Chang Hwa Commercial Bank, Ltd.

Financial Statements for the
Nine Months Ended September 30, 2018 and 2017 and
Independent Auditors' Review Report

Deloitte.

勤業眾信

勤業眾信聯合會計師事務所
11073 台北市信義區松仁路100號20樓

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

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

INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying balance sheets of Chang Hwa Commercial Bank, Ltd. (the "Bank") as of September 30, 2018 and 2017, the related statements of comprehensive income for the three months ended September 30, 2018 and 2017 and the nine months ended September 30, 2018 and 2017, the statements of changes in equity and cash flows for the nine months then ended, and the related notes to the financial statements, including a summary of significant accounting policies (collectively referred to as 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 Standards 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on the financial statements based on our reviews.

Scope of Review

We conducted our reviews in accordance with Statement of Auditing Standards No. 65 "Review of Financial Information Performed by the Independent Auditor of the Entity". A review of financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our reviews, nothing has come to our attention that caused us to believe that the accompanying financial statements do not give a true and fair view of the financial position of the Bank as of September 30, 2018 and 2017 and of its financial performance for the three months ended September 30, 2018 and 2017, its financial performance and its cash flows for the nine months ended September 30, 2018 and 2017 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 Standards 34 "Interim Financial Reporting" endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

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

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 13, 2018

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

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 review such financial statements are those generally applied in the Republic of China.

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

CHANG HWA COMMERCIAL BANK, LTD.

BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

ASSETS	September 30, 2018 (Reviewed) Amount	%	December 31, 2017 (Audited) Amount	%	September 30, 2017 (Reviewed) Amount	%
Cash and cash equivalents (Notes 4, 6 and 39)	$ 39,841,837	2	$ 74,835,132	4	$ 55,396,232	3
Due from the Central Bank and call loans to banks (Notes 4, 6 and 39)	181,113,467	9	165,015,057	8	171,910,822	8
Financial assets at fair value through profit or loss (Notes 4 and 7)	11,917,830	-	13,552,513	1	15,983,614	1
Financial assets at fair value through other comprehensive income (Notes 4 and 8)	99,532,361	5	-	-	-	-
Financial assets for hedging (Notes 4 and 15)	215,841	-	-	-	-	-
Derivative financial assets for hedging (Notes 4 and 15)	-	-	243,372	-	250,331	-
Investments in debt instruments at amortized cost (Notes 4, 5, 9, 37 and 40)	253,448,208	12	-	-	-	-
Receivables, net (Notes 4, 11 and 12)	31,988,454	1	24,670,023	1	25,190,143	1
Current tax assets (Notes 4 and 33)	14,461	-	135,714	-	19,955	-
Discounts and loans, net (Notes 4, 5, 12, 38 and 39)	1,368,160,468	66	1,377,040,660	68	1,355,396,832	67
Available-for-sale financial assets, net (Notes 4, 13 and 40)	-	-	73,175,886	3	81,357,284	4
Held-to-maturity financial assets, net (Notes 4, 5, 14 and 40)	-	-	237,412,046	12	243,006,468	12
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	-	70,197	-
Other miscellaneous financial assets (Notes 4, 18 and 40)	57,491,150	3	27,015,755	1	34,128,270	2
Other financial assets, net	57,491,150	3	31,247,373	1	38,365,476	2
Property and equipment, net (Notes 4 and 19)	20,620,294	1	20,639,732	1	20,679,281	1
Investment property, net (Notes 4 and 20)	13,743,307	1	13,747,787	1	13,749,049	1
Intangible assets, net (Notes 4 and 21)	339,978	-	436,176	-	416,721	-
Deferred tax assets (Notes 4 and 33)	3,510,116	-	3,175,050	-	2,606,581	-
Other assets, net (Notes 22, 35 and 40)	1,091,701	-	931,879	-	735,312	-
TOTAL	$ 2,083,029,473	100	$ 2,036,258,400	100	$ 2,025,064,101	100
LIABILITIES AND EQUITY						
Deposits from the Central Bank and banks (Notes 4, 23 and 39)	$ 113,711,658	6	$ 108,151,867	5	$ 115,213,945	6
Financial liabilities at fair value through profit or loss (Notes 4 and 7)	12,147,889	1	12,309,330	1	14,488,947	1
Securities sold under repurchase agreements (Note 4)	10,659,008	1	3,118,536	-	3,046,951	-
Payables (Notes 4, 24 and 31)	42,282,957	2	34,849,855	2	28,444,378	2
Current tax liabilities (Notes 4 and 33)	127,426	-	954,609	-	570,665	-
Deposits and remittances (Notes 4, 25 and 39)	1,683,082,828	81	1,672,079,784	82	1,660,624,776	82
Bank notes payable (Notes 4 , 26 and 37)	46,518,342	2	41,739,657	2	41,745,036	2
Other financial liabilities (Notes 4 and 27)	4,253,268	-	3,662,600	-	3,278,193	-
Reserve for liabilities (Notes 4, 5 and 29)	5,007,098	-	4,758,835	-	4,337,796	-
Deferred income tax liabilities (Notes 4 and 33)	7,325,434	-	7,019,970	1	6,814,540	-
Other liabilities (Notes 4, 28 and 35)	3,310,848	-	2,665,793	-	3,446,000	-
Total liabilities	1,928,426,756	93	1,891,310,836	93	1,882,011,227	93
EQUITY (Notes 4, 31 and 33)						
Capital						
Common stock	97,895,207	5	94,130,007	5	94,130,007	5
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	9,666,747	-	11,779,842	-	9,390,956	-
Other equity	3,860,679	-	(453,971)	-	40,225	-
Total equity	154,602,717	7	144,947,564	7	143,052,874	7
TOTAL	$ 2,083,029,473	100	$ 2,036,258,400	100	$ 2,025,064,101	100

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)
(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
INTEREST INCOME (Notes 4, 32 and 39)	$ 9,702,791	117	$ 8,838,363	113	$ 28,482,963	115	$ 25,621,856	111
INTEREST EXPENSE (Notes 32 and 39)	(3,878,354)	(47)	(3,052,406)	(39)	(11,090,300)	(45)	(8,752,549)	(38)
NET INCOME OF INTEREST	5,824,437	70	5,785,957	74	17,392,663	70	16,869,307	73
NET NON-INTEREST INCOME (LOSS)								
Net service fee income (Notes 4 and 32)	1,283,319	16	1,207,919	15	3,675,433	15	3,688,282	16
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss (Notes 4, 7 and 32)	693,065	8	414,628	5	2,041,772	8	1,647,700	7
Realized gain (loss) on available-for-sale financial assets (Notes 4 and 32)	-	-	171,472	2	-	-	340,173	2
Realized gain (loss) on financial assets at fair value through other comprehensive income (Notes 4 and 32)	361,830	4	-	-	518,281	2	-	-
Gain (loss) arising from derecognition of financial assets at amortized cost	(92,142)	(1)	-	-	(92,142)	-	-	-
Foreign exchange gain (loss) (Notes 4 and 37)	130,088	2	121,348	2	892,998	4	9,137	-
Net other non-interest income (loss) (Note 15)	73,902	1	158,698	2	257,323	1	434,369	2
Net non-interest income (loss)	2,450,062	30	2,074,065	26	7,293,665	30	6,119,661	27
NET REVENUE AND GAINS	8,274,499	100	7,860,022	100	24,686,328	100	22,988,968	100
BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION (Notes 4 and 12)	(404,350)	(5)	528,697	6	(1,558,366)	(6)	117,349	-
OPERATING EXPENSES								
Employee benefits expenses (Notes 4 and 32)	(2,543,300)	(31)	(3,050,821)	(39)	(7,707,112)	(31)	(8,121,527)	(35)
Depreciation and amortization expenses (Notes 4 and 32)	(178,180)	(2)	(182,062)	(2)	(535,779)	(2)	(536,303)	(2)
Other general and administrative expenses	(1,166,313)	(14)	(1,111,569)	(14)	(3,430,611)	(14)	(3,302,681)	(15)
Total operating expenses	(3,887,793)	(47)	(4,344,452)	(55)	(11,673,502)	(47)	(11,960,511)	(52)

(Continued)

CHANG HWA COMMERCIAL BANK, LTD.

STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)
(Reviewed, Not Audited)

	For the Three Months Ended September 30				For the Nine Months Ended September 30			
	2018		2017		2018		2017	
	Amount	%	Amount	%	Amount	%	Amount	%
INCOME BEFORE INCOME TAX	$ 3,982,356	48	$ 4,044,267	51	$ 11,454,460	47	$ 11,145,806	48
INCOME TAX EXPENSE (Notes 4 and 33)	(579,144)	(7)	(645,752)	(8)	(1,486,334)	(6)	(1,791,286)	(8)
NET INCOME	3,403,212	41	3,398,515	43	9,968,126	41	9,354,520	40
OTHER COMPREHENSIVE INCOME (LOSS)								
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	720,643	9	-	-	523,788	2	-	-
Changes in fair value of financial liabilities attributable to changes in credit risk of liabilities	166	-	-	-	1,286	-	-	-
Items that will be reclassified to profit or loss, net of tax:								
Exchange differences on translation (Note 4)	(384,798)	(5)	42,297	1	366,077	1	(989,548)	(4)
Unrealized gains (losses) on valuation of available-for-sale financial assets (Note 4)	-	-	91,934	1	-	-	838,789	4
Revaluation gains (losses) on investments in debt instruments measured at fair value through other comprehensive income	(63,287)	(1)	-	-	(57,223)	-	-	-
(Impairment loss) reversal of impairment loss on investments in debt instruments measured at fair value through other comprehensive income	(3,770)	-	-	-	(27,859)	-	-	-
Income tax related to items that will be reclassified to profit or loss (Notes 4 and 33)	71,907	1	(16,935)	-	22,960	-	90,790	-
Other comprehensive income (loss) for the period, net of income tax	340,861	4	117,296	2	829,029	3	(59,969)	-
TOTAL COMPREHENSIVE INCOME	$ 3,744,073	45	$ 3,515,811	45	$ 10,797,155	44	$ 9,294,551	40
EARNINGS PER SHARE (Note 34)								
Basic	$ 0.35		$ 0.35		$ 1.02		$ 0.96	
Diluted	$ 0.35		$ 0.35		$ 1.01		$ 0.95	

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)
(Reviewed, Not Audited)

	Equity Attributable to Owners of the Bank									
						Other Equity				
	Capital Stock		Retained Earnings							
	Stocks (Thousand)	Amount	Legal Reserve	Special Reserve	Unappropriated 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	Total Equity
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	448,239	4,482,381	-	-	(4,482,381)	-	-	-	-	-
Net income for the nine months ended September 30, 2017	-	-	-	-	9,354,520	-	-	-	-	9,354,520
Other comprehensive income (loss) for the nine months ended September 30, 2017, net of tax	-	-	-	-	-	(886,042)	826,073	-	-	(59,969)
Total comprehensive income (loss) for the nine months ended September 30, 2017	-	-	-	-	9,354,520	(886,042)	826,073	-	-	9,294,551
BALANCE, SEPTEMBER 30, 2017	9,413,001	$ 94,130,007	$ 27,410,736	$ 12,080,950	$ 9,390,956	$ (894,167)	$ 934,392	$ -	$ -	$ 143,052,874
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	376,520	3,765,200	-	-	(3,765,200)	-	-	-	-	-
Net income for the nine months ended September 30, 2018	-	-	-	-	9,968,126	-	-	-	-	9,968,126
Other comprehensive income (loss) for the nine months ended September 30, 2018, net of tax	-	-	-	-	-	385,489	-	442,254	1,286	829,029
Total comprehensive income (loss) for the nine months ended September 30, 2018	-	-	-	-	9,968,126	385,489	-	442,254	1,286	10,797,155
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(44,023)	-	-	44,023	-	-
BALANCE, SEPTEMBER 30, 2018	9,789,521	$ 97,895,207	$ 31,038,668	$ 12,141,416	$ 9,666,747	$ (866,369)	$ -	$ 4,725,844	$ 1,204	$ 154,602,717

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)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before income tax	$ 11,454,460	$ 11,145,806
Non-cash (income and gains) or expenses and losses		
Expected credit loss recognized on trade receivables	1,558,366	-
Provision for bad debt expenses and guarantee liabilities	-	(117,349)
Depreciation expense	386,259	403,976
Amortization expense	149,520	132,327
Interest income	(28,482,963)	(25,621,856)
Dividend income	(463,990)	(365,954)
Interest expense	11,090,300	8,752,549
Net gain on financial assets or liabilities at fair value through profit or loss	(3,005,082)	(1,442,140)
Gain on disposal of investments	(61,280)	(210,189)
Unrealized foreign exchange losses (gains)	963,310	(205,560)
Other adjustments	118,872	38,350
Changes in operating assets and liabilities		
(Increase) decrease in due from the Central Bank	(2,473,572)	7,344,733
Decrease in financial assets at fair value through profit or loss	1,914,700	16,063,325
Increase in receivables	(6,059,323)	(5,020,778)
Decrease in discounts and loans	7,761,415	12,077,962
Increase in financial assets at fair value through other comprehensive income	(23,020,813)	-
Increase in available-for-sale financial assets	-	(2,216,601)
Increase in investments in debt instruments at amortized cost	(7,134,884)	-
Increase in held-to-maturity financial assets	-	(38,141,927)
Increase in other financial assets	(30,475,396)	(15,327,986)
Increase in other assets	(140,357)	(206,938)
Decrease in deposits from the Central Bank and banks	(729,787)	(5,132,688)
Increase in deposits and remittances	11,003,044	36,194,959
Increase (decrease) in payables	6,796,071	(5,883,814)
(Decrease) increase in financial liabilities at fair value through profit or loss	(3,394,289)	491,867
Decrease in reserve for liabilities	(172,314)	(157,699)
Increase in other financial liabilities	590,668	559,229
Increase in other liabilities	665,803	154,039
Cash outflow generated from operations	(51,161,262)	(6,692,357)
Interest received	27,700,071	24,584,764
Dividends received	461,192	365,954
Interest paid	(10,472,807)	(8,257,178)
Income taxes paid	(2,248,933)	(1,697,323)
Income tax refunded	-	25,251
Net cash flows (used in) from operating activities	(35,721,739)	8,329,111

(Continued)

CHANG HWA COMMERCIAL BANK, LTD.

