addition, the responsible department should also report to related departments and Asset and Liability Committee to enable them to make appropriate adjustments to meet the needs of liquidity. Related information about the liquidity risk assessment should be reported to the board of directors to let the high-level management understand the Bank's funding liquidity.

As of June 30, 2018 and 2017, the ratio of the liquidity reserve was 19.28% and 17.24%, respectively. Since the capital and working funds are deemed sufficient to meet the cash flow needs for performance of all contracted obligations, liquidity risk is not considered to be significant.

c) Maturity analysis of non-derivative financial assets and liabilities

The Bank adopted appropriate grouping methods, which are based on the nature of non-derivative financial assets and liabilities, to do maturity analysis in order to assess liquidity. The maturity analysis is presented as follows:

(In Thousands of New Taiwan Dollars)

Item	June 30, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity fund inflows						
Cash and cash equivalents	\$ 30,423,498	\$ -	\$ -	\$ -	\$ -	\$ 30,423,498
Due from the Central Bank and call loans to banks	51,815,181	4,047,445	4,999,102	6,215,312	25,566,813	92,643,853
Financial assets at FVTPL	3,426,265	-	-	-	-	3,426,265
Receivables	17,551,086	1,163,173	577,896	201,095	133,849	19,627,099
Discounts and loans	89,917,904	113,730,856	163,296,938	147,694,060	638,992,230	1,153,631,988
Investments in equity instruments designated at FVTOCI	-	-	-	-	11,847,237	11,847,237
Investments in debt instruments at FVTOCI	-	-	-	2,713,132	27,777,119	30,490,251
Investments in debt instruments at amortized cost	135,230,000	17,255,311	12,769,926	19,639,016	35,752,895	220,647,148
Other maturity fund inflow items	-	-	-	-	14,307,370	14,307,370
	<u>328,363,934</u>	<u>136,196,785</u>	<u>181,643,862</u>	<u>176,462,615</u>	<u>754,377,513</u>	<u>1,577,044,709</u>
Major maturity fund outflows						
Deposits from the Central Bank and banks	207,954	755,622	235,610	272,203	-	1,471,389
Due to the Central Bank and banks	29,755,000	10,000	-	-	-	29,765,000
Securities sold under repurchase agreements	1,171,783	1,362,541	27,873	-	-	2,562,197
Payables	33,746,330	5,677,463	635,525	697,711	1,476,126	42,233,155
Deposits and remittances	110,131,336	120,402,718	149,080,810	185,350,028	702,042,406	1,267,007,298
Bank notes payable	-	-	-	-	46,300,000	46,300,000
Other maturity fund outflow items	48,500	53,687	122,734	235,190	5,786,865	6,246,976
	<u>175,060,903</u>	<u>128,262,031</u>	<u>150,102,552</u>	<u>186,555,132</u>	<u>755,605,397</u>	<u>1,395,586,015</u>
Gap	\$ 153,303,031	\$ 7,934,754	\$ 31,541,310	\$ (10,092,517)	\$ (1,227,884)	\$ 181,458,694

Note: The amounts listed above were the position in N.T. dollars of the Bank.

(In Thousands of New Taiwan Dollars)

Item	December 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity fund inflows						
Cash and cash equivalents	\$ 28,912,151	\$ -	\$ -	\$ -	\$ -	\$ 28,912,151
Due from the Central Bank and call loans to banks	22,398,964	4,242,332	4,522,731	6,415,219	26,437,948	64,017,194
Financial assets at FVTPL	4,433,958	-	-	-	-	4,433,958
Receivables	19,766,884	730,071	306,194	193,935	108,942	21,106,026
Discounts and loans	81,827,276	97,522,019	100,427,241	221,143,186	649,841,523	1,150,761,245
Available-for-sale financial assets	-	-	200,529	-	25,641,718	25,842,247
Held-to-maturity financial assets	135,400,000	11,299,925	1,900,000	26,056,625	22,960,156	197,616,706
Financial assets at cost	-	-	-	-	4,167,009	4,167,009
Other maturity fund inflow items	-	-	-	-	14,284,047	14,284,047
	<u>292,739,233</u>	<u>113,794,347</u>	<u>107,356,695</u>	<u>253,808,965</u>	<u>743,441,343</u>	<u>1,511,140,583</u>
Major maturity fund outflows						
Deposits from the Central Bank and banks	342,687	387,501	193,728	1,021,788	-	1,945,704
Due to the Central Bank and banks	5,000	10,000	-	-	-	15,000
Securities sold under repurchase agreements	1,055,027	1,998,018	65,491	-	-	3,118,536
Payables	29,525,996	1,982,198	369,816	1,302,936	1,232,378	34,413,324
Deposits and remittances	118,393,919	126,047,639	134,696,322	191,058,518	697,288,694	1,267,485,092
Bank notes payable	-	2,200,000	-	-	39,300,000	41,500,000
Other maturity fund outflow items	53,280	49,487	64,243	300,450	5,503,024	5,970,484
	<u>149,375,909</u>	<u>132,674,843</u>	<u>135,389,600</u>	<u>193,683,692</u>	<u>743,324,096</u>	<u>1,354,448,140</u>
Gap	\$ 143,363,324	\$ (18,880,496)	\$ (28,032,905)	\$ 60,125,273	\$ 117,247	\$ 156,692,443

Note: The amounts listed above were the position in N.T. dollars of the Bank.

(In Thousands of New Taiwan Dollars)

Item Item	June 30, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity fund inflows						
Cash and cash equivalents	\$ 16,984,547	\$ -	\$ -	\$ -	\$ -	\$ 16,984,547
Due from the Central Bank and call loans to banks	31,112,225	4,205,733	4,818,001	6,151,419	23,668,743	69,956,121
Financial assets at FVTPL	12,592,523	-	-	-	-	12,592,523
Receivables	19,820,073	764,153	536,771	180,764	105,019	21,406,780
Discounts and loans	85,831,421	100,184,793	136,229,855	145,547,863	641,841,689	1,109,635,621
Available-for-sale financial assets	-	-	-	201,151	33,187,332	33,388,483
Held-to-maturity financial assets	147,230,021	5,300,000	4,734,856	7,599,734	12,562,881	177,427,492
Financial assets at cost	-	-	-	-	4,167,009	4,167,009
Other maturity fund inflow items	-	-	-	-	13,914,925	13,914,925
	<u>313,570,810</u>	<u>110,454,679</u>	<u>146,319,483</u>	<u>159,680,931</u>	<u>729,447,598</u>	<u>1,459,473,501</u>
Major maturity fund outflows						
Deposits from the Central Bank and banks	201,244	763,102	488,814	772,495	-	2,225,655
Due to the Central Bank and banks	5,000	10,000	-	-	-	15,000
Securities sold under repurchase agreements	968,047	2,169,479	56,266	-	-	3,193,792
Payables	19,251,957	4,912,439	575,906	606,189	1,446,011	26,792,502
Deposits and remittances	110,285,253	129,260,785	148,431,416	189,510,913	666,802,182	1,244,290,549
Bank notes payable	-	-	-	2,200,000	39,300,000	41,500,000
Other maturity fund outflow items	43,914	52,465	54,959	195,416	5,337,094	5,683,848
	<u>130,755,415</u>	<u>137,168,270</u>	<u>149,607,361</u>	<u>193,285,013</u>	<u>712,885,287</u>	<u>1,323,701,346</u>
Gap	\$ 182,815,395	\$ (26,713,591)	\$ (3,287,878)	\$ (33,604,082)	\$ 16,562,311	\$ 135,772,155

Note: The amounts listed above were the position in N.T. dollars of the Bank.

