Chang Hwa Commercial Bank, Ltd. and Subsidiaries

Consolidated Financial Statements for the Nine Months Ended September 30, 2019 and 2018 and Independent Auditors' Review Report

Deloitte.

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INDEPENDENT AUDITORS' REVIEW REPORT

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

Introduction

We have reviewed the accompanying consolidated balance sheets of Chang Hwa Commercial Bank, Ltd. (the "Bank") and its subsidiaries (collectively referred to as the "Group") as of September 30, 2019 and 2018, the related consolidated statements of comprehensive income for the three months ended September 30, 2019 and 2018 and the nine months ended September 30, 2019 and 2018, the consolidated statements of changes in equity and cash flows for the nine months then ended, and the related notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "consolidated financial statements"). Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, 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 consolidated 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 consolidated 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 consolidated financial statements do not give a true and fair view of the consolidated financial position of the Group as of September 30, 2019 and 2018 and of its consolidated financial performance for the three months ended September 30, 2019 and 2018, its consolidated financial performance and its consolidated cash flows for the nine months then ended September 30, 2019 and 2018 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 Shih Tsung Wu and Tung Feng Lee.

Deloitte & Touche
Taipei, Taiwan
Republic of China

November 12, 2019

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

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

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

CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(In Thousands of New Taiwan Dollars)

	September 30, 2019 (Reviewed)		December 31, 2018 (Audited)		September 30, 2018 (Reviewed)	
ASSETS	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Cash and cash equivalents (Notes 4, 6 and 36)	$ 32,586,660	1	$ 51,073,179	2	$ 39,841,837	2
Due from the Central Bank and call loans to banks (Notes 4, 6 and 36)	155,394,960	7	197,942,600	10	181,113,467	9
Financial assets at fair value through profit or loss (Notes 4, 7, 34 and 37)	11,113,959	-	10,917,490	1	11,917,830	-
Financial assets at fair value through other comprehensive income (Notes 4, 8 and 34)	124,472,329	6	91,938,199	4	99,532,361	5
Financial assets for hedging (Notes 4 and 13)	267,177	-	244,763	-	215,841	-
Investments in debt instruments at amortized cost (Notes 4, 9, 34 and 37)	272,616,396	13	268,059,805	13	253,448,208	12
Receivables, net (Notes 4, 11 and 12)	35,176,730	2	29,933,985	1	31,988,454	1
Current tax assets (Notes 4 and 31)	1,040,261	-	289,771	-	14,461	-
Discounts and loans, net (Notes 4, 5, 12, 35 and 36)	1,422,234,702	67	1,336,701,095	64	1,368,160,468	66
Other financial assets, net (Notes 4, 14 and 37)	34,609,491	2	55,045,230	3	57,491,150	3
Property and equipment, net (Notes 4 and 16)	20,700,642	1	21,071,298	1	20,620,294	1
Right-of-use assets, net (Notes 4 and 17)	1,642,723	-	-	-	-	-
Investment property, net (Notes 4 and 18)	13,874,524	1	13,742,376	1	13,743,307	1
Intangible assets, net (Notes 4 and 19)	707,733	-	731,364	-	339,978	-
Deferred tax assets (Notes 4 and 31)	2,423,062	-	3,120,664	-	3,510,116	-
Other assets, net (Notes 20 and 37)	1,358,473	-	999,851	-	1,091,701	-
TOTAL	$ 2,130,219,822	100	$ 2,081,811,670	100	$ 2,083,029,473	100
LIABILITIES AND EQUITY						
Deposits from the Central Bank and banks (Notes 4, 21 and 36)	$ 104,986,342	5	$ 113,038,541	6	$ 113,711,658	6
Financial liabilities at fair value through profit or loss (Notes 4 and 7)	13,411,769	1	11,047,488	1	12,147,889	1
Securities sold under repurchase agreements (Note 4)	1,968,160	-	5,285,890	-	10,659,008	1
Payables (Notes 4, 22 and 29)	41,832,539	2	36,677,779	2	42,282,957	2
Current tax liabilities (Notes 4 and 31)	496,191	-	241,285	-	127,426	-
Deposits and remittances (Notes 4, 23 and 36)	1,730,495,263	81	1,689,581,112	81	1,683,082,828	81
Bank notes payable (Notes 4, 24 and 34)	55,538,898	3	49,549,055	2	46,518,342	2
Other financial liabilities (Notes 4 and 25)	4,451,948	-	4,387,078	-	4,253,268	-
Reserve for liabilities (Notes 4, 5 and 27)	5,148,583	-	5,296,332	-	5,007,098	-
Lease liabilities (Notes 4 and 17)	1,445,377	-	-	-	-	-
Deferred tax liabilities (Notes 4 and 31)	7,552,324	-	7,352,277	-	7,325,434	-
Other liabilities (Notes 4, 16 and 26)	2,979,922	-	2,793,202	-	3,310,848	-
Total liabilities	1,970,307,316	92	1,925,250,039	92	1,928,426,756	93
EQUITY (Notes 4, 29 and 31)						
Capital						
Common stock	99,853,111	5	97,895,207	5	97,895,207	5
Retained earnings						
Legal reserve	34,832,629	2	31,038,668	1	31,038,668	1
Special reserve	12,204,648	1	12,141,416	1	12,141,416	1
Unappropriated earnings	9,009,288	-	12,091,349	1	9,666,747	-
Other equity	4,012,830	-	3,394,991	-	3,860,679	-
Total equity	159,912,506	8	156,561,631	8	154,602,717	7
TOTAL	$ 2,130,219,822	100	$ 2,081,811,670	100	$ 2,083,029,473	100