STATEMENTS OF CASH FLOWS
(In Thousands of New Taiwan Dollars)
(Reviewed, Not Audited)

	For the Nine Months Ended September 30	
	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	$ (358,508)	$ (301,994)
Acquisition of investment property	(515)	-
Proceeds from disposal of property and equipment	125	-
Acquisition of intangible assets	(48,097)	(121,154)
Net cash flows used in investing activities	(406,995)	(423,148)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in due to the Central Bank and banks	6,289,578	(18,815,949)
Proceeds from issuing bank notes	7,000,000	10,200,000
Repayments of bank notes	(2,200,000)	-
Cash dividends paid	(4,235,850)	(3,765,202)
Increase in securities sold under repurchase agreement	7,540,472	91,970
Net cash flows from (used in) financing activities	14,394,200	(12,289,181)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	366,077	(989,548)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(21,368,457)	(5,372,766)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	172,818,258	167,977,705
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 151,449,801	$ 162,604,939

	September 30	
	2018	2017
Reconciliation of cash and cash equivalents		
Cash and cash equivalents in the balance sheet	$ 39,841,837	$ 55,396,232
Call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	111,607,964	107,208,707
Cash and cash equivalents at end of period	$ 151,449,801	$ 162,604,939

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

(With Deloitte & Touche review report dated November 13, 2018) (Concluded)

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, 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 November 13, 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.

	Measurement Category		Carrying Amount		
Financial Asset	IAS 39	IFRS 9	IAS 39	IFRS 9	Remark
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 fair value through profit or loss	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	
			$ 1,997,830,110	$ 2,001,325,473	

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
FVTPL	$ 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)	-	-	
	13,552,513	(4,967,089)	-	8,585,424	-	-	
FVTOCI	-	-	-	-	-	-	
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)	-	4,167,009	3,511,033	7,678,042	-	3,511,033	
	-	72,516,425	3,495,135	76,011,560	53,537	3,441,598	
Amortized cost	-	-	-	-	-	-	
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)	-	237,412,046	(6,500)	237,405,546	(6,500)	-	
	-	246,764,987	(9,622)	246,755,365	(9,622)	-	
	$ 13,552,513	$ 314,314,323	$ 3,485,513	$ 331,352,349	$ 43,915	$ 3,441,598	

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

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

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

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

Note 3: The Bank 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 1)
Amendments to IFRS 3 "Definition of a Business"	January 1, 2020 (Note 2)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between An Investor and Its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 and IAS 8 "Definition of Material"	January 1, 2020 (Note 3)

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

Note 2: The Bank shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period.

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

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:

a. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities;

b. 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

c. 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 as 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

<u>2018</u>

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.

For a 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 the 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 FVTPL

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

<u>2018</u>

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.

<u>2017</u>

Financial guarantee contracts issued by the Bank are initially measured at their fair values and, if not designated as at fair value through profit or loss, 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 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

<u>Retirement benefits</u>

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

	September 30, 2018	December 31, 2017	September 30, 2017
Cash on hand	$ 10,699,839	$ 10,579,908	$ 10,573,417
Checks for clearing	18,124,287	18,097,350	4,268,116
Due from banks	9,180,884	44,672,316	39,041,009
Foreign currencies on hand	1,836,827	1,485,558	1,513,690
	$ 39,841,837	$ 74,835,132	$ 55,396,232

Refer to the statement of cash flows for the cash and cash equivalents reconciliation information as of September 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	97,983,126
	$ 172,818,258

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

	September 30, 2018	December 31, 2017	September 30, 2017
Call loans to banks	$ 111,607,964	$ 97,983,126	$ 107,208,707
Reserve for checking accounts	21,805,692	18,418,622	17,681,906
Reserve for demand accounts	41,727,812	42,558,656	41,915,034
Reserve for foreign deposits	479,398	438,550	431,290
Others	5,492,601	5,616,103	4,673,885
	$ 181,113,467	$ 165,015,057	$ 171,910,822

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

	September 30, 2018	December 31, 2017	September 30, 2017
Financial assets designated at FVTPL			
Interest rate-linked combination instruments	$ 183,095	$ 5,325,880	$ 5,198,747
Financial assets held for trading			
Derivative financial assets (not applying hedge accounting)			
Futures	-	182,565	184,193
Forward exchange contracts	-	220,037	141,163
Interest rate swaps	-	713,446	1,139,241
Cross-currency swaps	-	544,088	669,524
Currency swaps	-	1,507,886	1,282,573
Currency call option premiums	-	182,600	170,409
Non-derivative financial assets			
Investment in bills	-	3,026,213	5,290,762
Domestic listed stock	-	-	69,622
Mutual funds	-	-	31,652
Government bonds	-	1,849,798	1,805,728
	-	8,226,633	10,784,867

(Continued)

	September 30, 2018	December 31, 2017	September 30, 2017
Financial assets mandatorily classified at FVTPL			
Derivative financial assets (not under hedge accounting)			
Futures	$ 180,082	$ -	$ -
Forward exchange contracts	214,979	-	-
Interest rate swaps	1,013,114	-	-
Cross-currency swaps	93,056	-	-
Currency swaps	2,560,483	-	-
Currency call option premiums	25,940	-	-
Non-derivative financial assets			
Investment in bills	5,144,318	-	-
Domestic listed stock	115,362	-	-
Government bonds	2,204,494	-	-
Corporate bonds	182,907	-	-
	11,734,735	-	
	$ 11,917,830	$ 13,552,513	$ 15,983,614

(Concluded)

The par values of bonds and notes provided for transactions with repurchase agreements were $393,000 thousand, $1,176,200 thousand and $465,700 thousand as of September 30, 2018, December 31, 2017 and September 30, 2017, respectively.

Financial Liabilities at FVTPL

	September 30, 2018	December 31, 2017	September 30, 2017
Financial liabilities designated at FVTPL	$ 8,836,392	$ 8,759,276	$ 12,213,027
Financial liabilities held for trading			
Derivative financial liabilities (not applying hedge accounting)			
Forward contracts	273,417	49,782	64,748
Interest rate swaps	1,081,153	685,128	736,807
Cross-currency swaps	29,952	305,686	373,433
Currency swaps	1,901,027	2,325,169	927,890
Currency put option premiums	25,948	184,289	173,042
	3,311,497	3,550,054	2,275,920
	$ 12,147,889	$ 12,309,330	$ 14,488,947

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 with no 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 with no 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 nine months ended September 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 September 30, 2018, December 31, 2017 and September 30, 2017 were as follows:

	September 30, 2018	**December 31, 2017**	**September 30, 2017**
Currency swaps	$ 377,805,370	$ 317,193,943	$ 284,572,366
Currency options	17,977,178	43,390,297	71,820,131
Forward exchange contracts	21,555,900	18,480,944	21,648,236
Interest rate swaps	421,925,168	389,538,301	427,356,840
Cross-currency swaps	3,661,800	13,063,953	16,346,895

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2018
Investments in equity instruments at FVTOCI	
Domestic listed stocks	$ 4,809,651
Domestic unquoted stocks	7,587,740
	12,397,391
Investments in debt instruments at FVTOCI	
Government bonds	29,860,417
Corporate bonds	15,247,717
Bank notes	29,272,820
Bonds issued by international organizations	10,201,883
Beneficiary and asset-based securities	57,225
Investments in bills	2,494,908
	87,134,970
	$ 99,532,361

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 agreement was $2,040,500 thousand as of September 30, 2018.

c. Government bonds placed as deposits in courts amounted to $393,600 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 $156,611 thousand as of September 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

	September 30, 2018
Investments in bills	$ 236,400,054
Bank notes	7,285,475
Corporate bonds	7,372,343
Government bonds	2,390,336
	$ 253,448,208

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 September 30, 2018 were in the amount of $304,775 thousand.

c. Certificates of deposit placed as reserves for clearing at the Central Bank amounted to $36,000,000 thousand as of September 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 September 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.

September 30, 2018

	At FVTOCI	At Amortized Cost	Total
Gross carrying amount	$ 86,976,719	$ 253,454,983	$ 340,431,702
Less: Allowance for impairment loss	(165,854)	(6,775)	(172,629)
Amortized cost	86,810,865	$ 253,448,208	340,259,073
Adjustment to fair value	324,105		324,105
	$ 87,134,970		$ 340,583,178

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 September 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%-49.40%	$ 340,290,724
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%	140,978
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%	-
				$ 340,431,702

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

	Credit Rating			
Allowance for Impairment Loss	Performing (12-month ECL)	Doubtful (Lifetime ECL - Not Credit-impaired)	Defaulted (Lifetime ECL - Credit-impaired)	Total
Balance at January 1, 2018 per IAS 39	$ -	$ -	$ -	$ -
Adjustment on initial application of IFRS 9	38,939	27,285	137,112	203,336
Balance at January 1, 2018 per IFRS 9	38,939	27,285	137,112	203,336
Purchase investments in debt instruments	5,407	-	-	5,407
Derecognition	(10,342)	(27,285)	-	(37,627)
Change in exchange rates or others	(2,353)	-	3,866	1,513
Balance at September 30, 2018	$ 31,651	$ -	$ 140,978	$ 172,629

11. RECEIVABLES, NET

a. Details of receivables

	September 30, 2018	December 31, 2017	September 30, 2017
Accounts receivable	$ 17,089,948	$ 14,277,857	$ 13,845,234
Accrued incomes	1,085	3,471	995
Interests receivable	4,855,830	3,549,809	3,350,931
Acceptances receivable	6,678,971	4,262,347	4,566,549
Credit cards accounts receivable	1,987,219	1,783,596	1,954,636
Settlement price	495,949	440,397	244,520
Accounts receivable for settlement	289,413	285,538	211,087
Other receivables	1,224,180	648,341	1,599,696
Less allowance for bad debts, receivables	(634,141)	(581,333)	(583,505)
	$ 31,988,454	$ 24,670,023	$ 25,190,143

b. Allowance for receivables

1) Movements in the allowance for receivables

	For the Nine Months Ended September 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	(43)	65	(1)	21	-	21
Transfers to credit-impaired financial assets	(7)	(33)	2,069	2,029	-	2,029
Transfers to 12-months expected credit losses	228	(171)	186	243	-	243
Financial assets derecognized for the period	(26,541)	(734)	(7,283)	(34,558)	-	(34,558)
Purchase or originated financial assets	28,753	1,692	31,189	61,634	-	61,634

(Continued)

	For the Nine Months Ended September 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**
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	$ -	$ -	$ -	$ -	$ 41,177	$ 41,177
Doubtful debts written off	-	-	(17,771)	(17,771)	-	(17,771)
Changes in exchange rates or others	16	2	15	33	-	33
Ending balance	$ 30,492	$ 3,116	$ 33,840	$ 67,448	$ 566,693	$ 634,141

(Concluded)