(In Thousands of United States Dollars)

Item	June 30, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity fund inflows						
Cash and cash equivalents	\$ 680,267	\$ 15,000	\$ -	\$ -	\$ -	\$ 695,267
Due from the Central Bank and call loans to banks	1,579,022	687,929	131,293	61,946	3,603	2,463,793
Financial assets at FVTPL	12,070	-	-	-	-	12,070
Receivables	588,046	139,463	199,478	8,038	15,377	950,402
Discounts and loans	479,674	687,287	580,433	515,384	3,417,364	5,680,142
Investments in debt instruments at FVTOCI	230	-	5,009	23,057	807,182	835,478
Investments in debt instruments at amortized cost	-	-	-	12,072	282,850	294,922
Other maturity fund inflow items	5,000	-	110,010	708,000	15,444	838,454
	<u>3,344,309</u>	<u>1,529,679</u>	<u>1,026,223</u>	<u>1,328,497</u>	<u>4,541,820</u>	<u>11,770,528</u>
Major maturity fund outflows						
Deposits from the Central Bank and banks	795,485	507	660	1,281	85	798,018
Due to the Central Bank and banks	1,520,079	394,000	100,000	(20,000)	-	1,994,079
Financial liabilities at FVTPL	-	-	-	-	289,513	289,513
Payables	638,029	39,419	3,276	4,130	2,758	687,612
Deposits and remittances	2,116,912	2,370,642	1,091,007	1,588,126	2,986,335	10,153,022
Other maturity fund outflow items	49,309	1,203	605	534	157,783	209,434
	<u>5,119,814</u>	<u>2,805,771</u>	<u>1,195,548</u>	<u>1,574,071</u>	<u>3,436,474</u>	<u>14,131,678</u>
Gap	\$ (1,775,505)	\$ (1,276,092)	\$ (169,325)	\$ (245,574)	\$ 1,105,346	\$ (2,361,150)

Note: The amounts listed above were the position in U.S. dollars of the Bank.

(In Thousands of United States Dollars)

Item	December 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity fund inflows						
Cash and cash equivalents	\$ 953,081	\$ 230,010	\$ -	\$ -	\$ -	\$ 1,183,091
Due from the Central Bank and call loans to banks	1,632,074	1,043,514	256,031	71,400	3,934	3,006,953
Financial assets at FVTPL	194,338	-	-	-	-	194,338
Receivables	486,234	97,299	282,369	11,127	13,972	891,001
Discounts and loans	717,742	681,847	568,695	448,186	3,775,783	6,192,253
Available-for-sale financial assets	9,098	4,998	970	12,052	524,918	552,036
Held-to-maturity financial assets	-	-	-	-	17,979	17,979
Investments in debt instruments without active market	-	-	-	-	2,177	2,177
Other maturity fund inflow items	5,000	-	-	300,000	13,694	318,694
	<u>3,997,567</u>	<u>2,057,668</u>	<u>1,108,065</u>	<u>842,765</u>	<u>4,352,457</u>	<u>12,358,522</u>
Major maturity fund outflows						
Deposits from the Central Bank and banks	877,668	100,720	991	1,947	85	981,411
Due to the Central Bank and banks	1,447,290	410,000	55,000	-	-	1,912,290
Financial liabilities at FVTPL	-	-	-	-	295,124	295,124
Payables	722,271	58,958	2,434	2,679	1,049	787,391
Deposits and remittances	2,240,560	2,287,546	966,947	1,415,605	3,467,837	10,378,495
Other maturity fund outflow items	81,451	1,308	135	544	71,489	154,927
	<u>5,369,240</u>	<u>2,858,532</u>	<u>1,025,507</u>	<u>1,420,775</u>	<u>3,835,584</u>	<u>14,509,638</u>
Gap	\$ (1,371,673)	\$ (800,864)	\$ 82,558	\$ (578,010)	\$ 516,873	\$ (2,151,116)

Note: The amounts listed above were the position in U.S. dollars of the Bank.

(In Thousands of United States Dollars)

Item	June 30, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity fund inflows						
Cash and cash equivalents	\$ 394,328	\$ 26,000	\$ -	\$ -	\$ -	\$ 420,328
Due from the Central Bank and call loans to banks	1,538,574	1,329,005	901,420	226,266	3,731	3,998,996
Financial assets at FVTPL	174,188	-	-	-	-	174,188
Receivables	353,785	89,366	174,534	7,179	14,153	639,017
Discounts and loans	515,942	636,424	505,929	449,739	4,076,824	6,184,858
Available-for-sale financial assets	-	-	-	19,116	493,176	512,292
Held-to-maturity financial assets	-	5,000	13,013	5,000	8,002	31,015
Investments in debt instruments without active market	-	-	-	-	2,492	2,492
Other maturity fund inflow items	-	-	10,000	10,000	4,993	24,993
	<u>2,976,817</u>	<u>2,085,795</u>	<u>1,604,896</u>	<u>717,300</u>	<u>4,603,371</u>	<u>11,988,179</u>
Major maturity fund outflows						
Deposits from the Central Bank and banks	912,723	20,568	731	1,416	20,220	955,658
Due to the Central Bank and banks	1,530,848	518,000	85,000	-	(50,000)	2,083,848
Financial liabilities at FVTPL	-	-	111,047	-	288,400	399,447
Payables	667,372	22,484	2,439	1,860	1,960	696,115
Deposits and remittances	1,826,519	1,869,314	1,283,088	1,253,964	3,304,099	9,536,984
Other maturity funds outflow items	36,642	237	622	40	90,854	128,395
	<u>4,974,104</u>	<u>2,430,603</u>	<u>1,482,927</u>	<u>1,257,280</u>	<u>3,655,533</u>	<u>13,800,447</u>
Gap	\$ (1,997,287)	\$ (344,808)	\$ 121,969	\$ (539,980)	\$ 947,838	\$ (1,812,268)

Note: The amounts listed above were the position in U.S. dollars of the Bank.

d) Maturity analysis of derivative financial assets and liabilities

The derivative instruments held by the Bank, except for interest rate swaps with leveraging effects, have very little probabilities of failing to be sold with reasonable prices in the market, and thus have very low liquidity risks.

(New Taiwan Dollars and Foreign Currencies Combined In Thousands of New Taiwan Dollars)

Item	June 30, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	\$ 122,992,780	\$ 220,828,015	\$ 72,224,146	\$ 17,914,830	\$ 17,639	\$ 433,977,410
Inflows	124,331,390	221,995,857	72,858,231	18,363,025	17,072	437,565,575
Interest rate derivative instruments						
Outflows	257,804	-	2,402,640	1,199,620	408	3,860,472
Inflows	166,224	-	2,446,000	1,199,620	194,488	4,006,332
Total outflows	\$ 123,250,584	\$ 220,828,015	\$ 74,626,786	\$ 19,114,450	\$ 18,047	\$ 437,837,882
Total inflows	\$ 124,497,614	\$ 221,995,857	\$ 75,304,231	\$ 19,562,645	\$ 211,560	\$ 441,571,907

(New Taiwan Dollars and Foreign Currencies Combined In Thousands of New Taiwan Dollars)

Item	December 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	\$ 120,859,728	\$ 156,839,908	\$ 47,570,615	\$ 18,935,732	\$ 199,286	\$ 344,405,269
Inflows	120,598,473	156,620,802	47,629,827	19,011,186	199,674	344,059,962
Interest rate derivative instruments						
Outflows	2,406,380	1,825,320	6,532,677	2,402,640	-	13,167,017
Inflows	2,794,970	1,998,800	6,423,107	2,374,400	25,672	13,616,949
Total outflows	\$ 123,266,108	\$ 158,665,228	\$ 54,103,292	\$ 21,338,372	\$ 199,286	\$ 357,572,286
Total inflows	\$ 123,393,443	\$ 158,619,602	\$ 54,052,934	\$ 21,385,586	\$ 225,346	\$ 357,676,911

(New Taiwan Dollars and Foreign Currencies Combined In Thousands of New Taiwan Dollars)

Item	June 30, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	\$ 92,401,407	\$ 167,124,373	\$ 56,596,740	\$ 13,839,676	\$ 359,641	\$ 330,321,837
Inflows	93,018,524	167,632,783	56,576,202	13,783,112	359,871	331,370,492
Interest rate derivative instruments						
Outflows	2,044,821	5,893,320	6,750,055	9,618,057	-	24,306,253
Inflows	2,322,026	5,488,120	6,905,141	9,819,897	196,093	24,731,277
Total outflows	\$ 94,446,228	\$ 173,017,693	\$ 63,346,795	\$ 23,457,733	\$ 359,641	\$ 354,628,090
Total inflows	\$ 95,340,550	\$ 173,120,903	\$ 63,481,343	\$ 23,603,009	\$ 555,964	\$ 356,101,769

e) Maturity analysis of off-balance-sheet items

Bank's off-balance-sheet items - irrevocable loans, guarantees, and letters of credit - presented based on the residual time from the balance sheet date to the maturity date were as follows:

(In Thousands of New Taiwan Dollars)

Item	June 30, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	\$ 61,309,639	\$ 1,866,530	\$ 903,750	\$ 5,712,990	\$ 9,981,036	\$ 79,773,945
Credit card commitments	-	3,724	2,644	6,789	381,305	394,462
Letters of credit issued yet unused	23,985,691	194,400	11,787	-	-	24,191,878
Guarantees	39,148,687	35,196	590,411	977,660	414,987	41,166,941
	\$ 124,444,017	\$ 2,099,850	\$ 1,508,592	\$ 6,697,439	\$ 10,777,328	\$ 145,527,226

(In Thousands of New Taiwan Dollars)

Item	December 31, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	\$ 59,747,283	\$ 1,782,452	\$ 2,911,839	\$ 4,235,833	\$ 13,527,562	\$ 82,204,969
Credit card commitments	-	859	4,506	7,684	320,043	333,092
Letters of credit issued yet unused	24,423,176	81,313	4,781	-	-	24,509,270
Guarantees	39,061,752	278,791	201,587	802,013	649,321	40,993,464
	\$ 123,232,211	\$ 2,143,415	\$ 3,122,713	\$ 5,045,530	\$ 14,496,926	\$ 148,040,795

(In Thousands of New Taiwan Dollars)

Item	June 30, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	\$ 61,272,720	\$ 1,432,298	\$ 1,081,336	\$ 5,932,855	\$ 12,782,150	\$ 82,501,359
Credit card commitments	-	279	2,106	7,616	328,790	338,791
Letters of credit issued yet unused	23,194,960	167,700	20,172	-	-	23,382,832
Guarantees	38,807,834	76,238	542,890	550,372	649,230	40,626,564
	\$ 123,275,514	\$ 1,676,515	\$ 1,646,504	\$ 6,490,843	\$ 13,760,170	\$ 146,849,546



### 38. OTHER DISCLOSURES OF FINANCIAL INSTITUTION

#### a. Asset quality

Item		June 30, 2018					June 30, 2017				
		Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)	Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)
Corporate finance	Secured	\$ 2,804,338	\$ 460,319,992	0.61%	\$ 5,215,665	185.99%	\$ 2,304,455	\$ 446,459,069	0.52%	\$ 4,924,508	213.70%
	Unsecured	937,570	472,756,616	0.20%	5,358,803	571.56%	463,845	456,374,477	0.10%	5,014,686	1,081.11%
Consumer finance	Mortgage loans (Note d)	1,085,981	273,832,805	0.40%	4,184,483	385.32%	1,102,626	280,167,529	0.39%	4,256,618	386.04%
	Cash cards (Note h)	-	-	-	-	-	-	-	-	-	-
	Credit loans (Note e)	9,376	1,609,163	0.58%	20,798	221.82%	9,794	1,871,975	0.52%	20,636	210.70%
	Others (Note f)	Secured	647,278	176,454,639	0.37%	1,818,360	280.92%	463,387	170,092,683	0.27%	1,724,596
Unsecured		3,382	1,718,658	0.20%	18,782	555.35%	575	1,335,809	0.04%	14,175	2,465.22%
Total		5,487,925	1,386,691,873	0.40%	16,616,891	302.79%	4,344,682	1,356,301,542	0.32%	15,955,219	367.24%

Item		June 30, 2018					June 30, 2017				
		Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)	Non-performing Loans (Note a)	Loans	Non-performing Loans Ratio (Note b)	Allowance for Loan Losses	Coverage Ratio (Note c)
Credit card		\$ 3,754	\$ 2,919,883	0.13%	\$ 20,614	549.12%	\$ 5,745	\$ 2,875,406	0.20%	\$ 22,104	384.75%
No recourse receivable factoring (Note g)		-	11,669,748	-	116,697	-	-	8,562,821	-	85,628	-

Note a: Non-performing loans are classified in accordance with the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Past Due/Non-performing Loans and Bad Debts issued by the MOF. Non-performing loans of credit cards are defined in the Letter issued by the Banking Bureau on July 6, 2005 (Ref. No. Jin-Guan-Yin (4) 0944000378).

Note b: Non-performing loans ratio = Non-performing loan ÷ Loans  
Non-performing loans of credit card ratio = Non-performing loans of credit cards ÷ Accounts receivable

Note c: Coverage ratio of allowances for loan losses = Allowances for loan losses ÷ Non-performing loans  
Coverage ratio of allowance for loan losses of credit card = Allowance for loan losses of credit card ÷ Non-performing loans of credit cards

Note d: Mortgage loans are for borrowers to build or repair buildings, allowing the borrowers, their spouses or their minor children to fully use their buildings as collateral and to mortgage their rights to financial institutions.

Note e: Credit loans are defined in the Letter issued by the Banking Bureau on December 19, 2005 (Ref. No. Jin-Guan-Yin (4) 09440010950), excluding credit loans of credit cards and cash cards.

Note f: The other consumer financial businesses are defined as secured or unsecured consumer financial businesses, excluding mortgage loans, cash cards, credit loans and credit cards.

Note g: In accordance with the Letter issued by the Banking Bureau on July 19, 2005 (Ref. No. Jin-Guan-Yin (5) 094000494) non-recourse receivable factorings are not defined as non-performing loans until compensation from factors or insurance companies are ascertained to be non-recoverable.

Note h: The Bank does not engage in cash cards business.

Item	June 30, 2018		June 30, 2017	
	Non-performing Loans Exempted from Reporting	Non-performing Receivables Exempted from Reporting	Non-performing Loans Exempted from Reporting	Non-performing Receivables Exempted from Reporting
<b>Business Type</b>				
Negotiated loans transacted in accordance with the agreement and exempted from reporting as non-performing loans (Note a)	\$ 7	\$ 1,479	\$ 37	\$ 1,884
Negotiated accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing receivables (Note b)	585	16,542	255	15,079
<b>Total</b>	<b>592</b>	<b>18,021</b>	<b>292</b>	<b>16,963</b>

Note a: Negotiated loans and accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing loans are disclosed in accordance with the Letter issued by Banking Bureau on April 25, 2006 (Ref. No. Jin-Guan-Yin (1) 09510001270).

Note b: Loans and receivables transacted in accordance with debt clearance and renewal regulation and exempted from reporting as non-performing loans or receivables are disclosed in accordance with the Letter issued by Banking Bureau on September 15, 2008 (Ref. No. Jin-Guan-Yin (1) 09700318940).

b. Concentration of credit risk

June 30, 2018			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%) (Note d)
1	A Corporation (railway transportation industry)	\$ 26,783,021	17.75
2	B Group (steel refining industry)	22,293,443	14.78
3	C Group (airline industry)	21,318,117	14.13
4	D Group (synthesis construction industry)	17,876,084	11.85
5	E Group (basic chemical material manufacturing industry)	10,719,139	7.11
6	F Group (real estate development industry)	7,274,540	4.82
7	G Group (steel manufacturing industry)	7,225,617	4.79
8	H Group (financial intermediation industry)	6,464,558	4.29
9	I Group (real estate development industry)	5,587,530	3.70
10	J Group (real estate development industry)	5,494,792	3.64

<b>June 30, 2017</b>			
<b>Rank (Note a)</b>	<b>Transaction Party (Note b)</b>	<b>Loans (Note c)</b>	<b>As Proportion of Net Equity (%) (Note d)</b>
1	A Corporation (railway transportation industry)	\$ 28,554,437	20.46
2	B Group (steel refining industry)	27,182,684	19.48
3	C Group (airline industry)	22,677,684	16.25
4	D Group (synthesis construction industry)	15,077,991	10.81
5	E Group (concrete manufacturing industry)	13,304,132	9.53
6	G Group (steel manufacturing industry)	7,175,015	5.14
7	F Group (real estate development industry)	7,145,000	5.12
8	H Group (financial intermediation industry)	7,009,112	5.02
9	K Group (liquid crystal panel and components manufacturing industry)	5,978,359	4.28
10	L Group (integrated circuit manufacturing industry)	5,602,316	4.01

Note a: Sorted by the balance of loans on June 30, 2018 and 2017, excluding government or state-run business. The number of transaction party which belongs to a group business was included in the balance of group business.