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

CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED 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			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
INTEREST INCOME (Notes 4, 30 and 36)	$ 9,857,846	117	$ 9,702,791	117	$ 29,849,817	122	$ 28,482,963	115
INTEREST EXPENSE (Notes 30 and 36)	(4,153,026)	(49)	(3,878,354)	(47)	(12,461,119)	(51)	(11,090,300)	(45)
NET INTEREST INCOME	5,704,820	68	5,824,437	70	17,388,698	71	17,392,663	70
NET NON-INTEREST INCOME								
Net service fee income (Notes 4 and 30)	1,150,515	14	1,283,319	16	3,447,497	14	3,675,433	15
Gain (loss) on financial assets or liabilities measured at fair value through profit or loss (Notes 4, 7 and 30)	387,424	4	693,065	8	1,187,780	5	2,041,772	8
Realized gain (loss) on financial assets at fair value through other comprehensive income (Notes 4 and 30)	724,523	9	361,830	4	1,189,495	5	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 34)	373,236	4	130,088	2	994,581	4	892,998	4
Net other non-interest income (loss) (Note 13)	73,985	1	73,902	1	205,187	1	257,323	1
Net non-interest income	2,709,683	32	2,450,062	30	7,024,540	29	7,293,665	30
NET REVENUE AND GAINS	8,414,503	100	8,274,499	100	24,413,238	100	24,686,328	100
BAD DEBTS EXPENSE, COMMITMENT AND GUARANTEE LIABILITY PROVISION (Notes 4 and 12)	(709,814)	(8)	(404,350)	(5)	(1,704,933)	(7)	(1,558,366)	(6)
OPERATING EXPENSES								
Employee benefits expenses (Notes 4 and 30)	(2,787,120)	(33)	(2,543,300)	(31)	(8,056,211)	(33)	(7,707,112)	(31)
Depreciation and amortization expenses (Notes 4 and 30)	(365,306)	(4)	(178,180)	(2)	(1,082,884)	(5)	(535,779)	(2)
Other general and administrative expenses	(1,049,888)	(13)	(1,166,313)	(14)	(3,019,505)	(12)	(3,430,611)	(14)
Total operating expenses	(4,202,314)	(50)	(3,887,793)	(47)	(12,158,600)	(50)	(11,673,502)	(47)
INCOME BEFORE INCOME TAX	3,502,375	42	3,982,356	48	10,549,705	43	11,454,460	47
INCOME TAX EXPENSE (Notes 4 and 31)	(519,018)	(6)	(579,144)	(7)	(1,567,285)	(6)	(1,486,334)	(6)
NET INCOME	2,983,357	36	3,403,212	41	8,982,420	37	9,968,126	41