2) Movements in the total carrying amount of receivables

	For the Nine Months Ended September 30, 2018			
	12-Month Expected Credit Losses	**Significant Increase in Risk Due to Lifetime Expected Credit Losses**	**Credit Impairment Due to Lifetime Expected Credit Losses**	**Total**
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	(24,356)	27,740	(390)	2,994
Transfers to credit-impaired financial assets	(1,165)	(2,163)	26,738	23,410
Transfers to 12-month expected credit losses	(991,066)	(16,321)	(1,090)	(1,008,477)
Purchase or originated financial assets	22,825,897	95,141	20,115	22,941,153
Derecognized	(14,467,257)	(105,232)	(6,095)	(14,578,584)
Doubtful debts written off	-	-	(17,771)	(17,771)
Changes in exchange rates or others	7,826	795	(107)	8,514
Ending balance	$ 32,365,264	$ 156,848	$ 100,483	$ 32,622,595

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

12. DISCOUNTS AND LOANS, NET

a. Details of discounts and loans

	September 30, 2018	December 31, 2017	September 30, 2017
Negotiated and discounted	$ 5,126,624	$ 5,010,733	$ 5,399,663
Overdrafts	1,326,746	1,441,350	1,460,919
Short-term loans	380,563,215	363,295,585	354,479,500
Margin loans receivable	297,022	368,478	344,709
Medium-term loans	438,678,594	454,955,547	442,985,996
Long-term loans	555,357,292	564,200,949	562,980,624
Overdue loans	3,432,258	4,134,997	4,231,753
	1,384,781,751	1,393,407,639	1,371,883,164
Less allowance for bad debts, discounts and loans	(16,621,283)	(16,366,979)	(16,486,332)
	$ 1,368,160,468	$ 1,377,040,660	$ 1,355,396,832

The overdue loans of which the accrual of interest income was stopped internally as of September 30, 2018, December 31, 2017 and September 30, 2017 amounted to $3,432,258 thousand, $4,134,997 thousand and $4,231,753 thousand, respectively. The interest income on overdue loans not accrued for the nine months ended September 30, 2018 and 2017 was $68,731 thousand and $84,741 thousand, respectively.

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

b. Allowance for discounts and loans

1) Movements in the allowance for discounts and loans

	For the Nine Months Ended September 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	(23,021)	23,593	(2,771)	(2,199)	-	(2,199)
Transfers to credit-impaired financial assets	(1,130)	(90,289)	89,729	(1,690)	-	(1,690)
Transfers to 12-month expected credit losses	293,453	(295,731)	(3,683)	(5,961)	-	(5,961)
Financial assets derecognized for the period	(734,786)	(150,445)	(2,303,911)	(3,189,142)	-	(3,189,142)

(Continued)

	For the Nine Months Ended September 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
Purchased or originated financial assets	$ 942,337	$ 971,778	$ 3,751,826	$ 5,665,941	$ -	$ 5,665,941
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	-	-	-	-	(690,504)	(690,504)
Doubtful debts written off	(391,625)	(115,587)	(1,024,779)	(1,531,991)	-	(1,531,991)
Changes in exchange rates or others	5,961	2,199	1,690	9,850	-	9,850
Ending balance	$ 1,849,163	$ 1,585,499	$ 5,584,752	$ 9,019,414	$ 7,601,869	$ 16,621,283

(Concluded)

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

	For the Nine Months Ended September 30, 2018			
	12-Month Expected Credit Losses	Significant Increase in Risk Due to Lifetime Expected Credit Losses	Credit Impairment Due to Lifetime Expected Credit Losses	Total
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	(14,379,544)	14,163,145	(29,981)	(246,380)
Transfers to credit-impaired financial assets	(1,666,669)	(1,694,491)	3,367,127	5,967
Transfers to 12-month expected credit losses	4,268,101	(6,546,464)	(34,428)	(2,312,791)
Purchase or originated financial assets	506,176,650	16,082,819	5,342,498	527,601,967
Doubtful debts written off	(391,625)	(115,587)	(1,024,779)	(1,531,991)
Derecognized	(508,809,385)	(19,631,103)	(6,255,377)	(534,695,865)
Changes in exchange rates or others	2,312,792	246,380	(5,967)	2,553,205
Ending balance	$ 1,322,178,395	$ 48,376,165	$ 14,227,191	$ 1,384,781,751

	For the Nine Months Ended September 30, 2017			
	Receivables	Discounts and Loans	Other Financial Assets	Total
Beginning balance	$ 573,031	$ 16,122,975	$ 25,937	$ 16,721,943
Recovery of written off loans	4,563	2,441,566	10,672	2,456,801
Provision for loan losses	65,946	(214,904)	60,338	(88,620)
Written off loans	(34,920)	(1,713,597)	(44,028)	(1,792,545)
Others	(25,115)	(149,708)	-	(174,823)
Ending balance	$ 583,505	$ 16,486,332	$ 52,919	$ 17,122,756

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Provision for receivable and loan (including overdue loan) losses	$ 377,047	$ (532,847)	$ 1,620,529	$ (88,620)
Provision (reversal) for loan commitment	(32,169)	-	(140,447)	-
Provision (reversal) for guarantee liability	57,036	4,150	75,848	(28,729)
Others	2,436	-	2,436	-
	$ 404,350	$ (528,697)	$ 1,558,366	$ (117,349)

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

Receivables

Item		Total Receivables	
		December 31, 2017	September 30, 2017
Objective evidence of impairment	Individual assessment of impairment	$ 830,674	$ 392,829
	Combined assessment of impairment	62,617	71,782
No objective evidence of impairment	Combined assessment of impairment	24,358,065	25,309,037
Total		$ 25,251,356	$ 25,773,648

Item		Total Allowance	
		December 31, 2017	September 30, 2017
Objective evidence of impairment	Individual assessment of impairment	$ 369,671	$ 378,220
	Combined assessment of impairment	33,122	37,247
No objective evidence of impairment	Combined assessment of impairment	178,540	168,038
Total		$ 581,333	$ 583,505

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	**September 30, 2017**
Objective evidence of impairment	Individual assessment of impairment	$ 9,579,673	$ 9,504,083
	Combined assessment of impairment	3,487,746	3,637,027
No objective evidence of impairment	Combined assessment of impairment	1,380,340,220	1,358,742,054
Total		$ 1,393,407,639	$ 1,371,883,164

Item		Total Allowance	
		December 31, 2017	**September 30, 2017**
Objective evidence of impairment	Individual assessment of impairment	$ 4,077,983	$ 4,300,383
	Combined assessment of impairment	743,558	835,413
No objective evidence of impairment	Combined assessment of impairment	11,545,438	11,350,536
Total		$ 16,366,979	$ 16,486,332

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	**September 30, 2017**
Domestic quoted stocks	$ 3,643,572	$ 3,717,383
Government bonds	16,108,800	27,241,543
Corporate bonds	18,564,075	15,185,980
Bank notes	32,409,743	32,723,187
Bonds issued by international organizations	879,046	894,407
Investments in bills	1,570,650	1,594,784
	$ 73,175,886	$ 81,357,284

The par values of bonds provided for transactions with repurchase agreements were $1,784,800 thousand and $2,339,900 thousand as of December 31, 2017 and September 30, 2017, respectively.

Government bonds placed as deposits in courts were $281,100 thousand and $304,900 thousand as of December 31, 2017 and September 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 September 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	September 30, 2017
Investments in bills	$ 227,528,720	$ 231,853,662
Bank notes	1,972,932	1,874,649
Corporate bonds	7,910,394	9,065,994
Government bonds	-	212,163
	$ 237,412,046	$ 243,006,468

The overseas branches' bonds provided as collateral for operations as of December 31, 2017 and September 30, 2017 amounted to $449,428 thousand and $488,512 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 September 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 September 30, 2017.

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

15. FINANCIAL ASSETS FOR HEDGING

	September 30, 2018	December 31, 2017	September 30, 2017
Financial assets for hedging			
Fair value hedges - interest rate swaps	$ 215,841	$ -	$ -
Derivative financial assets for hedging			
Fair value hedges - interest rate swaps	-	243,372	250,331
	$ 215,841	$ 243,372	$ 250,331

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 September 30, 2018, December 31, 2017 and September 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 nine months ended September 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 $218,342 thousand, $239,657 thousand and $245,036 thousand as of September 30, 2018, December 31, 2017 and September 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 rage: 0.6608%-0.6624%) and charge fixed rates (interest rate rage: 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 $(5,570) thousand and $37,886 thousand for the three months ended September 30, 2018 and 2017, respectively, and $23,542 thousand and $211,348 thousand for the nine months ended September 30, 2018 and 2017, respectively, and the realized gain or loss from fair-value hedging was a gain of $20,562 thousand and a loss of $(22,708) thousand, accounted for as net other non-interest income or loss, for the three months ended September 30, 2018 and 2017, respectively, and the realized gain or loss from fair value hedging was a gain of $21,315 thousand and a loss of $(169,810) thousand, accounted for as net other non-interest income or loss, for the nine months ended September 30, 2018 and 2017, respectively.

16. FINANCIAL ASSETS AT COST

	December 31, 2017	September 30, 2017
Domestic unquoted common stocks	$ 4,167,009	$ 4,167,009

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

	December 31, 2017	September 30, 2017
Beneficiary securities and asset-based securities	$ 64,609	$ 70,197

18. OTHER MISCELLANEOUS FINANCIAL ASSETS

	September 30, 2018	December 31, 2017	September 30, 2017
Time deposits with original maturities of more than 3 months	$ 57,267,723	$ 26,806,884	$ 33,938,375
Exchange bills negotiated	45,641	3,210	1,190
Overdue receivable	391,299	465,961	90,324
Call loans to security brokers	152,575	148,400	151,300
Less: Allowance for bad debts	(366,088)	(408,700)	(52,919)
	$ 57,491,150	$ 27,015,755	$ 34,128,270

The market rates of time deposits with original maturity more than 3 months were 2.65%-4.85% and 1.75%-5.40% for the nine months ended September 30, 2018 and 2017, respectively. The time deposits were classified as investments in debt instruments 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 of 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
Cost									
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	-	17,580	112,192	18,184	26,678	2,269	486	181,119	358,508
Disposals	-	-	(89,376)	(15,573)	(13,069)	(3,135)	-	-	(121,153)
Reclassification	-	20,061	2,964	585	-	878	(585)	(28,696)	(4,793)
Effect of foreign currency exchange differences	-	6,939	1,781	329	1,020	2,557	-	565	13,191
Balance at September 30, 2018	$ 14,657,121	$ 9,152,033	$ 4,695,655	$ 727,126	$ 1,463,028	$ 970,562	$ 908	$ 273,117	$ 31,939,550
Accumulated depreciation and impairment									
Balance at January 1, 2018	$ -	$ 4,269,791	$ 4,069,589	$ 604,449	$ 1,291,768	$ 818,119	$ 349	$ -	$ 11,054,065
Depreciation expense	-	134,937	147,712	32,611	33,524	32,381	98	-	381,263
Disposals	-	-	(89,069)	(15,572)	(13,069)	(3,135)	-	-	(120,845)
Reclassification	-	-	-	325	-	-	(325)	-	-
Effect of foreign currency exchange differences	-	947	1,065	193	835	1,733	-	-	4,773
Balance at September 30, 2018	$ -	$ 4,405,675	$ 4,129,297	$ 622,006	$ 1,313,058	$ 849,098	$ 122	$ -	$ 11,319,256
Carrying amounts at September 30, 2018	$ 14,657,121	$ 4,746,358	$ 566,358	$ 105,120	$ 149,970	$ 121,464	$ 786	$ 273,117	$ 20,620,294
Cost									
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	-	34,299	110,166	18,942	40,746	52,875	422	44,544	301,994
Disposals	-	-	(90,135)	(8,767)	(19,846)	(23,935)	-	-	(142,683)
Reclassification	-	-	8,087	3,667	-	-	(3,668)	(12,915)	(4,829)
Effect of foreign currency exchange differences	-	(11,859)	(3,294)	(620)	(2,128)	(5,792)	-	(1,722)	(25,415)
Balance at September 30, 2017	$ 14,657,121	$ 9,130,569	$ 4,677,782	$ 721,787	$ 1,449,281	$ 969,068	$ 1,007	$ 83,401	$ 31,690,016
Accumulated depreciation and impairment									
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	-	134,266	162,439	33,536	35,742	32,870	191	-	399,044
Disposals	-	-	(88,668)	(8,643)	(19,359)	(23,492)	-	-	(140,162)
Reclassification	-	-	-	2,037	-	-	(2,037)	-	-
Effect of foreign currency exchange differences	-	(349)	(1,714)	(322)	(1,528)	(3,360)	-	-	(7,273)
Balance at September 30, 2017	$ -	$ 4,247,562	$ 4,058,955	$ 597,574	$ 1,288,762	$ 817,562	$ 320	$ -	$ 11,010,735
Carrying amounts at September 30, 2017	$ 14,657,121	$ 4,883,007	$ 618,827	$ 124,213	$ 160,519	$ 151,506	$ 687	$ 83,401	$ 20,679,281

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

	September 30, 2018	December 31, 2017	September 30, 2017
Completed investment property	$ 13,743,307	$ 13,747,787	$ 13,749,049

Except for depreciation recognized, the Bank had no significant additions, disposals, and impairment of investment property during the nine months ended September 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 investment properties are measured and stated at cost in the balance sheet. For management purpose, the Bank's internal appraisers periodically measure the fair value of investment properties in accordance with the Bank's internal rules and procedures. The fair values were $26,696,860 thousand, $26,269,911 thousand and $26,269,911 thousand as of September 30, 2018, December 31, 2017 and September 30, 2017, respectively.