Note b: Transaction party is in accordance with article 6 of the Supplementary Provisions to the Taiwan Stock Exchange Corporation Criteria for Review of Securities Listings.

Note c: Loans include import and export bill negotiations, bills discounted, overdraft, short-term loan, short-term secured loan, receivable financing, medium-term loan, medium-term secured loan, long-term loan, long-term secured loan, delinquent loans, inward remittances, factoring without recourse, acceptance, and guarantee.

Note d: The percentage of loans to equity for the period: Domestic banks should use bank equity to calculate; the Taiwan branch of foreign banks should use branch's equity to calculate.

c. Interest rate sensitivity

(In Thousands of New Taiwan Dollars; %)

<b>Item</b>	<b>June 30, 2018</b>				
	<b>1-90 Days</b>	<b>91-180 Days</b>	<b>181 Days-1 Year</b>	<b>More Than 1 Year</b>	<b>Total</b>
Interest-sensitive assets	\$ 1,305,004,267	\$ 68,763,950	\$ 27,365,810	\$ 120,759,128	\$ 1,521,893,155
Interest-sensitive liabilities	345,346,753	833,907,765	85,521,323	44,159,818	1,308,935,659
Interest sensitivity gap	959,657,514	(765,143,815)	(58,155,513)	76,599,310	212,957,496
Net equity					118,642,088
Ratio of interest-sensitive assets to liabilities					116.27%
Ratio of interest sensitivity gap to net equity					179.50%

(In Thousands of New Taiwan Dollars; %)

<b>Item</b>	<b>June 30, 2017</b>				
	<b>1-90 Days</b>	<b>91-180 Days</b>	<b>181 Days-1 Year</b>	<b>More Than 1 Year</b>	<b>Total</b>
Interest-sensitive assets	\$ 1,256,630,221	\$ 40,312,863	\$ 13,685,684	\$ 97,848,298	\$ 1,408,477,066
Interest-sensitive liabilities	324,923,782	799,953,182	95,550,228	38,694,209	1,259,121,401
Interest sensitivity gap	931,706,439	(759,640,319)	(81,864,544)	59,154,089	149,355,665
Net equity					114,776,831
Ratio of interest-sensitive assets to liabilities					111.86%
Ratio of interest sensitivity gap to net equity					130.13%

Note a: The amounts listed above include accounts in N.T. dollars only (i.e. excluding foreign currency) for both head office and domestic branches.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$   
(N.T. dollars only)

(In Thousands of U.S. Dollars; %)

Item	June 30, 2018				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 10,747,415	\$ 920,595	\$ 855,386	\$ 515,487	\$ 13,038,883
Interest-sensitive liabilities	12,847,558	973,983	1,296,894	20,176	15,138,611
Interest sensitivity gap	(2,100,143)	(53,388)	(441,508)	495,311	(2,099,728)
Net equity					623,558
Ratio of interest-sensitive assets to liabilities					86.13%
Ratio of interest sensitivity gap to net equity					(336.73%)

(In Thousands of U.S. Dollars; %)

Item	June 30, 2017				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 12,811,764	\$ 1,869,635	\$ 275,242	\$ 252,187	\$ 15,208,828
Interest-sensitive liabilities	14,564,682	1,093,062	901,024	20,443	16,579,211
Interest sensitivity gap	(1,752,918)	776,573	(625,782)	231,744	(1,370,383)
Net equity					460,851
Ratio of interest-sensitive assets to liabilities					91.73%
Ratio of interest sensitivity gap to net equity					(297.36%)

Note a: The amounts listed above include accounts in U.S. dollars only for domestic branches, offshore banking unit (“OBU”), and overseas branches, excluding contingent assets and contingent liabilities.

Note b: Interest-sensitive assets and liabilities are interest-earning assets and interest-bearing liabilities with income or cost affected by interest rate fluctuations.

Note c: Interest sensitivity gap = Interest-sensitive assets - Interest-sensitive liabilities

Note d: Ratio of interest-sensitive assets to interest-sensitive liabilities =  $\frac{\text{Interest-sensitive assets}}{\text{Interest-sensitive liabilities}}$   
(U.S. dollars only)

d. Profitability

Item		June 30, 2018	June 30, 2017
Return on total assets	Pretax	0.36%	0.36%
	After tax	0.32%	0.30%
Return on net equity	Pretax	5.05%	5.13%
	After tax	4.44%	4.30%
Profit margin		40.00%	39.37%

Note a: Return on total assets =  $\frac{\text{Income before (after) tax}}{\text{Average assets}}$

Note b: Return on net equity =  $\frac{\text{Income before (after) tax}}{\text{Average net equity}}$

Note c: Profit margin =  $\frac{\text{Income after tax}}{\text{Net revenue and gains}}$

Note d: Profitability presented above is cumulative from January 1 to June 30 of 2018 and 2017, respectively.

e. Maturity analysis of assets and liabilities

(In Thousands of New Taiwan Dollars)

	Total	June 30, 2018					
		Period Remaining until Due Date and Amount Due					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year
Major maturity cash inflows	\$ 1,755,978,093	\$ 181,717,614	\$ 171,734,966	\$ 243,675,057	\$ 201,736,816	\$ 181,860,678	\$ 775,252,962
Major maturity cash outflows	2,293,732,417	131,051,215	152,193,699	359,350,747	304,988,348	434,266,794	911,881,614
Gap	(537,754,324)	50,666,399	19,541,267	(115,675,690)	(103,251,532)	(252,406,116)	(136,628,652)

(In Thousands of New Taiwan Dollars)

	Total	June 30, 2017					
		Period Remaining until Due Date and Amount Due					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 year
Major maturity cash inflows	\$ 1,629,585,782	\$ 184,346,315	\$ 144,957,112	\$ 204,401,376	\$ 172,887,805	\$ 172,170,650	\$ 750,822,524
Major maturity cash outflows	2,113,411,950	88,104,045	132,150,145	337,823,430	285,453,710	408,140,371	861,740,249
Gap	(483,826,168)	96,242,270	12,806,967	(133,422,054)	(112,565,905)	(235,969,721)	(110,917,725)

Note: The amounts listed above include accounts in N.T. dollars only (i.e. excluding foreign currency) for both head office and domestic branches.

(In Thousands of U.S. Dollars)

	Total	June 30, 2018				
		Period Remaining until Due Date and Amount Due				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year
Major maturity cash inflows	\$ 21,672,355	\$ 7,826,751	\$ 4,519,099	\$ 2,575,002	\$ 1,784,308	\$ 4,967,195
Major maturity cash outflows	27,011,630	8,421,102	5,518,413	3,157,479	3,821,374	6,093,262
Gap	(5,339,275)	(594,351)	(999,314)	(582,477)	(2,037,066)	(1,126,067)

(In Thousands of U.S. Dollars)

	Total	June 30, 2017				
		Period Remaining until Due Date and Amount Due				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year
Major maturity cash inflows	\$ 22,032,632	\$ 8,720,177	\$ 4,537,780	\$ 2,854,413	\$ 977,095	\$ 4,943,167
Major maturity cash outflows	27,049,450	9,552,810	4,361,703	3,455,474	3,638,422	6,041,041
Gap	(5,016,818)	(832,633)	176,077	(601,061)	(2,661,327)	(1,097,874)

Note: The amounts listed above include accounts in U.S. dollars for head office, domestic branches, and OBU.

f. Trust accounts

Under Article 3 of the Trust Law, the Bank can offer trust services. The items and amounts of trust accounts as of June 30, 2018 and 2017 were as follows:

	<b>June 30</b>	
	<b>2018</b>	<b>2017</b>
Special purpose trust accounts - domestic	\$ 29,578,010	\$ 23,720,934
Special purpose trust accounts - foreign	75,908,025	76,717,047
Insurance trust	10,666	1,046
Retirement and breeds trust	300,764	324,529
Umbilical-cord-blood trust	10,563,043	9,306,390
Money claim and guarantee trust	68,800	73,800
Marketable securities trust	709,569	3,453,722
Real estate trust	19,245,869	15,448,716
Securities under custody	139,107,388	122,372,404
Other money trust	<u>1,755,683</u>	<u>1,136,393</u>
	<u>\$ 277,247,817</u>	<u>\$ 252,554,981</u>

g. Disclosures on trust assets and liabilities and assets register as required by Enforcement Rules of ROC Trust Law Article 17 were as follows:

<b>Balance Sheet of Trust</b>					
<b>Trust Assets</b>	<b>June 30</b>		<b>Trust Liabilities</b>	<b>June 30</b>	
	<b>2018</b>	<b>2017</b>		<b>2018</b>	<b>2017</b>
Bank deposits	\$ 3,572,616	\$ 3,286,683	Trust capital		
Insurance claims	68,800	73,800	Money trust	\$ 117,748,119	\$ 111,028,287
Financial assets			Insurance claims	68,800	73,800
Common stocks	1,632,238	3,889,745	Marketable securities trust	708,044	3,452,302
Mutual funds	114,028,420	106,605,680	Real estate trust	19,264,462	15,457,516
Bonds	2,874,850	2,341,724	Securities under custody		
Prepayments	2,490	1,242	payable	139,107,388	122,372,404
Land	10,093,215	8,438,969	With holdings	152	61
Buildings	597,410	630,352	Profit and loss	149,854	106,107
Construction in progress	5,270,390	4,914,382	Unappropriated retained		
Securities under custody	<u>139,107,388</u>	<u>122,372,404</u>	earnings - realized capital		
			gain/loss	41,718	14,804
			Unappropriated retained		
			earnings - gain on		
			revenue/expense		
			investment	732,090	517,082
			Unappropriated retained		
			earning	<u>(572,810)</u>	<u>(467,382)</u>
Total trust assets	<u>\$ 277,247,817</u>	<u>\$ 252,554,981</u>	Total trust liabilities	<u>\$ 277,247,817</u>	<u>\$ 252,554,981</u>

## Trust Assets Register

<b>Investments</b>	<b>June 30</b>	
	<b>2018</b>	<b>2017</b>
Bank deposits	\$ 3,572,616	\$ 3,286,683
Insurance claims	68,800	73,800
Financial assets		
Common stocks	1,632,238	3,889,745
Mutual funds	114,028,420	106,605,680
Bonds	2,874,850	2,341,724
Land	10,093,215	8,438,969
Buildings	597,410	630,352
Construction in progress	5,270,390	4,914,382
Others	2,490	1,242
Securities under custody	<u>139,107,388</u>	<u>122,372,404</u>
Total trust assets	<u>\$ 277,247,817</u>	<u>\$ 252,554,981</u>

## Income Statement of Trust

<b>Investments</b>	<b>For the Six Months Ended June 30</b>	
	<b>2018</b>	<b>2017</b>
Revenue		
Interest income	\$ 45,431	\$ 40,097
Dividends	31,594	23,552
Rental revenues	49,760	36,837
Gain on mutual funds	5,987	9,296
Foreign exchange gains	773,699	556,073
Realized capital gain - mutual funds	4,992	901
Realized capital gain - bonds	1,018	2,346
Realized capital gain - quoted stocks	<u>25,786</u>	<u>-</u>
	<u>938,267</u>	<u>669,102</u>
Expense		
Maintenance	(855)	(1,059)
Tax expense	(938)	(916)
Others	(46)	(68)
Foreign exchange losses	(766,239)	(530,077)
Realized capital loss - bonds	(13,223)	-
Realized capital loss - mutual funds	(7,112)	(21,488)
Realized capital losses - quoted stocks	<u>-</u>	<u>(9,387)</u>
	<u>(788,413)</u>	<u>(562,995)</u>
	<u>\$ 149,854</u>	<u>\$ 106,107</u>

### 39. RELATED-PARTY TRANSACTIONS

a. Related parties and their relationships with the Bank

Name	Relationship
Director and managers	The Bank's director and managers
Taishin Financial Holding	The Bank's corporate director
Taishin International Bank	Owned by the same parent company
The Export-Import Bank	Its director is the Bank's corporate director
Land Bank	Its director is the Bank's corporate director
Taiwan Business Bank	Its director is the Bank's corporate director
Taiwan High Speed Rail Corporation	Its director is the Bank's corporate director
Powertec Energy Corporation	Its director is the Bank's corporate director
China Airlines Ltd.	Its director is the Bank's corporate director
Taiwan Biotech Corporation Ltd.	Its director is the Bank's corporate director
Ritdisplay Corporation	Its director is the Bank's corporate director
Kaohsiung Rapid Transit Corporation	Its director is the Bank's corporate director
Adimmune Corporation	Its supervisor is the Bank's corporate director
Air Asia Company Ltd.	Its director is representative of the Bank's corporate director
MasterLink Securities Corporation	Its director is the Bank
Others	FSC-approved IAS 24, "Related Party Disclosures" other related parties

b. Significant transactions with related parties

1) Loans

	Balance	Percentage of Loans (%)
Balance as of June 30, 2018	\$ 28,911,570	2.11
Balance as of December 31, 2017	28,819,698	2.09
Balance as of June 30, 2017	31,084,226	2.32

For the six months ended June 30, 2018 and 2017, interest ranged from 0.69% to 3.67% and from 0.00% to 3.67%, and interest income was \$271,139 thousand and \$284,256 thousand, respectively.



For the three months ended June 30, 2018 and 2017, interest income was \$140,486 thousand and \$280,169 thousand, respectively.

<b>June 30, 2018</b>							<b>Difference in Terms Between Related Parties and Non-related Parties</b>
	<b>Ending Balance</b>	<b>Highest Amount</b>	<b>Normal Loans</b>	<b>Non-performing Loans</b>	<b>Collateral</b>		
<u>Consumer loans</u>							
29 accounts	\$ 15,029	\$ 15,720	\$ 15,029	\$ -	Credit		None
<u>Self-use residential mortgage loans</u>							
201 accounts	1,193,801	1,247,593	1,193,801	-	Real estate		None
<u>Others</u>							
Taiwan High Speed Rail Corporation	26,621,362	26,738,489	26,621,362	-	Credit and station equipment		None
Powertec Energy Corporation	567,244	567,244	567,244	-	Credit		None
Taiwan Biotech Corporation Ltd.	110,701	245,000	110,701	-	Credit		None
Ritdisplay Corporation	109,380	144,490	109,380	-	Real estate		None
Other - corporation 6 accounts (Note 1)	289,690	298,178	289,690	-	Credit and fund guarantee and real estate		None
Other - individual 4 accounts (Note 2)	4,363	4,369	4,363	-	Deposit		None
<b>December 31, 2017</b>							<b>Difference in Terms Between Related Parties and Non-related Parties</b>
	<b>Ending Balance</b>	<b>Highest Amount</b>	<b>Normal Loans</b>	<b>Non-performing Loans</b>	<b>Collateral</b>		
<u>Consumer loans</u>							
30 accounts	\$ 13,370	\$ 14,083	\$ 13,370	\$ -	Credit		None
<u>Self-use residential mortgage loans</u>							
202 accounts	1,173,424	1,219,832	1,173,424	-	Real estate		None
<u>Others</u>							
Taiwan High Speed Rail Corporation	26,624,078	28,573,784	26,624,078	-	Credit and station equipment		None
Powertec Energy Corporation	542,972	557,972	542,972	-	Credit		None
China Airlines Ltd.	100,000	2,232,500	100,000	-	Credit		None
Ritdisplay Corporation	106,490	118,600	106,490	-	Real estate		None
Other - corporation 6 accounts (Note 1)	249,304	758,667	249,304	-	Credit and fund guarantee and real estate		None
Other - individual 9 accounts (Note 2)	10,060	10,280	10,060	-	Deposit		None

June 30, 2017

	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
<u>Consumer loans</u>						
30 accounts	\$ 12,629	\$ 13,998	\$ 12,629	\$ -	Credit	None
<u>Self-use residential mortgage loans</u>						
198 accounts	1,126,694	1,158,972	1,126,694	-	Real estate	None
<u>Others</u>						
Taiwan High Speed Rail Corporation	28,460,218	28,500,400	28,460,218	-	Credit and station equipment	None
Powertec Energy Corporation	540,000	540,000	540,000	-	Credit	None
China Airlines Ltd.	500,000	2,232,500	500,000	-	Credit	None
Taiwan Biotech Corporation Ltd.	155,281	263,627	155,281	-	Credit	None
Ritdisplay Corporation	103,600	103,600	103,600	-	Real estate	None
Other - corporation 6 accounts (Note 1)	179,791	226,401	179,791	-	Credit and fund guarantee and real estate	None
Other - individual 10 accounts (Note 2)	6,014	9,934	6,014	-	Deposit	None

Note 1: The balance of every corporate entity is not over \$1 billion.