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CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED 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			
	2019		2018		2019		2018	
	Amount	%	Amount	%	Amount	%	Amount	%
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX								
Items that will not be reclassified to profit or loss, net of tax:								
Revaluation gains (losses) on investments in equity instruments measured at fair value through other comprehensive income	$ (280,240)	(3)	$ 720,643	9	$ 1,065,688	4	$ 523,788	2
Changes in fair value of financial liabilities attributable to changes in credit risk of liabilities	42	-	166	-	(876)	-	1,286	-
Items that will be reclassified to profit or loss, net of tax:								
Exchange differences on translation (Note 4)	(731,120)	(9)	(384,798)	(5)	(430,346)	(2)	366,077	1
Revaluation gains (losses) on investments in debt instruments measured at fair value through other comprehensive income	(465,212)	(6)	(63,287)	(1)	(68,410)	-	(57,223)	-
(Impairment loss) reversal of impairment loss on investments in debt instruments measured at fair value through other comprehensive income	(4,649)	-	(3,770)	-	10,292	-	(27,859)	-
Income tax related to items that will be reclassified to profit or loss (Notes 4 and 31)	139,185	2	71,907	1	57,400	-	22,960	-
Other comprehensive income (loss), net of income tax	(1,341,994)	(16)	340,861	4	633,748	2	829,029	3
TOTAL COMPREHENSIVE INCOME	$ 1,641,363	20	$ 3,744,073	45	$ 9,616,168	39	$ 10,797,155	44
NET PROFIT ATTRIBUTABLE TO:								
Owners of the Parent	$ 2,983,357	35	$ 3,403,212	41	$ 8,982,420	37	$ 9,968,126	40
Non-controlling interests	$ -	-	$ -	-	$ -	-	$ -	-
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:								
Owners of the Parent	$ 1,641,363	20	$ 3,744,073	45	$ 9,616,168	39	$ 10,797,155	44
Non-controlling interests	$ -	-	$ -	-	$ -	-	$ -	-
EARNINGS PER SHARE (Note 32)								
Basic	$ 0.30		$ 0.34		$ 0.90		$ 1.00	
Diluted	$ 0.30		$ 0.34		$ 0.90		$ 0.99	

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

CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

CONSOLIDATED 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							
	Common Stock (In Thousands)	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, 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 for the nine months ended September 30, 2018, net of tax	-	-	-	-	-	385,489	-	442,254	1,286	829,029
Total comprehensive income 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
BALANCE, JANUARY 1, 2019	9,789,521	$ 97,895,207	$ 31,038,668	$ 12,141,416	$ 12,091,349	$ (614,793)	$ -	$ 4,008,966	$ 818	$ 156,561,631
Appropriation of 2018 earnings										
Legal reserve appropriated	-	-	3,793,961	-	(3,793,961)	-	-	-	-	-
Special reserve appropriated	-	-	-	63,232	(63,232)	-	-	-	-	-
Cash dividends	-	-	-	-	(6,265,293)	-	-	-	-	(6,265,293)
Stock dividends	195,790	1,957,904	-	-	(1,957,904)	-	-	-	-	-
Net income for the nine months ended September 30, 2019	-	-	-	-	8,982,420	-	-	-	-	8,982,420
Other comprehensive income (loss) for the nine months ended September 30, 2019, net of tax	-	-	-	-	-	(360,828)	-	995,452	(876)	633,748
Total comprehensive income (loss) for the nine months ended September 30, 2019	-	-	-	-	8,982,420	(360,828)	-	995,452	(876)	9,616,168
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	15,909	-	-	(15,909)	-	-
BALANCE, SEPTEMBER 30, 2019	9,985,311	$ 99,853,111	$ 34,832,629	$ 12,204,648	$ 9,009,288	$ (975,621)	$ -	$ 4,988,509	$ (58)	$ 159,912,506