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Rental incomes	$ 47,671	$ 46,205	$ 141,031	$ 137,082
Direct operating expenses	$ 27,651	$ 29,873	$ 82,873	$ 89,686

21. INTANGIBLE ASSETS

	September 30, 2018	December 31, 2017	September 30, 2017
Computer software	$ 339,978	$ 436,176	$ 416,721

Except for amortization recognized, the Bank had no significant additions, disposals, and impairment of intangible assets during the nine months ended September 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

	September 30, 2018	December 31, 2017	September 30, 2017
Refundable deposits	$ 671,911	$ 638,049	$ 335,850
Assumed collateral and residuals	23,462	23,462	23,462
Less: Accumulated impairment	(23,462)	(23,462)	(23,462)
Prepayments	419,514	293,649	399,261
Others	276	181	201
	$ 1,091,701	$ 931,879	$ 735,312

23. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	September 30, 2018	December 31, 2017	September 30, 2017
Deposits from the Central Bank	$ 24,907	$ 22,509	$ 26,408
Deposits from banks	28,236,582	27,976,541	22,626,602
Overdrafts on banks	1,001,306	841,014	764,318
Call loans from banks	83,646,806	77,517,520	89,749,130
Deposits transferred from Chunghwa Post Co., Ltd.	802,057	1,794,283	2,047,487
	$ 113,711,658	$ 108,151,867	$ 115,213,945

24. PAYABLES

	September 30, 2018	December 31, 2017	September 30, 2017
Checks issued to payees for clearing	$ 18,446,895	$ 18,412,071	$ 8,501,499
Accounts payable	3,492,970	1,789,193	2,514,702
Accrued expenses	1,719,988	2,461,012	2,186,794
Accrued interests	2,731,300	2,094,269	2,193,632
Acceptances	6,717,883	4,339,412	4,600,429
Others	9,173,921	5,753,898	8,447,322
	$ 42,282,957	$ 34,849,855	$ 28,444,378

25. DEPOSITS AND REMITTANCES

	September 30, 2018	December 31, 2017	September 30, 2017
Checking account deposits	$ 36,605,449	$ 42,033,779	$ 31,913,587
Demand deposits	403,220,392	412,119,333	415,108,928
Time deposits	392,003,074	373,331,138	373,847,686
Negotiable certificates of deposit	6,297,778	6,747,936	6,789,252
Savings account deposits	843,656,054	835,498,391	832,031,650
Remittances	1,300,081	2,349,207	933,673
	$ 1,683,082,828	$ 1,672,079,784	$ 1,660,624,776

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:

Bank Note, Interest Rate and Maturity Date	**September 30, 2018**	**December 31, 2017**	**September 30, 2017**
Hedged financial liabilities at fair value			
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	218,342	239,657	245,036
	8,418,342	8,439,657	8,445,036
Non-hedged bank notes payable			
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)

Bank Note, Interest Rate and Maturity Date	September 30, 2018	December 31, 2017	September 30, 2017
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%	7,000,000	-	-
	38,100,000	33,300,000	33,300,000
	$ 46,518,342	$ 41,739,657	$ 41,745,036

(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

	September 30, 2018	December 31, 2017	September 30, 2017
Principal received on structured notes	$ 3,627,465	$ 3,040,687	$ 2,963,955
Appropriations for loans	625,104	621,529	313,803
Lease payable	699	384	435
	$ 4,253,268	$ 3,662,600	$ 3,278,193

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

	September 30, 2018	December 31, 2017	September 30, 2017
Advance receipts	$ 701,937	$ 753,160	$ 827,404
Guarantee deposits	2,585,549	1,894,206	2,589,866
Deferred revenue	23,362	18,427	28,730
	$ 3,310,848	$ 2,665,793	$ 3,446,000

29. RESERVE FOR LIABILITIES

	September 30, 2018	December 31, 2017	September 30, 2017
Reserve for employee benefits	$ 4,081,264	$ 4,254,235	$ 3,828,429
Reserve for guarantee liabilities	560,004	504,600	509,043
Reserve for loan commitments	332,996	-	-
Others	32,834	-	324
	$ 5,007,098	$ 4,758,835	$ 4,337,796

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 nine months ended September 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 $81,092 thousand, $81,980 thousand, $242,978 thousand and $247,701 thousand for the three months and the nine months ended September 30, 2018 and 2017, respectively.

31. EQUITY

a. Capital

Common stock

	September 30, 2018	December 31, 2017	September 30, 2017
Number of stocks authorized (in thousands)	11,000,000	11,000,000	9,000,000
Stocks authorized	$ 110,000,000	$ 110,000,000	$ 90,000,000
Number of stocks issued and fully paid (in thousands)	9,789,521	9,413,001	9,413,001
Stocks issued	$ 97,895,207	$ 94,130,007	$ 94,130,007

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 shares 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 September 2018 and August 2017, the Bank resolved capitalization of earnings and increased its paid-in capital by $3,765,200 thousand and $4,482,381 thousand. The amount of the Bank's authorized and registered capital at September 30, 2018 and 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 $97,895,207 thousand and $94,130,007 thousand divided into 9,789,521 thousand and 9,413,001 thousand outstanding shares, at $10 par value.

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 32, h, "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 share were as follows:

	Appropriation of Earnings		Dividends Per Share (NT$)	
	2017	2016	2017	2016
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

	September 30, 2018	December 31, 2017	September 30, 2017
Special reserves appropriated following first-time adoption of IFRSs	$ 11,778,829	$ 11,778,829	$ 11,778,829
Others	362,587	302,121	302,121
	$ 12,141,416	$ 12,080,950	$ 12,080,950

32. NET INCOME

a. Net income of interest

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Interest income				
Loans	$ 7,398,219	$ 7,027,719	$ 21,874,348	$ 20,706,121
Due from and call loans to banks	1,279,539	997,079	3,689,141	2,596,065
Investments in marketable securities	960,764	770,994	2,708,578	2,210,919
Others	64,269	42,571	210,896	108,751
	9,702,791	8,838,363	28,482,963	25,621,856
Interest expense				
Deposits	(2,990,043)	(2,457,144)	(8,542,875)	(7,088,386)
Due to central bank and call loans from banks	(624,885)	(396,945)	(1,861,373)	(1,119,173)
Others	(263,426)	(198,317)	(686,052)	(544,990)
	(3,878,354)	(3,052,406)	(11,090,300)	(8,752,549)
Net income of interest	$ 5,824,437	$ 5,785,957	$ 17,392,663	$ 16,869,307

b. Net service fee income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Service fee income				
Fees from import and export	$ 81,660	$ 80,365	$ 252,968	$ 254,322
Remittance fees	122,569	124,992	364,459	364,775
Loan fees	199,089	215,477	456,379	508,353
Fees from trust	186,515	235,374	684,271	597,112
Fees from trust business	80,819	69,219	234,828	196,546
Fees from insurance agency	565,882	461,392	1,550,791	1,724,022
Others	299,451	256,423	855,147	745,745
	1,535,985	1,443,242	4,398,843	4,390,875
Service charge				
Interbank charges	(38,484)	(36,405)	(114,360)	(108,334)
Charges from trust	(6,007)	(9,096)	(23,475)	(29,815)
Custodian charges	(26,708)	(24,860)	(79,611)	(66,724)
Charges from insurance agency	(44,998)	(36,824)	(127,500)	(142,778)
Others	(136,469)	(128,138)	(378,464)	(354,942)
	(252,666)	(235,323)	(723,410)	(702,593)
Net service fee income	$ 1,283,319	$ 1,207,919	$ 3,675,433	$ 3,688,282

c. Gain (loss) on financial assets or liabilities measured at fair value through profit or loss

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Realized gain (loss) on financial assets or liabilities measured at FVTPL				
Stocks and beneficiary certificates	$ (48,212)	$ 1,786	$ (53,044)	$ 27,705
Bonds	(780)	(333)	(5,295)	12,772
Bills	23	-	34	5
Derivative financial instruments	680,509	558,293	2,220,767	1,695,310
Net interest loss	(85,313)	(65,287)	(248,053)	(171,483)
Stock dividends and bonus	3,877	3,996	6,989	4,379
	550,104	498,455	1,921,398	1,568,688
Valuation gain (loss) on financial assets or liabilities measured at FVTPL				
Stocks and beneficiary certificates	5,876	3,763	(4,961)	(17,742)
Bonds	86,653	5,353	441,823	12,873
Bills	(639)	1,757	(351)	330
Derivative financial instruments	51,071	(94,700)	(316,137)	83,551
	142,961	(83,827)	120,374	79,012
	$ 693,065	$ 414,628	$ 2,041,772	$ 1,647,700

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

	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
Stock dividends and bonus	$ 318,895	$ 457,001
Disposal gains		
Bonds	42,957	61,318
Disposal losses		
Beneficiary securities	(1)	(2)
Bonds	(21)	(36)
	$ 361,830	$ 518,281

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

	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017
Stock dividends and bonus	$ 129,984	$ 129,984
Disposal gains		
Stock	12,423	72,129
Bonds	39,698	153,787
	182,105	355,900
Disposal losses		
Stock	-	(4,519)
Bonds	(10,633)	(11,208)
	(10,633)	(15,727)
	$ 171,472	$ 340,173

f. Depreciation and amortization expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Property and equipment	$ 125,661	$ 133,954	$ 381,263	$ 399,044
Investment property	1,672	1,643	4,996	4,932
Intangible assets and other deferred assets	50,847	46,465	149,520	132,327
	$ 178,180	$ 182,062	$ 535,779	$ 536,303

g. Employee benefits expenses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
Short-term employee benefits	$ 2,278,253	$ 2,787,376	$ 6,926,846	$ 7,293,053
Post-employment benefits				
Defined contribution plans	45,927	42,642	135,080	125,701
Defined benefit plans	81,092	81,980	242,978	247,701
High-yield savings account for employees	130,371	128,752	386,510	378,207
Other post-employment benefits	2,316	2,031	6,715	6,097
Termination benefits	5,341	8,040	8,983	70,768
	$ 2,543,300	$ 3,050,821	$ 7,707,112	$ 8,121,527

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 nine months ended September 30, 2018 and 2017 were as follows:

Accrual rate

	For the Nine Months Ended September 30	
	2018	**2017**
Employees' compensation	4.00%	5.00%
Remuneration of directors	0.30%	0.40%

Amount

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	**2017**	**2018**	**2017**
	Cash	**Cash**	**Cash**	**Cash**
Employees' compensation	$ 128,000	$ 186,000	$ 512,000	$ 558,000
Remuneration of directors	$ 10,200	$ 15,000	$ 40,800	$ 45,000

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:

	For the Year Ended December 31	
	2017	2016
	Cash	Cash
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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Current income tax				
In respect of the current period	$ 704,901	$ 706,865	$ 1,418,283	$ 1,850,794
Income tax on unappropriated earnings	-	-	5,396	-
Deferred income tax				
In respect of the current period	(125,757)	(61,113)	545,716	(59,508)
Adjustments to deferred tax attributable to changes in tax rates and laws	-	-	(483,061)	-
Income tax expense recognized in profit or loss	$ 579,144	$ 645,752	$ 1,486,334	$ 1,791,286

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Deferred tax				
Effect of change in tax rate	$ -	$ -	$ (24,422)	$ -
In respect of the current year:				
Exchange differences on translation	(71,654)	13,994	6,938	(103,505)
Unrealized gains (losses) on valuation of available-for-sale financial assets	-	2,941	-	12,715
Unrealized gains of financial assets at fair value through other comprehensive income	(253)	-	(5,476)	-
Total income tax benefit recognized in other comprehensive income	$ (71,907)	$ 16,935	$ (22,960)	$ (90,790)

c. Income tax assessments

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

34. EARNINGS PER SHARE

The computation of earnings per share was retrospectively adjusted for the effects of adjustments resulting from bonus stock issues on September 10, 2018. The basic and diluted after-tax earnings per share of 2017 were adjusted retrospectively as follows:

Unit: NT$ Per Share

	Before Adjusted Retrospectively		After Adjusted Retrospectively	
	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017	For the Three Months Ended September 30, 2017	For the Nine Months Ended September 30, 2017
Basic earnings per stock	$ 0.36	$ 0.99	$ 0.35	$ 0.96
Diluted earnings per stock	$ 0.36	$ 0.99	$ 0.35	$ 0.95

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Net profit for the period	$ 3,403,212	$ 3,398,515	$ 9,968,126	$ 9,354,520

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Weighted average number of common stocks in computation of basic earnings per share	9,789,521	9,789,521	9,789,521	9,789,521
Effect of potentially dilutive common stocks:				
Employees' compensation issued	27,090	34,024	36,865	42,986
Weighted average number of common stocks used in the computation of diluted earnings per share	9,816,611	9,823,545	9,826,386	9,832,507

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 share 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 September 30, 2018, December 31, 2017 and September 30, 2017, refundable deposits paid under operation leases amounted to $46,236 thousand, $43,272 thousand and $44,517 thousand, respectively.