Note 2: The balance of every single entity is not over 1% of the total ending balance.

Loans to managers for mortgage within \$8,000 thousand and credit loans within \$800 thousand per person all bore interests at 1.26% in June 30, 2018, December 31, 2017 and June 30, 2017. The interest rates and other terms provided to the other related parties are the same as those offered to the public.

2) Guaranteed loans

	June 30, 2018				
	Ending Balance	Highest Amount	Reserve for Guarantee Liabilities	Interest Rate (Per Annum %)	Collateral
Air Asia Company Ltd.	\$ 1,328,000	\$ 1,328,000	\$ 13,280	0.50	None
Kaohsiung Rapid Transit Corporation	29,799	29,799	298	0.50	None
Adimmune Corporation	19,236	19,236	192	1.80	Pledged demand deposit
	December 31, 2017				
	Ending Balance	Highest Amount	Reserve for Guarantee Liabilities	Interest Rate (Per Annum %)	Collateral
Kaohsiung Rapid Transit Corporation	\$ 23,400	\$ 50,280	\$ 234	0.50	None
Adimmune Corporation	19,236	19,246	192	1.80	Pledged demand deposit
	June 30, 2017				
	Ending Balance	Highest Amount	Reserve for Guarantee Liabilities	Interest Rate (Per Annum %)	Collateral
Kaohsiung Rapid Transit Corporation	\$ 32,862	\$ 50,280	\$ 329	0.50	None
Adimmune Corporation	19,236	19,246	192	1.80	Pledged demand deposit

3) Deposits

	<b>Balance</b>	<b>Percentage of Loans (%)</b>
Balance as of June 30, 2018	\$ 4,219,333	0.25
Balance as of December 31, 2017	4,376,758	0.26
Balance as of June 30, 2017	18,463,018	1.13

For the six months ended June 30, 2018 and 2017, the interest rates intervals were between 0.00% and 13.00% and 0.00% to 15.00%, respectively; the interest expense was \$27,283 thousand and \$54,075 thousand, respectively. For the three months ended June 30, 2018 and 2017, the interest expense was \$13,685 thousand and \$41,125 thousand, respectively.

The interest rate for managers' deposits amounting to \$480 thousand per person was 13% per annum. The part of deposit exceeding \$480 thousand will earn interest calculated at the demand savings rate. The interest rates and others terms provided to the other related parties are the same as those offered to general public.

4) Call loans to banks and call loans from banks

Call loans to banks

(In Thousands of Original Currencies)

<b>June 30, 2018</b>						
Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	For the Three Months Ended June 30, 2018 Interest Income	For the Six Months Ended June 30, 2018 Interest Income
Land Bank	DBU	NTD	\$2,500,000	0.18-0.19	\$ 52	\$ 187
	OBU	USD	107,000	1.48-2.62	742	1,209
	Kunshan Branch	RMB	90,000	2.53-3.80	92	93
	Hong Kong Branch	USD	90,000	1.62-2.76	581	984
Taiwan Business Bank	Hong Kong Branch	USD	20,000	1.50-2.78	98	289
<b>December 31, 2017</b>						
Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Income	
Land Bank	OBU	USD	\$ 75,000	1.18-1.93	\$ 1,097	
	Hong Kong Branch	USD	100,000	0.80-2.28	1,286	
Taiwan Business Bank	OBU	USD	60,000	0.70-2.00	267	
	Hong Kong Branch	USD	30,000	0.71-2.28	200	
	OBU	AUD	3,000	1.30-1.68	-	
<b>June 30, 2017</b>						
Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	For the Three Months Ended June 30, 2017 Interest Income	For the Six Months Ended June 30, 2017 Interest Income
Land Bank	OBU	USD	\$ 50,000	1.18-1.58	\$ 247	\$ 471
	Hong Kong Branch	USD	76,000	0.80-1.62	272	543
Taiwan Business Bank	OBU	USD	30,000	0.70-1.50	52	67
	Hong Kong Branch	USD	5,000	0.71-1.50	33	86
	OBU	RMB	10,000	1.00-3.30	125	130

## Call loans from banks

(In Thousands of Original Currencies)

June 30, 2018						
Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	For the Three Months Ended June 30, 2018 Interest Expense	For the Six Months Ended June 30, 2018 Interest Expense
Land Bank	Singapore Branch	USD	\$ 20,000	1.48-2.65	\$ 157	\$ 184
	Fuzhou Branch	RMB	100,000	3.90-4.80	405	405
	London Branch	USD	60,000	1.79-2.77	412	907
Taiwan Business Bank	Singapore Branch	SGD	4,200	0.80-1.40	3	5
	Los Angeles Branch	USD	40,000	2.30	5	5

December 31, 2017					
Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Expense
Land Bank	OBU	USD	\$ 30,000	0.72-1.85	\$ 28
	Hong Kong Branch	USD	85,000	0.95-2.08	804

June 30, 2017						
Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	For the Three Months Ended June 30, 2017 Interest Expense	For the Six Months Ended June 30, 2017 Interest Expense
Land Bank	Singapore Branch	USD	\$ 30,000	0.72-1.49	\$ 68	\$ 88
	London Branch	USD	30,000	0.95-1.64	144	314
	OBU	CAD	2,500	0.35-0.55	-	-
	OBU	RMB	20,000	1.00-3.50	34	54

## 5) Due from banks and deposits from banks

### Due from banks

(In Thousands of New Taiwan Dollars)

Name	Department	Currency	June 30, 2018	December 31, 2017	June 30, 2017
			Ending Balance	Ending Balance	Ending Balance
Land Bank	DBU	NTD	\$ 225	\$ 44	\$ 784
Taiwan Business Bank	DBU	NTD	92	77	121

### Deposits from banks

(In Thousands of Original Currencies)

Name	Department	Currency	June 30, 2018	December 31, 2017	June 30, 2017
			Ending Balance	Ending Balance	Ending Balance
The Export-Import Bank	DBU	NTD	\$ 613	\$ 1,102	\$ 716
Taishin International Bank	New York Branch	USD	59	57	54
Land Bank	DBU	NTD	277	277	277

c. Compensation of directors and management personnel

	For the Three Months Ended June 30		For the Six Months Ended June 30	
	2018	2017	2018	2017
Short-term employee benefits	\$ 8,395	\$ 7,977	\$ 18,828	\$ 18,943
Post-employment benefits	<u>403</u>	<u>440</u>	<u>13,166</u>	<u>10,024</u>
	<u>\$ 8,798</u>	<u>\$ 8,417</u>	<u>\$ 31,994</u>	<u>\$ 28,967</u>

The remuneration of directors and key executives was determined by the remuneration committee based on the performance of individuals and market trends.

d. Other

On March 17, 2017, the Bank entered into a contract with MasterLink Securities Corporation in the amount of \$250 thousand. Based on the contract, the Bank would hire MasterLink Securities Corporation as a consultant for the sales of the Bank's subordinated financial bonds.