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

CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

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

	For the Nine Months Ended September 30	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income before income tax	$ 10,549,705	$ 11,454,460
Non-cash (income and gains) or expenses and losses		
Expected credit loss recognized on trade receivables	1,704,933	1,558,366
Depreciation expense	919,349	386,259
Amortization expense	163,535	149,520
Interest income	(29,849,817)	(28,482,963)
Dividend income	(523,627)	(463,990)
Interest expense	12,461,119	11,090,300
Net gain on financial assets or liabilities at fair value through profit or loss	(181,274)	(3,005,082)
Gain on disposal of investments	(668,337)	(61,280)
Unrealized foreign exchange (gains) losses	(1,006,506)	963,310
Other adjustments	(604,515)	118,872
Changes in operating assets and liabilities		
Decrease (increase) in due from the Central Bank	9,555,373	(2,473,572)
Decrease in financial assets at fair value through profit or loss	832,647	1,914,700
Increase in receivables	(5,554,472)	(6,059,323)
(Increase) decrease in discounts and loans	(87,336,872)	7,761,415
Increase in financial assets at fair value through other comprehensive income	(30,858,223)	(23,020,813)
Increase in investments in debt instruments at amortized cost	(4,561,489)	(7,134,884)
Decrease (increase) in other financial assets	20,435,739	(30,475,396)
Increase in other assets	(546,099)	(140,357)
Decrease in deposits from the Central Bank and banks	(28,106,918)	(729,787)
Increase in deposits and remittances	40,914,151	11,003,044
Increase in payables	4,879,107	6,796,071
Increase (decrease) in financial liabilities at fair value through profit or loss	2,474,834	(3,394,289)
Decrease in reserve for liabilities	(241,273)	(172,314)
Increase in other financial liabilities	65,526	590,668
Increase in other liabilities	106,787	665,803
Cash flows used in operations	(84,976,617)	(51,161,262)
Interest received	30,425,740	27,700,071
Dividends received	523,237	461,192
Interest paid	(12,161,431)	(10,472,807)
Income taxes paid	(357,330)	(2,248,933)
Net cash flows used in operating activities	(66,546,401)	(35,721,739)

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CHANG HWA COMMERCIAL BANK, LTD. AND SUBSIDIARIES

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

	For the Nine Months Ended September 30	
	2019	**2018**
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	$ (268,575)	$ (358,508)
Proceeds from disposal of property and equipment	146	125
Acquisition of intangible assets	(72,013)	(48,097)
Acquisition of right-of-use assets	(253,391)	-
Acquisition of investment property	(1,203)	(515)
Net cash flows used in investing activities	(595,036)	(406,995)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase in due to the Central Bank and banks	20,054,719	6,289,578
Proceeds from issuing bank notes	5,960,000	7,000,000
Repayments of bank notes	-	(2,200,000)
Cash dividends paid	(6,265,293)	(4,235,850)
(Decrease) increase in securities sold under repurchase agreement	(3,317,730)	7,540,472
Repayments of the principal portion of lease liabilities	(338,699)	-
Net cash flows generated from financing activities	16,092,997	14,394,200
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(430,346)	366,077
NET DECREASE IN CASH AND CASH EQUIVALENTS	(51,478,786)	(21,368,457)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	179,641,968	172,818,258
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 128,163,182	$ 151,449,801

	September 30	
	2019	**2018**
Reconciliation of cash and cash equivalents		
Cash and cash equivalents in the balance sheet	$ 32,586,660	$ 39,841,837
Call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	95,576,522	111,607,964
Cash and cash equivalents at end of period	$ 128,163,182	$ 151,449,801

The accompanying notes are an integral part of the consolidated financial statements. (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 consolidated financial statements are presented in the Bank's functional currency, the New Taiwan dollar.

2. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Bank's board of directors on November 12, 2019.

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), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the "IFRSs") endorsed and issued into effect by the FSC

   Except for the following, 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 did not have any material impact on the Bank and its subsidiaries (collectively referred to as the "Group") accounting policies.