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

	September 30, 2018	December 31, 2017	September 30, 2017
Not later than 1 year	$ 621,126	$ 594,797	$ 571,708
Later than 1 year and not later than 5 years	1,193,629	1,275,879	1,096,040
Later than 5 years	268,050	362,369	390,168
	$ 2,082,805	$ 2,233,045	$ 2,057,916

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 September 30, 2018, December 31, 2017 and September 30, 2017, refundable deposits received under operation leases amounted to $55,092 thousand, $55,014 thousand and $50,769 thousand, respectively.

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

	September 30, 2018	December 31, 2017	September 30, 2017
Not later than 1 year	$ 239,612	$ 229,761	$ 236,867
Later than 1 year and not later than 5 years	501,910	504,391	529,926
Later than 5 years	82,454	78,584	78,584
	$ 823,976	$ 812,736	$ 845,377

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.

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

September 30, 2018

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets at amortized cost	$ 253,448,208	$ 6,896,588	$ 246,555,819	$ -	$ 253,452,407
Financial liabilities					
Bank notes payable	46,518,342	-	8,418,342	39,174,300	47,592,642

December 31, 2017

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Investments in debt instruments 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
Financial liabilities					
Bank notes payable	41,739,657	-	8,439,657	34,358,719	42,798,376

September 30, 2017

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Investments in debt instruments without active market	$ 70,197	$ -	$ 73,815	$ -	$ 73,815
Held-to-maturity investments	243,006,468	3,890,494	239,199,752	-	243,090,246
Financial liabilities					
Bank notes payable	41,745,036	-	8,445,036	34,416,269	42,861,305

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	September 30, 2018			
	Total	Level 1	Level 2	Level 3
Non-derivative financial products				
Assets				
Financial assets at FVTPL	$ 7,830,176	$ 1,713,956	$ 6,116,220	$ -
Financial assets mandatorily measured at FVTPL	7,647,081	1,713,956	5,933,125	-
Stocks investments	115,362	115,362	-	-
Bond investments	2,387,401	1,598,594	788,807	-
Others	5,144,318	-	5,144,318	-
Financial assets designated at FVTPL	183,095	-	183,095	-
Financial assets at FVTOCI	99,532,361	57,579,282	34,365,339	7,587,740
Stock investments	12,397,391	4,809,651	-	7,587,740
Bond investments	84,640,062	50,274,723	34,365,339	-
Others	2,494,908	2,494,908	-	-
Liabilities				
Financial liabilities at FVTPL	8,836,392	-	8,836,392	-
Derivative financial products				
Assets				
Financial assets at FVTPL	4,087,654	180,082	3,907,572	-
Other financial assets				
Financial assets for hedging	215,841	-	215,841	-
Liabilities				
Financial liabilities at FVTPL	3,311,497	-	3,311,497	-

Fair Value Measurement of Financial Instruments	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Non-derivative financial products				
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	-
Derivative financial products				
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	September 30, 2017			
	Total	Level 1	Level 2	Level 3
Non-derivative financial products				
Assets				
Financial assets at FVTPL	$ 12,396,511	$ 6,311,215	$ 6,085,296	$ -
Trading assets	7,197,764	1,296,023	5,901,741	-
Stocks and mutual funds	101,274	101,274	-	-
Bond investments	1,805,728	1,194,749	610,979	-
Others	5,290,762	-	5,290,762	-
Financial assets designated at FVTPL	5,198,747	5,015,192	183,555	-
Available-for-sale financial assets	81,357,284	43,759,001	37,598,283	-
Stock investments	3,717,383	3,717,383	-	-
Bond investments	76,045,117	38,446,834	37,598,283	-
Others	1,594,784	1,594,784	-	-
Liabilities				
Financial liabilities at FVTPL	12,213,027	-	12,213,027	-
Derivative financial products				
Assets				
Financial assets at FVTPL	3,587,103	184,193	3,402,910	-
Other financial assets				
Derivative financial assets for hedging	250,331	-	250,331	-
Liabilities				
Financial liabilities at FVTPL	2,275,920	-	2,275,920	-

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 nine months ended September 30, 2018

Financial Assets	Financial Assets at Fair Value Through Other Comprehensive Income
	Equity Instrument
Beginning balance	$ 7,678,043
Realized losses on other comprehensive income (unrealized gain (loss) on financial assets at fair value through other comprehensive income)	(90,303)
Ending balance	$ 7,587,740

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 Taiwan Bills Index Rate (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 with no 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 market price and parameters 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 with no active market; (3) valuation with no 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 September 30, 2018 and 2017, the Bank's VaR factors based on historical simulation method were as follows:

	For the Nine Months Ended September 30, 2018			
	Average	Highest	Lowest	Ending Balance
Exchange VaR	$ 103,451	$ 134,964	$ 85,352	$ 87,703
Interest rate VaR	6,290	12,239	3,770	7,383
Equity securities VaR	7,321	10,043	3,364	4,871
Value at risk	$ 117,062	$ 157,246	$ 92,486	$ 99,957

	For the Nine Months Ended September 30, 2017			
	Average	Highest	Lowest	Ending Balance
Exchange VaR	$ 134,236	$ 177,947	$ 84,442	$ 116,319
Interest rate VaR	9,465	18,047	5,090	8,294
Equity securities VaR	2,523	3,417	1,616	2,139
Value at risk	$ 146,224	$ 199,411	$ 91,148	$ 126,752

2) Primary foreign currencies

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

(Foreign Currencies/New Taiwan Dollars in Thousands)

	September 30, 2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
Monetary items			
USD	$ 7,892,734	30.5150	$ 240,846,778
AUD	1,103,068	22.0150	24,284,042
HKD	969,202	3.9030	3,782,795
CAD	80,592	23.4300	1,888,271
ZAR	466,711	2.1600	1,008,096
JPY	45,818,899	0.2688	12,316,120
EUR	354,912	35.5400	12,613,572
RMB	17,691,128	4.4330	78,424,770
Non-monetary items			
USD	18,884	30.5150	576,245

(Continued)

	September 30, 2018		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial liabilities			
Monetary items			
USD	$ 9,720,456	30.5150	$ 296,619,715
GBP	34,587	39.9300	1,381,059
AUD	1,044,194	22.0150	22,987,931
HKD	959,285	3.9030	3,744,089
CAD	87,122	23.4300	2,041,268
ZAR	1,810,513	2.1600	3,910,708
JPY	54,308,181	0.2688	14,598,039
EUR	409,378	35.5400	14,549,294
NZD	62,926	20.1900	1,270,476
RMB	16,403,708	4.4330	72,717,638
Non-monetary items			
USD	305,240	30.5150	9,314,399

(Concluded)

(Foreign Currencies/New Taiwan Dollars in Thousands)

	December 31, 2017		
	Foreign Currencies	Exchange Rate	New Taiwan Dollars
Financial assets			
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
Financial liabilities			
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)

	September 30, 2017		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 7,908,964	30.2600	$ 239,325,251
GBP	104,447	40.5600	4,236,370
AUD	1,288,236	23.7350	30,576,281
HKD	1,549,954	3.8730	6,002,972
SGD	63,019	22.3000	1,405,324
CAD	84,742	24.2800	2,057,536
ZAR	1,495,540	2.2300	3,335,054
JPY	54,387,134	0.2693	14,646,455
EUR	491,590	35.7500	17,574,343
RMB	19,101,532	4.5510	86,931,072
Non-monetary items			
USD	191,476	30.2600	5,794,064
Financial liabilities			
Monetary items			
USD	9,674,011	30.2600	292,735,573
GBP	88,029	40.5600	3,570,456
AUD	1,036,861	23.7350	24,609,896
HKD	1,342,439	3.8730	5,199,266
CAD	92,788	24.2800	2,252,893
ZAR	2,412,285	2.2300	5,379,396
JPY	55,794,728	0.2693	15,025,520
EUR	485,277	35.7500	17,348,653
RMB	15,171,218	4.5510	69,044,213
Non-monetary items			
USD	410,532	30.2600	12,422,698

For the three months and the nine months ended September 30, 2018 and 2017, net foreign exchange gains were $130,088 thousand, $121,348 thousand, $892,998 thousand and $9,137 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)

<u>2018</u>

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
	17	Caa1
Non-performing	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 classifies credit assets into the following nine categories by the credit risk characteristics of the respective debtor's industry and organization size:

Business	Combination	Credit Risk Characteristics
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.

v) 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 ECL at the time of initial recognition of the credit impaired financial assets - loans which were purchased or originated is as follows:

	September 30, 2018
Loans	$ 5,665,940

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.

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:

September 30, 2018

		Maximum Exposure to Credit Risk Mitigated by			
	Carrying Amount	Collateral	Master Netting Arrangement	Other Credit Enhancements	Total
Discounts and loans	$ 1,384,781,751	$ 899,363,625	$ -	$ -	$ 899,363,625
Financial assets at FVTPL	11,917,830	3,997,277	-	-	3,997,277
Investments in debt instruments at FVTOCI	87,134,970	3,583,070	-	-	3,583,070
Investments in debt instruments at amortized cost	253,448,208	1,096,514	-	-	1,096,514

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

	Discounts and Loans September 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	$ 834,477,325	$ 813,298	$ -	$ 835,290,623
Levels 16-18	-	45,526,953	3,174,538	48,701,491
Levels 19-21	-	-	8,827,412	8,827,412
No rating	487,701,070	2,035,915	2,225,240	491,962,225
Total carrying amount	$ 1,322,178,395	$ 48,376,166	$ 14,227,190	$ 1,384,781,751
Expected credit losses	$ 1,849,163	$ 1,585,499	$ 5,584,752	$ 9,019,414
Recognized impairment based on the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing Loans and Bad Debts				7,601,869
				$ 16,621,283

	Guarantee Payments September 30, 2018			
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses	Total
Carrying amount	$ 46,218,555	$ 640,625	$ 142,901	$ 47,002,081
Expected credit losses	127,500	4,976	47,615	180,091

	Loan Commitments			
	September 30, 2018			
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses	Total
Carry amount - non-cancellable	$ 72,252,993	$ 3,329,085	$ 195,813	$ 75,777,891
Carry amount - cancellable	567,074,979	8,043,264	950,254	576,068,497
	$ 639,327,972	$ 11,372,349	$ 1,146,067	$ 651,846,388
Expected credit losses - non-cancellable	$ 75,481	$ 10,678	$ 168	$ 86,327
Expected credit losses - cancellable	244,545	48	1,443	246,036
	$ 320,026	$ 10,726	$ 1,611	$ 332,363

December 31, 2017

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	Master Netting Arrangement	Other Credit Enhancements	Total
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

September 30, 2017

	Maximum Exposure to Credit Risk Mitigated by			
	Collateral	Master Netting Arrangement	Other Credit Enhancements	Total
Discounts and loans	$ 896,713,602	$ -	$ -	$ 896,713,602
Financial assets at FVTPL	3,992,137	-	-	3,992,137
Available-for-sale financial assets	2,899,799	-	-	2,899,799
Held-to-maturity financial assets	1,049,985	-	-	1,049,985

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 September 30, 2018, December 31, 2017 and September 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:

Financial Instrument Type	September 30, 2018	December 31, 2017	September 30, 2017
Unused loan commitments (excluding credit card)	$ 75,777,891	$ 82,204,969	$ 79,282,344
Credit card commitments	394,260	333,092	341,182
Unused issued letters of credit	27,584,005	24,509,270	27,809,028
Guarantees in guarantee business	47,002,081	40,993,464	41,783,347

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:

	September 30, 2018	
Industry Type	**Carrying Amount**	**Percentage of Item (%)**
Financial and insurance	$ 62,731,807	5
Manufacturing	352,634,068	25
Wholesale and retail	124,189,109	9
Real estate and leasing	105,015,582	8
Service	42,852,949	3
Individuals	450,031,659	32
Others	247,326,577	18
	$ 1,384,781,751	

	December 31, 2017	
Industry Type	**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
	$ 1,393,407,639	

	September 30, 2017	
Industry Type	**Carrying Amount**	**Percentage of Item (%)**
Financial and insurance	$ 67,104,331	5
Manufacturing	345,522,128	25
Wholesale and retail	120,067,077	9
Real estate and leasing	107,254,794	8
Service	42,403,572	3
Individuals	456,036,553	33
Others	233,494,709	17
	$ 1,371,883,164	

Geographic Location	September 30, 2018 Carrying Amount	Percentage of Item (%)
Asia	$ 1,276,009,153	93
America	86,172,253	6
Europe	17,474,735	1
Others	5,125,610	-
	$ 1,384,781,751	

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

Geographic Location	September 30, 2017 Carrying Amount	Percentage of Item (%)
Asia	$ 1,309,139,860	96
America	45,223,372	3
Europe	16,262,749	1
Others	1,257,183	-
	$ 1,371,883,164	

Securities Type	September 30, 2018 Carrying Amount	Percentage of Item (%)
Unsecured	$ 485,418,126	35
Secured		
Properties	768,271,442	56
Others	131,092,183	9
	$ 1,384,781,751	

Securities Type	December 31, 2017 Carrying Amount	Percentage of Item (%)
Unsecured	$ 485,575,174	35
Secured		
Properties	756,683,671	54
Others	151,148,794	11
	$ 1,393,407,639	

Securities Type	September 30, 2017 Carrying Amount	Percentage of Item (%)
Unsecured	$ 475,169,562	35
Secured		
Properties	745,921,877	54
Others	150,791,725	11
	$ 1,371,883,164	

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 fair value through profit or loss, 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	
In-balance-sheet items											
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	September 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	
In-balance-sheet items											
Receivables	$ 6,639,000	$ 7,487,169	$ 210,235	$ 10,967,429	$ 25,303,833	$ 5,204	$ 464,611	$ 25,773,648	$ 415,467	$ 168,038	$ 25,190,143
Credit cards	-	-	-	1,934,895	1,934,895	-	29,971	1,964,866	13,976	5,418	1,945,472
Other	6,639,000	7,487,169	210,235	9,032,534	23,368,938	5,204	434,640	23,808,782	401,491	162,620	23,244,671
Discounts and loans	328,632,408	741,876,453	175,716,913	110,487,585	1,356,713,359	2,028,695	13,141,110	1,371,883,164	5,135,796	11,350,536	1,355,396,832

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	September 30, 2017				
	Neither Past Due Nor Impaired				
	High	Medium	Weak	Non-ratings	Total
Consumer finance	$ 77,051,983	$ 174,512,703	$ 140,524,087	$ 60,291,141	$ 452,379,914
Corporation finance	251,580,425	567,363,750	35,192,826	50,196,444	904,333,445
Total	$ 328,632,408	$ 741,876,453	$ 175,716,913	$ 110,487,585	$ 1,356,713,359

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 (Note)	201,720	137,111	-	64,609
Securities	64,609	-	-	-	64,609	-	137,111 (Note)	201,720	137,111	-	64,609

Note: Cost on the reclassification date.

(In Thousands of New Taiwan Dollars)

Item	September 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	$ 81,190,166	$ -	$ -	$ 137,118	$ 81,327,284	$ -	$ 150,000	$ 81,477,284	$ 120,000	$ -	$ 81,357,284
Bonds	75,907,999	-	-	137,118	76,045,117	-	-	76,045,117	-	-	76,045,117
Stocks	3,687,383	-	-	-	3,687,383	-	150,000	3,837,383	120,000	-	3,717,383
Bills	1,594,784	-	-	-	1,594,784	-	-	1,594,784	-	-	1,594,784
Held-to-maturity financial assets	243,006,468	-	-	-	243,006,468	-	-	243,006,468	-	-	243,006,468
Bonds	11,152,806	-	-	-	11,152,806	-	-	11,152,806	-	-	11,152,806
Bills	231,853,662	-	-	-	231,853,662	-	-	231,853,662	-	-	231,853,662
Other financial assets	70,197	-	-	-	70,197	-	139,794 (Note)	209,991	139,794	-	70,197
Securities	70,197	-	-	-	70,197	-	139,794 (Note)	209,991	139,794	-	70,197

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	September 30, 2017		
	Past Due Up to One Month	Past Due Over One Month	Total
Discounts and loans			
Consumer finance	$ 1,473,156	$ 429,504	$ 1,902,660
Corporation finance	117,309	8,726	126,035

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 September 30, 2018 and 2017, the ratio of the liquidity reserve was 18.72% and 17.85%, 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	September 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	$ 29,031,586	$ -	$ -	$ -	$ -	$ 29,031,586
Due from the Central Bank and call loans to banks	32,117,674	3,917,293	5,018,708	5,751,531	25,565,736	72,370,942
Financial assets at FVTPL	7,163,601	-	-	-	-	7,163,601
Receivables	20,312,061	823,475	421,851	250,067	172,640	21,980,094
Discounts and loans	106,239,715	160,868,004	100,176,948	149,795,275	629,481,246	1,146,561,188
Investments in equity instruments designated at FVTOCI	-	-	-	-	12,397,391	12,397,391
Investments in debt instruments at FVTOCI	-	-	2,205,459	705,053	27,305,671	30,216,183
Investments in debt instruments at amortized cost	142,159,942	9,010,000	11,564,940	29,224,010	13,679,257	205,638,149
Other maturity funds inflow items	-	-	-	-	14,208,502	14,208,502
	337,024,579	174,618,772	119,387,906	185,725,936	722,810,443	1,539,567,636
Major maturity fund outflows						
Deposits from the Central Bank and banks	290,567	152,347	66,362	500,085	-	1,009,361
Due to the Central Bank and banks	1,305,000	10,000	-	-	-	1,315,000
Securities sold under repurchase agreements	1,176,368	1,152,849	-	-	-	2,329,217
Payables	39,082,959	1,634,270	797,070	986,219	851,341	43,351,859
Deposits and remittances	113,149,020	119,263,166	153,187,138	175,555,245	712,512,603	1,273,667,172
Bank notes payable	-	-	-	-	46,300,000	46,300,000
Other maturity fund outflow items	46,961	108,250	72,036	215,671	5,737,964	6,180,882
	155,050,875	122,320,882	154,122,606	177,257,220	765,401,908	1,374,153,491
Gap	$ 181,973,704	$ 52,297,890	($ 34,734,700)	$ 8,468,716	$ (42,591,465)	$ 165,414,145

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
	292,739,233	113,794,347	107,356,695	253,808,965	743,441,343	1,511,140,583
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
	149,375,909	132,674,843	135,389,600	193,683,692	743,324,096	1,354,448,140
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	September 30, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Major maturity funds inflows						
Cash and cash equivalents	$ 15,071,040	$ -	$ -	$ -	$ -	$ 15,071,040
Due from the Central Bank and call loans to banks	21,592,964	3,951,153	5,206,579	5,970,466	24,961,970	61,683,132
Financial assets at FVTPL	7,197,763	-	-	-	-	7,197,763
Receivables	18,091,825	804,539	463,174	226,569	1,550,332	21,136,439
Discounts and loans	86,191,498	139,789,544	92,758,714	162,895,124	640,862,183	1,122,497,063
Available-for-sale financial assets	-	-	-	200,856	35,883,275	36,084,131
Held-to-maturity financial assets	159,735,000	8,399,929	6,299,823	15,187,246	13,200,101	202,822,099
Financial assets at cost	-	-	-	-	4,167,009	4,167,009
Other maturity fund inflow items	-	-	-	-	13,910,304	13,910,304
	307,880,090	152,945,165	104,728,290	184,480,261	734,535,174	1,484,568,980
Major maturity fund outflows						
Deposits from the Central Bank and banks	319,358	404,273	331,024	1,227,649	-	2,282,304
Due to the Central Bank and banks	5,000	10,000	-	-	-	15,000
Securities sold under repurchase agreements	1,249,955	1,779,973	17,023	-	-	3,046,951
Payables	23,000,558	1,572,118	383,998	1,967,354	854,463	27,778,491
Deposits and remittances	118,100,653	119,161,764	157,422,234	180,518,571	692,108,575	1,267,311,797
Bank notes payable	-	-	2,200,000	-	39,300,000	41,500,000
Other maturity fund outflow items	22,739	54,946	39,815	183,560	5,330,222	5,631,282
	142,698,263	122,983,074	160,394,094	183,897,134	737,593,260	1,347,565,825
Gap	$ 165,181,827	$ 29,962,091	$ (55,665,804)	$ 583,127	$ (3,058,086)	$ 137,003,155

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

(In Thousands of United States Dollars)

Item	September 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	$ 265,884	$ 10,076	$ -	$ -	$ -	$ 275,960
Due from the Central Bank and call loans to banks	1,794,238	958,827	131,726	156,535	3,509	3,044,835
Financial assets at FVTPL	21,844	-	-	-	-	21,844
Receivables	719,039	173,326	197,626	31,052	15,449	1,136,492
Discounts and loans	768,532	723,347	585,292	370,083	3,417,204	5,864,458
Investments in debt instruments at FVTOCI	236	-	23,040	29,196	1,040,294	1,092,766
Investments in debt instruments at amortized cost	-	-	7,996	4,080	282,861	294,937
Other maturity fund inflow items	5,000	-	696,500	453,000	8,735	1,163,235
	3,574,773	1,865,576	1,642,180	1,043,946	4,768,052	12,894,527
Major maturity fund outflows						
Deposits from the Central Bank and banks	831,030	40,565	847	21,695	85	894,222
Due to the Central Bank and banks	1,478,947	412,000	39,000	(20,000)	-	1,909,947
Financial liabilities at FVTPL	-	-	-	-	289,575	289,575
Securities sold under repurchase agreements	122,898	150,076	-	-	-	272,974
Payables	725,432	38,165	4,911	4,174	2,105	774,787
Deposits and remittances	2,222,895	2,257,970	1,407,451	1,266,989	2,964,222	10,119,527
Other maturity fund outflow items	43,979	967	241	578	108,996	154,761
	5,425,181	2,899,743	1,452,450	1,273,436	3,364,983	14,415,793
Gap	$ (1,850,408)	$ (1,034,167)	$ 189,730	$ (229,490)	$ 1,403,069	$ (1,521,266)

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 instrument without active market	-	-	-	-	2,177	2,177
Other maturity fund inflow items	5,000	-	-	300,000	13,694	318,694
	3,997,567	2,057,668	1,108,065	842,765	4,352,457	12,358,522
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
	5,369,240	2,858,532	1,025,507	1,420,775	3,835,584	14,509,638
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	September 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	$ 733,321	$ 317,650	$ 200,000	$ 300,000	$ -	$ 1,550,971
Due from the Central Bank and call loans to banks	1,895,986	820,227	366,136	201,317	3,769	3,287,435
Financial assets at FVTPL	171,803	-	-	-	-	171,803
Receivables	474,347	101,107	246,194	12,913	14,324	848,885
Discounts and loans	512,642	669,423	571,372	403,323	4,022,056	6,178,816
Available-for-sale financial assets	-	-	14,112	4,971	429,119	448,202
Held-to-maturity financial assets	7,999	10,003	-	-	8,002	26,004
Investments in debt instrument without active market	-	-	-	-	2,320	2,320
Financial assets carried at cost	-	-	-	-	-	-
Other maturity fund inflow items	5,000	-	16,500	25,000	5,583	52,083
	3,801,098	1,918,410	1,414,314	947,524	4,485,173	12,566,519
Major maturity fund outflows						
Deposits from the Central Bank and banks	941,391	30,859	1,186	2,334	20,156	995,926
Due to the Central Bank and banks	1,439,925	549,000	95,000	-	110,000	2,193,925
Financial liabilities at FVTPL	-	112,212	-	-	291,391	403,603
Payables	677,262	47,492	2,464	2,245	3,045	732,508
Deposits and remittances	2,139,360	2,043,472	1,089,116	1,314,834	3,320,835	9,907,617
Other maturity fund outflow items	36,412	599	267	87	78,397	115,762
	5,234,350	2,783,634	1,188,033	1,319,500	3,823,824	14,349,341
Gap	$ (1,433,252)	$ (865,224)	$ 226,281	$ (371,976)	$ 661,349	$ (1,782,822)