#### 40. PLEDGED ASSETS

The summary of the Bank's pledged assets as of June 30, 2018, December 31, 2017 and June 30, 2017 is as follows:

Pledged Assets	Description	June 30, 2018
Investments in debt instruments at FVTOCI	Government bonds	\$ 6,046,621
Investments in debt instruments at amortized cost	Bonds and certificates of deposit	36,605,287
Time deposits with original maturities of more than 3 months	Time deposits	2,759,400
Refundable deposits	Cash	837,718

Pledged Assets	Description	December 31, 2017	June 30, 2017
Available-for-sale financial assets	Government bonds	\$ 5,781,100	\$ 5,866,100
Held-to-maturity financial assets	Bonds and certificates of deposit	36,749,428	36,791,499
Time deposits with original maturities of more than 3 months	Time deposits	2,729,400	2,692,800
Refundable deposits	Cash	638,049	255,121

#### 41. CONTINGENT LIABILITIES AND COMMITMENTS

- a. In addition to those mentioned in Note 7, the Bank had the following contingent liabilities and commitments as of June 30, 2018, December 31, 2017 and June 30, 2017:

	June 30, 2018	December 31, 2017	June 30, 2017
Trust liabilities	\$ 277,247,817	\$ 268,672,867	\$ 252,554,981
Unused loan commitments (excluding credit cards)	79,773,945	82,204,969	82,501,359
Credit card commitments	394,462	333,092	338,791
Unused issued letters of credit	24,191,878	24,509,270	23,382,832
Guarantees issued in guarantee business	41,166,941	40,993,464	40,626,564
Repayment notes and times deposit held for custody	14,401,282	12,860,366	12,222,778
Liabilities on joint loans	740,181	771,194	557,882

The unrecognized commitments for the acquisition of equipment and intangible assets, as well as the commitments for construction, appointment and security as of June 30, 2018 were \$270,572 thousand, \$35,979 thousand, \$13,993 thousand and \$67,402 thousand, respectively.

- b. TDK Corporation filed a legal proceeding against the Bank for damages compensation in the amount of \$45,794 thousand. On April 19, 2017, the Taiwan Superior Court passed a verdict partially in favor of and partially against the Bank, and the Bank shall compensate the damages in the amount of \$11,448 thousand. The Bank is currently appealing with the Taiwan Superior Court.

#### 42. DISCLOSURES UNDER STATUTORY REQUIREMENTS

- a. Material transactions

No.	Item	Explanation
1	Accumulated purchases and sales balance of specific investees' marketable security over NT\$300 million or 10% of outstanding capital for the six months ended June 30, 2018	None
2	Acquisition of fixed assets over NT\$300 million or 10% of outstanding capital for the six months ended June 30, 2018	None
3	Disposal of fixed assets over NT\$300 million or 10% of outstanding capital for the six months ended June 30, 2018	None
4	Discount on fees income from related parties over NT\$5 million	None
5	Receivables from related parties over NT\$300 million or 10% of outstanding capital as of June 30, 2018	None
6	Sale of NPL	None
7	Securitized instruments and related assets which are in accordance with the Statute for Financial Assets Securitization and the Statute for Real Estate Securitization	None
8	Other significant transactions which may affect decisions of the users of the financial statements	None

b. Information on the Bank's Investees

<b>No.</b>	<b>Item</b>	<b>Explanation</b>
1	Investees' names, locations, etc.	None
2	Capital lending to another party	None
3	Endorsement for another party	None
4	Marketable securities held as of June 30, 2018	None
5	Accumulated purchases and sales balance of specific marketable security over NT\$300 million or 10% of outstanding capital for the six months ended June 30, 2018	None
6	Acquisition of property, plant and equipment over NT\$300 million or 10% of outstanding capital for the six months ended June 30, 2018	None
7	Disposal of property, plant and equipment over NT\$300 million or 10% of outstanding capital for the six months ended June 30, 2018	None
8	Receivables from related parties over NT\$300 million or 10% of outstanding capital as of June 30, 2018	None
9	Derivative instrument	None
10	Discount on fees income from related parties over NT\$5 million	None
11	Sale of NPL by subsidiary	None
12	Other significant transactions which may affect decisions of the users of the financial statements	None

c. Investment in mainland China: Table 1

### 43. INFORMATION ON THE BANK'S INVESTEEES

Investees' Names (Note a)	Investees' Location	Principal Business Activities	Ownership Interest (%) at Ending Balance	Investment Carrying Amount	Recognized Investment Income (Loss) of Current Period	Sum of Ownership (Note a)			
						Current Stocks	Imputed Stocks (Note b)	Stocks	Ownership Interest (%)
MasterLink Securities Corp.	Taipei City	Security brokerage	4.01	689,643	-	64,152,806	-	64,152,806	4.01
Asia Pacific Broadband Telecom Co.	Taipei City	Type I & type II telecommunications business	0.35	120,000	-	15,000,000	-	15,000,000	0.35
Taiwan High Speed Rail Corporation	Taipei City	High speed rail road	0.79	1,063,550	-	44,500,000	-	44,500,000	0.79
Taiwan Stock Exchange Co.	Taipei City	Securities brokerage, margin lending, and underwriting financial products	3.00	1,453,338	-	20,818,473	-	20,818,473	3.00
Taiwan Sugar Co.	Tainan City	Manufacture correlative products of sugar and crop	0.41	1,227,630	-	23,246,159	-	23,246,159	0.41
Taiwan Power Co.	Taipei City	Generate electric power, power distribution, and cable assemble	0.71	1,767,949	-	235,726,532	-	235,726,532	0.71
Taipei Foreign Exchange Inc.	Taipei City	Exchange trading, DEPOS, and Swap	3.53	30,002	-	700,000	-	700,000	3.53
Lieu-An Service Co., Ltd.	Taipei City	ATM purchase, rental, and repair or maintenance	5.00	1,764	-	125,000	-	125,000	5.00
CDIB & Partners Investment Holding Co.	Taipei City	Investment	4.95	637,200	-	54,000,000	-	54,000,000	4.95
Nomura Asset Management Taiwan Ltd.	Taipei City	Securities investment trust	4.09	72,807	-	1,413,725	-	1,413,725	4.09
Financial Information Service Co., Ltd.	Taipei City	Type II telecommunications business	1.16	122,459	-	6,047,370	-	6,047,370	1.16
Taiwan Futures Exchange	Taipei City	Futures exchange	1.00	220,216	-	3,151,802	-	3,151,802	1.00
Taiwan Assets Management Co., Ltd.	Taipei City	Acquisition of delinquent loans, evaluation, auction, and management	11.35	1,776,000	-	150,000,000	-	150,000,000	11.35
Taiwan Financial Asset Service Co.	Taipei City	Auction assets of the recognition of an impartial third party	2.94	47,800	-	5,000,000	-	5,000,000	2.94
Financial Esolution Co., Ltd.	Taipei City	Financial information systems development	4.12	8,611	-	905,475	-	905,475	4.12
Taiwan Depository & Clearing Corporation	Taipei City	Provide book-entry of securities transactions	0.08	18,169	-	299,811	-	299,811	0.08
Sunlight Assets Management Co., Ltd.	Taipei City	Acquisition of delinquent loans, evaluation, auction, and management	0.70	480	-	41,768	-	41,768	0.70
Taiwan Mobile Payment Corporation	Taipei City	Electronic Information provider	3.00	11,592	-	1,800,000	-	1,800,000	3.00
Taiwan Urban Regeneration & Financial Services Co., Ltd.	Taipei City	Urban renewal and reconstruction industry	5.00	25,000	-	2,500,000	-	2,500,000	5.00
Tai Yu Products Corporation	Taichung City	Frozen agricultural products	4.77	(Note c)	-	5,748,382	-	5,748,382	4.77
Chi-Yi Construction Management Company	New Taipei City	Residential development and lease	1.47	(Note c)	-	556,965	-	556,965	1.47

Note a: The investees' voting stocks, and imputed stocks were owned by the Bank and related parties.

Note b: Imputed stocks are considered if equity securities such as convertible bonds, warrants, etc., or derivative contracts such as stock options, are converted.