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	September 30, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	$ 127,631,900	$ 211,334,175	$ 47,400,191	$ 11,988,355	$ 17,123	$ 398,371,744
Inflows	127,780,931	211,748,998	47,684,874	12,054,994	17,072	399,286,869
Interest rate derivative instruments						
Outflows	654,153	2,100,090	-	1,198,420	2,156	3,954,819
Inflows	468,201	2,136,050	-	1,198,420	287,735	4,090,406
Total outflows	$ 128,286,053	$ 213,434,265	$ 47,400,191	$ 13,186,775	$ 19,279	$ 402,326,563
Total inflows	$ 128,249,132	$ 213,885,048	$ 47,684,874	$ 13,253,414	$ 304,807	$ 403,377,275

(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	September 30, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	$ 94,908,388	$ 187,529,628	$ 42,379,099	$ 10,174,518	$ 364,592	$ 335,356,225
Inflows	95,227,655	187,729,090	42,473,100	10,082,357	364,822	335,877,024
Interest rate derivative instruments						
Outflows	1,059,100	6,037,577	4,262,580	5,039,414	-	16,398,671
Inflows	1,307,185	6,132,131	4,584,350	4,955,914	283,131	17,262,711
Total outflows	$ 95,967,488	$ 193,567,205	$ 46,641,679	$ 15,213,932	$ 364,592	$ 351,754,896
Total inflows	$ 96,534,840	$ 193,861,221	$ 47,057,450	$ 15,038,271	$ 647,953	$ 353,139,735

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	September 30, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	$ 57,569,239	$ 1,018,557	$ 1,575,409	$ 3,320,550	$ 12,294,136	$ 75,777,891
Credit card commitments	-	920	1,725	25,884	365,731	394,260
Letters of credit issued yet unused	27,378,775	188,477	16,753	-	-	27,584,005
Guarantees	45,127,130	508,750	777,945	271,968	316,288	47,002,081
	$ 130,075,144	$ 1,716,704	$ 2,371,832	$ 3,618,402	$ 12,976,155	$ 150,758,237

(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	September 30, 2017					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	$ 55,976,220	$ 1,010,427	$ 2,432,366	$ 6,354,905	$ 13,508,426	$ 79,282,344
Credit card commitments	-	839	3,025	9,571	327,747	341,182
Letters of credit issued yet unused	27,632,400	153,104	23,524	-	-	27,809,028
Guarantees	40,006,882	412,088	352,862	298,335	713,180	41,783,347
	$ 123,615,502	$ 1,576,458	$ 2,811,777	$ 6,662,811	$ 14,549,353	$ 149,215,901

38. OTHER DISCLOSURES OF FINANCIAL INSTITUTION

a. Asset quality

Business Type \ Item			September 30, 2018					September 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		$ 1,875,858	$ 455,589,811	0.41%	$ 5,285,052	281.74%	$ 1,935,386	$ 448,254,039	0.43%	$ 5,106,997	263.87%
	Unsecured		536,625	479,160,246	0.11%	5,368,256	1,000.37%	417,524	467,592,536	0.09%	5,324,087	1,275.16%
Consumer finance	Mortgage loans (Note d)		961,586	270,375,235	0.36%	4,118,327	428.28%	1,153,985	282,263,860	0.41%	4,285,219	371.34%
	Cash cards (Note h)		-	-	-	-	-	-	-	-	-	-
	Credit loans (Note e)		4,275	1,598,289	0.27%	18,293	427.91%	10,325	1,889,250	0.55%	21,772	210.87%
	Others (Note f)	Secured	717,235	176,814,690	0.41%	1,817,486	253.40%	472,317	170,439,773	0.28%	1,732,332	366.77%
		Unsecured	3,645	1,243,480	0.29%	13,869	380.49%	3,583	1,443,706	0.25%	15,925	444.46%
Total			4,099,224	1,384,781,751	0.30%	16,621,283	405.47%	3,993,120	1,371,883,164	0.29%	16,486,332	412.87%

Business Type \ Item	September 30, 2018					September 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	$ 5,059	$ 1,912,778	0.26%	$ 22,301	440.82%	$ 4,451	$ 1,811,135	0.25%	$ 22,222	499.26%
No recourse receivable factoring (Note g)	-	13,163,979	-	131,640	-	-	11,956,384	-	119,564	-

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.

Business Type \ Item	September 30, 2018		September 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**
Negotiated loans transacted in accordance with the agreement and exempted from reporting as non-performing loans (Note a)	$ -	$ 1,367	$ 27	$ 1,769
Negotiated accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing receivables (Note b)	571	16,819	238	15,629
Total	571	18,186	265	17,398

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

September 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)	$ 26,064,364	16.86
2	B Group (steel smelting industry)	20,714,940	13.40
3	C Group (airline industry)	19,647,561	12.71
4	D Group (synthesis construction industry)	17,637,845	11.41
5	E Group (basic chemical material manufacturing industry)	16,327,743	10.56
6	F Group (steel manufacturing industry)	7,571,767	4.90
7	G Group (other computer peripheral equipment manufacturing industry)	6,876,474	4.45
8	H Group (real estate development industry)	5,797,530	3.75
9	I Group (real estate development industry)	5,664,792	3.66
10	J Group (financial intermediation industry)	5,643,592	3.65

September 30, 2017			
Rank (Note a)	Transaction Party (Note b)	Loans (Note c)	As Proportion of Net Equity (%) (Note d)
1	B Group (other chemical industry)	27,330,295	19.11
2	A Corporation (railway transportation industry)	26,839,664	18.76
3	C Group (airline industry)	20,902,756	14.61
4	D Group (synthesis construction industry)	14,526,046	10.15
5	E Group (concrete manufacturing industry)	12,514,450	8.75
6	K Group (real estate development industry)	7,863,800	5.50
7	F Group (steel manufacturing industry)	7,399,742	5.17
8	J Group (financial intermediation industry)	6,892,825	4.82
9	L Group (liquid crystal panel and components manufacturing industry)	5,676,269	3.97
10	M Group (wholesale of electronic equipment and parts industry)	5,634,902	3.94

Note a: Sorted by the balance of loans on September 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; %)

Item	September 30, 2018				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	$ 1,261,884,014	$ 60,047,460	$ 42,086,413	$ 113,608,442	$ 1,477,626,329
Interest-sensitive liabilities	320,061,034	842,001,418	79,223,406	43,877,670	1,285,163,528
Interest sensitivity gap	941,822,980	(781,953,958)	(37,136,993)	69,730,772	192,462,801
Net equity					121,330,886
Ratio of interest-sensitive assets to liabilities					114.98%
Ratio of interest sensitivity gap to net equity					158.63%

(In Thousands of New Taiwan Dollars; %)

Item	September 30, 2017				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	$ 1,258,845,522	$ 33,956,484	$ 48,808,362	$ 104,466,536	$ 1,446,076,904
Interest-sensitive liabilities	322,572,443	833,243,337	87,928,613	38,403,861	1,282,148,254
Interest sensitivity gap	936,273,079	(799,286,853)	(39,120,251)	66,062,675	163,928,650
Net equity					115,708,270
Ratio of interest-sensitive assets to liabilities					112.79%
Ratio of interest sensitivity gap to net equity					141.67%

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	September 30, 2018				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	$ 11,824,527	$ 1,645,379	$ 703,472	$ 740,368	$ 14,913,746
Interest-sensitive liabilities	13,923,543	1,309,341	1,000,909	20,165	16,253,958
Interest sensitivity gap	(2,099,016)	336,038	(297,437)	720,203	(1,340,212)
Net equity					657,095
Ratio of interest-sensitive assets to liabilities					91.75%
Ratio of interest sensitivity gap to net equity					(203.96%)

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

Item	September 30, 2017				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	$ 12,349,945	$ 1,426,434	$ 569,534	$ 149,004	$ 14,494,917
Interest-sensitive liabilities	14,201,712	917,394	953,087	20,531	16,092,724
Interest sensitivity gap	(1,851,767)	509,040	(383,553)	128,473	(1,597,807)
Net equity					498,045
Ratio of interest-sensitive assets to liabilities					90.07%
Ratio of interest sensitivity gap to net equity					(320.82%)

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		September 30, 2018	September 30, 2017
Return on total assets	Pretax	0.56%	0.55%
	After tax	0.48%	0.46%
Return on net equity	Pretax	7.65%	7.94%
	After tax	6.66%	6.67%
Profit margin		40.38%	40.69%

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 September 30 of 2018 and 2017, respectively.

e. Maturity analysis of assets and liabilities

(In Thousands of New Taiwan Dollars)

	Total	September 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	$ 1,713,935,593	$ 181,939,001	$ 184,355,736	$ 280,614,668	$ 131,472,675	$ 191,905,482	$ 743,648,031
Major maturity cash outflows	2,225,167,625	120,724,200	142,883,703	341,062,972	291,910,708	405,299,864	923,286,178
Gap	(511,232,032)	61,214,801	41,472,033	(60,448,304)	(160,438,033)	(213,394,382)	(179,638,147)

(In Thousands of New Taiwan Dollars)

	Total	September 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	$ 1,658,199,636	$ 165,210,787	$ 167,168,265	$ 251,699,492	$ 125,585,307	$ 192,701,552	$ 755,834,233
Major maturity cash outflows	2,147,879,246	83,756,964	150,450,612	339,170,444	288,163,216	398,731,792	887,606,218
Gap	(489,679,610)	81,453,823	16,717,653	(87,470,952)	(162,577,909)	(206,030,240)	(131,771,985)

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	September 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	$ 22,618,296	$ 8,874,085	$ 4,715,798	$ 2,573,593	$ 1,281,288	$ 5,173,532
Major maturity cash outflows	27,644,527	9,697,789	5,536,851	3,018,162	3,365,480	6,026,245
Gap	(5,026,231)	(823,704)	(821,053)	(444,569)	(2,084,192)	(852,713)

(In Thousands of U.S. Dollars)

	Total	September 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	$ 21,603,375	$ 8,420,437	$ 5,040,569	$ 2,197,714	$ 1,116,374	$ 4,828,281
Major maturity cash outflows	26,309,712	8,876,159	5,022,015	2,798,196	3,447,344	6,165,998
Gap	(4,706,337)	(455,722)	18,554	(600,482)	(2,330,970)	(1,337,717)

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 September 30, 2018 and 2017 were as follows:

	September 30	
	2018	2017
Special purpose trust accounts - domestic	$ 30,053,071	$ 25,838,617
Special purpose trust accounts - foreign	75,935,355	75,897,917
Insurance trust	10,681	1,046
Retirement and breeds trust	300,221	288,203
Umbilical-cord-blood trust	10,927,800	9,570,720
Money claim and guarantee trust	65,800	73,800
Marketable securities trust	711,075	777,550
Real estate trust	19,599,203	16,911,047
Securities under custody	135,082,703	133,607,680
Other money trust	3,393,494	1,266,331
	$ 276,079,403	$ 264,232,911

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
Yang Ming Marine Transport Corporation	Its director is representative of the Bank's corporate director
Powertec Energy Corporation	Its director is the Bank's corporate director
Ritdisplay Corporation	Its director is the Bank's corporate director
Taiwan Biotech Corporation	Its director is the Bank's corporate director
China Airlines Ltd.	Its director is the Bank's corporate director
Kaohsiung Rapid Transit Corporation	Its director is the Bank's corporate director
MasterLink Securities Corporation	Its corporate director is the Bank
Adimmune Corporation	Its supervisor is the Bank's corporate director
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 September 30, 2018	$ 29,534,527	2.16
Balance as of December 31, 2017	28,819,698	2.09
Balance as of September 30, 2017	29,008,692	2.14

For the nine months ended September 30, 2018 and 2017, interest ranged from 0.63% to 3.73% and from 0.00% to 3.67%, and interest income was $434,622 thousand and $419,392 thousand, respectively. For the three months ended September 30, 2018 and 2017, interest income was $163,483 thousand and $135,136 thousand, respectively.