Note c: The Bank had recognized the loss on investment in Tai Yu Products Corporation and Chi-Yi Construction Management Company.

### 44. OTHER DISCLOSURES

On May 13, 2016, the Bank was approved by the FSC to change the operation units in China by establishing the subsidiary Chang Hwa Commercial Bank, Ltd. (Nanjing) and set up a Nanjing branch under a subsidiary. The working capital from the Bank's investments in Kunshan China, Dongguan and Fuzhou branches were merged into the subsidiary. The subsidiary's working capital is RMB2,500 million. The certification of the subsidiary's working capital was approved and issued by the China Banking Regulatory Commission on March 15, 2018.



## 45. SEGMENT INFORMATION

Information reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance focuses on the types of services provided.

### a. Segment revenue and results

	For the Six Months Ended June 30, 2018						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Overseas Branch	Others	Total
Net income of interest	\$ 6,700,526	\$ 2,958,004	\$ 161,440	\$ -	\$ 1,748,228	\$ 28	\$ 11,568,226
Net service fee income	647,870	118,387	(13,340)	1,530,581	108,615	-	2,392,113
Net income on financial instruments	-	-	2,286,478	-	37,751	-	2,324,229
Others	9,557	-	(38)	-	10,411	107,330	127,260
Net revenue and gains	<u>7,357,953</u>	<u>3,076,391</u>	<u>2,434,540</u>	<u>1,530,581</u>	<u>1,905,005</u>	<u>107,358</u>	<u>16,411,828</u>
Bad debt expense and guarantee liability provision	(798,317)	-	81	-	(355,780)	-	(1,154,016)
Operating expenses	-	-	-	-	-	-	(7,785,710)
Income before income tax	<u>\$ 6,559,636</u>	<u>\$ 3,076,391</u>	<u>\$ 2,434,621</u>	<u>\$ 1,530,581</u>	<u>\$ 1,549,225</u>	<u>\$ 107,358</u>	<u>\$ 7,472,102</u>

  

	For the Six Months Ended June 30, 2017						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Overseas Branch	Others	Total
Net income of interest	\$ 6,649,127	\$ 2,329,411	\$ 425,130	\$ -	\$ 1,679,649	\$ 33	\$ 11,083,350
Net service fee income	704,406	87,337	(19,323)	1,570,597	137,346	-	2,480,363
Net income on financial instruments	-	-	1,434,670	-	30,026	-	1,464,696
Others	4,382	-	2,778	51	2,380	90,946	100,537
Net revenue and gains	<u>7,357,915</u>	<u>2,416,748</u>	<u>1,843,255</u>	<u>1,570,648</u>	<u>1,849,401</u>	<u>90,979</u>	<u>15,128,946</u>
Bad debt expense and guarantee liability provision	(78,569)	-	-	-	(332,779)	-	(411,348)
Operating expenses	-	-	-	-	-	-	(7,616,059)
Income before income tax	<u>\$ 7,279,346</u>	<u>\$ 2,416,748</u>	<u>\$ 1,843,255</u>	<u>\$ 1,570,648</u>	<u>\$ 1,516,622</u>	<u>\$ 90,979</u>	<u>\$ 7,101,539</u>

The revenue and results on the segment information reported does not include inter-segment revenue, for the six months ended June 30, 2018 and 2017.

This was the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

### b. Segment total assets and liabilities

	June 30, 2018						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Overseas Branches	Others	Adjustments	Total
Assets	<u>\$ 1,266,331,419</u>	<u>\$ -</u>	<u>\$ 661,647,519</u>	<u>\$ 190,767,539</u>	<u>\$ 83,141,992</u>	<u>\$ (106,874,674)</u>	<u>\$ 2,095,013,795</u>
Liabilities	<u>\$ 2,848,222</u>	<u>\$ 1,630,174,584</u>	<u>\$ 190,871,382</u>	<u>\$ 170,539,635</u>	<u>\$ 56,596,003</u>	<u>\$ (106,874,674)</u>	<u>\$ 1,944,155,152</u>

  

	December 31, 2017						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Overseas Branches	Others	Adjustments	Total
Assets	<u>\$ 1,274,604,082</u>	<u>\$ -</u>	<u>\$ 625,178,439</u>	<u>\$ 190,521,528</u>	<u>\$ 77,852,165</u>	<u>\$ (131,897,814)</u>	<u>\$ 2,036,258,400</u>
Liabilities	<u>\$ 3,909,438</u>	<u>\$ 1,623,962,111</u>	<u>\$ 176,135,254</u>	<u>\$ 171,553,983</u>	<u>\$ 47,647,864</u>	<u>\$ (131,897,814)</u>	<u>\$ 1,891,310,836</u>

  

	June 30, 2017						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Overseas Branches	Others	Adjustments	Total
Assets	<u>\$ 1,232,628,592</u>	<u>\$ -</u>	<u>\$ 666,758,177</u>	<u>\$ 192,172,436</u>	<u>\$ 70,467,593</u>	<u>\$ (178,217,893)</u>	<u>\$ 1,983,808,905</u>
Liabilities	<u>\$ 1,700,261</u>	<u>\$ 1,584,134,832</u>	<u>\$ 208,086,735</u>	<u>\$ 175,083,268</u>	<u>\$ 53,484,639</u>	<u>\$ (178,217,893)</u>	<u>\$ 1,844,271,842</u>

## CHANG HWA COMMERCIAL BANK, LTD.

INFORMATION ON INVESTMENT IN MAINLAND CHINA  
FOR THE SIX MONTHS ENDED JUNE 30, 2018

(Amounts in Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1.

Investee Company	Main Businesses and Products	Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of June 30, 2018	Net Income (Loss) of the Investee (Note 2)	% of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of June 30, 2018	Accumulated Repatriation of Investment Income as of June 30, 2018	Note
					Outflow	Inflow							
Chang Hwa Commercial Bank, Ltd. Kunshan Branch	Banking	\$ 4,716,225 (US\$ 155,174)	Note 1.c.	\$ 4,716,225 (US\$ 155,174)	\$ -	\$ -	\$ 4,716,225 (US\$ 155,174)	-	-	\$ -	\$ -	\$ -	
Chang Hwa Commercial Bank, Ltd. Dongguan Branch	Banking	4,924,781 (US\$ 162,641)	Note 1.c.	4,924,781 (US\$ 162,641)	-	-	4,924,781 (US\$ 162,641)	-	-	-	-	-	
Chang Hwa Commercial Bank, Ltd. Fuzhou Branch	Banking	2,476,283 (US\$ 81,743)	Note 1.c.	2,476,283 (US\$ 81,743)	-	-	2,476,283 (US\$ 81,743)	-	-	-	-	-	

2.

Accumulated Outward Remittance for Investment in Mainland China June 30, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 3)
\$ 12,117,289 (US\$ 399,558)	\$ 12,372,787 (US\$ 410,928)	\$ 22,628,796

Note 1: The three methods of investment are as follows:

- a. Direct investment in mainland China.
- b. Investment in mainland China through reinvestment in existing enterprise in a third area.
- c. Others.

Note 2: Equity in the profit (loss):

- a. If the entity is still in the preparation stage and there is no equity in profit (loss), the condition should be noted.
- b. The basis of recognizing equity in profit (loss) is categorized in the following three types and each entity should be noted according to its condition.
  - 1) Financial statements audited (reviewed) by international accounting firms that cooperate with the accounting firms in the ROC.
  - 2) Financial statements audited (reviewed) by the Taiwan-based parent company's CPA.
  - 3) Others.

(Continued)

Note 3: In accordance with the “Bank, Financial Holding Corporation and Related Party Invest China Business Rules” announced by the FSC, the accumulated outflow of operating funds and investment from the following parties may not exceed 15% of net assets while they applied:

- a. Banks in Taiwan (or subsidiaries in a third area) which establish branches, establish/acquire subsidiaries or acquire stocks or capital contributions from local stockholders in mainland China.
- b. The subsidiaries whose issued stocks with voting rights or more than 50% of capital held by banks in Taiwan that have investments in mainland China.

(Concluded)