	September 30, 2018					
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
Consumer loans						
26 accounts	$ 13,713	$ 14,416	$ 13,713	$ -	Credit	None
Self-use residential mortgage loans						
201 accounts	1,205,877	1,249,535	1,205,877	-	Real estate	None
Others						
Taiwan High Speed Rail Corporation	25,688,424	26,694,805	25,688,424	-	Credit and station equipment	None
Yang Ming Marine Transport Corporation	1,640,000	2,180,000	1,640,000	-	Ship	None
Powertec Energy Corporation	588,854	603,854	588,854	-	Credit	None
Other - corporation 7 accounts (Note 1)	394,976	501,541	394,976	-	Credit and fund guarantee and real estate	None
Other - individual 4 accounts (Note 2)	2,684	4,432	2,684	-	Deposit	None

	December 31, 2017					
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
Consumer loans						
30 accounts	$ 13,370	$ 14,083	$ 13,370	$ -	Credit	None
Self-use residential mortgage loans						
202 accounts	1,173,424	1,219,832	1,173,424	-	Real estate	None
Others						
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

	September 30, 2017					
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
Consumer loans						
30 accounts	$ 12,407	$ 13,397	$ 12,407	$ -	Credit	None
Self-use residential mortgage loans						
196 accounts	1,167,356	1,197,045	1,167,356	-	Real estate	None
Others						
Taiwan High Speed Rail Corporation	26,608,601	28,511,247	26,608,601	-	Credit and station equipment	None
Powertec Energy Corporation	531,656	546,656	531,656	-	Credit	None
China Airlines Ltd.	300,000	2,232,500	300,000	-	Credit	None
Taiwan Biotech Corporation Ltd.	110,127	373,824	110,127	-	Credit	None
Other - corporation 6 accounts (Note 1)	273,280	341,451	273,280	-	Credit and fund guarantee and real estate	None
Other - individual 11 accounts (Note 2)	5,265	6,201	5,265	-	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 September 30, 2018, December 31, 2017 and September 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

	September 30, 2018				
	Ending Balance	Highest Amount	Reserve for Guarantee Liabilities	Interest Rate (Per Annum %)	Collateral
Yang Ming Marine Transport Corporation	$ 500,000	$ 500,000	$ 5,000	0.80	None
Kaohsiung Rapid Transit Corporation	24,588	30,388	246	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

	September 30, 2017				
	Ending Balance	Highest Amount	Reserve for Guarantee Liabilities	Interest Rate (Per Annum %)	Collateral
Kaohsiung Rapid Transit Corporation	$ 35,182	$ 50,280	$ 352	0.50	None
Adimmune Corporation	19,236	19,246	192	1.80	Pledged demand deposit

3) Deposits

	Balance	Percentage of Loans (%)
Balance as of September 30, 2018	$ 4,533,912	0.27
Balance as of December 31, 2017	4,376,758	0.26
Balance as of September 30, 2017	4,421,914	0.27

For the nine months ended September 30, 2018 and 2017, the interest rates intervals from 0.00% to 13.00% and 0.00% to 15.00%, respectively; the interest expense was $39,527 thousand and $72,734 thousand, respectively, for the three months ended September 30, 2018 and 2017, the interest expense was $12,244 thousand and $18,659 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)

	September 30, 2018					
Name	**Department**	**Currency**	**Ending Balance**	**Interest Rate (Per Annum %)**	**For the Three Months Ended September 30, 2018 Interest Income**	**For the Nine Months Ended September 30, 2018 Interest Income**
Land Bank	OBU	USD	$ 178,000	1.48-2.72	$ 923	$ 2,131
	Kunshan Branch	RMB	20,000	2.44-3.80	429	522
	Hong Kong Branch	USD	67,000	1.62-2.76	607	1,591
Taiwan Business Bank	OBU	USD	40,000	1.45-2.67	224	452
	Kunshan Branch	RMB	50,000	2.64-4.30	82	190
	Hong Kong Branch	USD	20,000	1.50-2.78	183	473

	December 31, 2017				
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	-

	September 30, 2017					
Name	**Department**	**Currency**	**Ending Balance**	**Interest Rate (Per Annum %)**	**For the Three Months Ended September 30, 2017 Interest Income**	**For the Nine Months Ended September 30, 2017 Interest Income**
Land Bank	OBU	USD	$ 100,000	1.18-1.80	$ 251	$ 721
	Singapore Branch	USD	10,000	1.30-1.68	12	12
	London Branch	USD	20,000	1.51	17	17
	Hong Kong Branch	USD	69,000	0.80-1.84	333	876
Taiwan Business Bank	OBU	USD	20,000	0.70-1.77	54	121
	Hong Kong Branch	USD	15,000	0.71-1.74	28	114

Call loans from banks

(In Thousands of Original Currencies)

Name	Department	Currency	September 30, 2018 Ending Balance	Interest Rate (Per Annum %)	For the Three Months Ended September 30, 2018 Interest Expense	For the Nine Months Ended September 30, 2018 Interest Expense
Land Bank	Kunshan Branch	RMB	$ 60,000	2.55-4.22	$ 570	$ 1,225
	Kunshan Branch	USD	8,000	2.40	2	2
	London Branch	USD	30,000	1.79-2.77	317	1,223
Taiwan Business Bank	Singapore Branch	AUD	10,000	2.58	13	13
	Los Angeles Branch	USD	9,000	2.30-2.45	7	12

Name	Department	Currency	December 31, 2017 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

Name	Department	Currency	September 30, 2017 Ending Balance	Interest Rate (Per Annum %)	For the Three Months Ended September 30, 2017 Interest Expense	For the Nine Months Ended September 30, 2017 Interest Expense
Land Bank	Singapore Branch	USD	$ 10,000	0.72-1.49	$ 60	$ 148
	Los Angeles Branch	USD	60,000	0.68-1.80	107	174
	London Branch	USD	50,000	0.95-1.79	134	448
Taiwan Business Bank	Hong Kong Branch	HKD	50,000	0.78	19	19

5) Due from banks and deposits from banks

Due from banks

(In Thousands of New Taiwan Dollars)

Name	Department	Currency	September 30, 2018 Ending Balance	December 31, 2017 Ending Balance	September 30, 2017 Ending Balance
Land Bank	DBU	NTD	$ 225	$ 44	$ 784
Taiwan Business Bank	DBU	NTD	32	77	32

Deposits from banks

(In Thousands of Original Currencies)

Name	Department	Currency	September 30, 2018 Ending Balance	December 31, 2017 Ending Balance	September 30, 2017 Ending Balance
Land Bank	DBU	NTD	$ 277	$ 277	$ 277
The Export-Import Bank	DBU	NTD	803	1,102	2,937
Taishin International Bank	New York Branch	USD	61	57	56

c. Compensation of directors and management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2018	2017	2018	2017
Short-term employee benefits	$ 8,989	$ 9,391	$ 27,817	$ 28,334
Post-employment benefits	403	441	13,569	10,465
	$ 9,392	$ 9,832	$ 41,386	$ 38,799

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 September 30, 2018, December 31, 2017 and September 30, 2017 is as follows:

Pledged Assets	Description	September 30, 2018	December 31, 2017	September 30, 2017
Investments in debt instruments at FVTOCI	Government bonds	$ 6,050,211	$ -	$ -
Investments in debt instruments at amortized cost	Bonds and certificates of deposit	36,604,775	-	-
Time deposits with original maturities of more than 3 months	Time deposits	2,659,800	2,729,400	2,730,600
Available-for-sale financial assets	Government bonds	-	5,781,100	5,804,900
Held-to-maturity financial assets	Bonds and certificate of deposits	-	36,749,428	36,788,512
Refundable deposits	Cash	671,911	638,049	335,850

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 September 30, 2018, December 31, 2017 and September 30, 2017:

	September 30, 2018	December 31, 2017	September 30, 2017
Trust liabilities	$ 276,079,403	$ 268,672,867	$ 264,232,911
Unused loan commitments (excluding credit cards)	75,777,891	82,204,969	79,282,344
Credit card commitments	394,260	333,092	341,182
Unused issued letters of credit	27,584,005	24,509,270	27,809,028
Guarantees issued in guarantee business	47,002,081	40,993,464	41,783,347
Repayment notes and times deposit held for custody	13,258,549	12,860,366	12,306,193
Liabilities on joint loans	764,445	771,194	816,233

The unrecognized commitments for the acquisition of equipment and intangible assets, as well as the commitments for construction, lease engagement, appointment and security as of September 30, 2018 were $232,857 thousand, $75,939 thousand, $17,640 thousand, $15,443 thousand and $34,568 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 nine months ended September 30, 2018	None
2	Acquisition of fixed assets over NT$300 million or 10% of outstanding capital for the nine months ended September 30, 2018	None
3	Disposal of fixed assets over NT$300 million or 10% of outstanding capital for the nine months ended September 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 September 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

No.	Item	Explanation
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 September 30, 2018	None
5	Accumulated purchases and sales balance of specific marketable security over NT$300 million or 10% of outstanding capital for the nine months ended September 30, 2018	None
6	Acquisition of property, plant and equipment over NT$300 million or 10% of outstanding capital for the nine months ended September 30, 2018	None
7	Disposal of property, plant and equipment over NT$300 million or 10% of outstanding capital for the nine months ended September 30, 2018	None
8	Receivables from related parties over NT$300 million or 10% of outstanding capital as of September 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. 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 the subsidiary. The working capital of Kunshan Branch, Dongguan Branch and Fuzhou Branch will be transferred into the subsidiary. The working capital of the subsidiary will be RMB2,500 million. The subsidiary has obtained the business license on September 10, 2018 and is applying for the permission to have access to the financial system in China.

44. 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 Nine Months Ended September 30, 2018						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch	Others	Total
Net income of interest	$ 10,029,133	$ 4,536,763	$ 176,136	$ -	$ 2,650,558	$ 73	$ 17,392,663
Net service fee income	1,057,452	183,070	(21,530)	2,318,313	138,128	-	3,675,433
Net income on financial instrument	-	-	3,501,588	-	27,402	-	3,528,990
Others	8,018	-	(52)	4	(81,547)	162,819	89,242
Net revenue and gains	11,094,603	4,719,833	3,656,142	2,318,317	2,734,541	162,892	24,686,328
Bad debts expense and guarantee liability provision	(1,138,825)	-	122	-	(419,663)	-	(1,558,366)
Operating expenses	-	-	-	-	-	-	(11,673,502)
Income before income tax	$ 9,955,778	$ 4,719,833	$ 3,656,264	$ 2,318,317	$ 2,314,878	$ 162,892	$ 11,454,460

	For the Nine Months Ended September 30, 2017						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch	Others	Total
Net income of interest	$ 10,014,727	$ 3,682,587	$ 624,518	$ -	$ 2,547,399	$ 76	$ 16,869,307
Net service fee income	1,118,868	139,594	(27,704)	2,254,307	203,217	-	3,688,282
Net income on financial instrument	-	-	2,227,865	-	46,652	-	2,274,517
Others	9,498	-	2,909	51	2,563	141,841	156,862
Net revenue and gains	11,143,093	3,822,181	2,827,588	2,254,358	2,799,831	141,917	22,988,968
Bad debts expense and guarantee liability provision	858,427	-	-	-	(741,078)	-	117,349
Operating expenses	-	-	-	-	-	-	(11,960,511)
Income before income tax	$ 12,001,520	$ 3,822,181	$ 2,827,588	$ 2,254,358	$ 2,058,753	$ 141,917	$ 11,145,806

The revenue and results on the segment information reported does not include inter-segment revenue for the nine months ended September 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

	September 30, 2018						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Overseas Branches	Others	Adjustments	Total
Assets	$ 1,226,413,050	$ -	$ 670,228,003	$ 188,999,283	$ 85,018,949	$ (127,629,812)	$ 2,083,029,473
Liabilities	$ 2,552,204	$ 1,639,494,161	$ 189,278,869	$ 168,599,738	$ 56,131,596	$ (127,629,812)	$ 1,928,426,756

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

	September 30, 2017						
	Loans	**Deposits and Remittances**	**Financial Instruments and Investments**	**Overseas Branches**	**Others**	**Adjustments**	**Total**
Assets	$ 1,248,870,583	$ -	$ 661,811,023	$ 197,201,591	$ 65,286,432	$ (148,105,528)	$ 2,025,064,101
Liabilities	$ 3,134,524	$ 1,613,928,650	$ 193,774,359	$ 178,686,506	$ 40,592,716	$ (148,105,528)	$ 1,882,011,227

CHANG HWA COMMERCIAL BANK, LTD.

INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 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 September 30, 2018	Net Income (Loss) of the Investee (Note 2)	% of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of September 30, 2018	Accumulated Repatriation of Investment Income as of September 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 September 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)	$ 23,190,408

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.

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 stock 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.