   - IFRS 16 "Leases"

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

Definition of a lease

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

The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases on the consolidated balance sheet except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statement of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statement of cash flows, cash payments for the principal portion of lease liabilities are reported under financing activities; cash payments for the interest portion are reported under operating activities. Prior to the application of IFRS 16, payments under operating lease contracts, including property interest qualified as investment properties, were recognized as expenses on a straight-line basis. Cash flows for operating leases were reported under operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheet for contracts classified as finance leases.

The Group elects to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information is not restated.

The Group also applies the following practical expedients:

1) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.

2) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.

3) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.

4) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

For leases previously classified as finance leases under IAS 17, the carrying amounts of right-of-use assets and lease liabilities on January 1, 2019 are determined as at the carrying amounts of the respective leased assets and finance lease payables on December 31, 2018.

The Group as lessor

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

Anticipated impact on assets, liabilities and equity

	Carrying Amount as of December 31, 2018	Adjustments Arising from Initial Application	Adjusted Carrying Amount as of January 1, 2019
Prepayments for leases	$ 201,486	$ (176,211)	$ 25,275
Lease assets, net	760	(760)	-
Right-of-use assets, net	-	2,020,507	2,020,507
Total effect on assets	$ 202,246	$ 1,843,536	$ 2,045,782
Lease liabilities - non-current	$ -	$ 1,784,076	$ 1,784,076
Finance lease payables - non-current	656	(656)	-
Provisions - non-current	-	60,116	60,116
Total effect on liabilities	$ 656	$ 1,843,536	$ 1,844,192

b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

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

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

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

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group's financial position and financial performance and will disclose the relevant impact when the assessment is completed.

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

New IFRSs	Effective Date Announced by IASB (Note)
Amendments to IFRS 9, IAS 39 and IFRS 7 "Interest Rate Benchmark Reform"	January 1, 2020
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021

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

As of the date the consolidated financial statements were authorized for issue, the Group is continuously assessing the possible impact that the application of other standards and interpretations will have on the Group’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 consolidated 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 consolidated financial statements is less than the disclosure information required in a complete set of annual consolidated financial statements.

Basis of Preparation

The consolidated 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.

Basis of Consolidation

The consolidated financial statements incorporate the financial statement and the entities controlled by the Bank (i.e. its subsidiaries).

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Bank.

All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation.

See Note 15 and Table 1 for detailed information on subsidiaries (including percentages of ownership and main businesses).

Other Significant Accounting Policies

Except for the following and the relevant accounting policies of leases refer to the summary of other significant accounting policies in the Group’s financial statements for the year ended December 31, 2018.

a. Property, plant and equipment

Property, plant and equipment are initially measured at cost and subsequently measured at cost less accumulated depreciation and accumulated impairment loss. Before January 1, 2019, property, plant and equipment also included assets held under finance leases.

Property, plant and equipment in the course of construction are measured at cost less any recognized impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Such assets are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for their intended use.

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. For assets which were held under finance leases before January 1, 2019, if their respective lease terms are shorter than their useful lives, such assets are depreciated over their lease terms. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effects of any changes in the estimates accounted for on a prospective basis.

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

b. Leases

<u>2019</u>

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

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

1) The Group as lessor

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

When the Group subleases a right-of-use asset, the sublease is classified by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. However, if the head lease is a short-term lease that the Group, as a lessee, has accounted for applying recognition exemption, the sublease is classified as an operating lease.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

2) The Group as lessee

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

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

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

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

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

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

For sale and leaseback transactions, if the transfer of an asset satisfies the requirements of IFRS 15 to be accounted for as a sale, the Group recognizes only the amount of any gain or loss which relates to the rights transferred to the buyer-lessor, and adjusts the off-market terms to measure the sale proceeds at fair value. If the transfer does not satisfy the requirements of IFRS 15 to be accounted for as a sale, it is accounted for as a financing transaction.

2018

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

1) The Group as lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease

Contingent rentals are recognized as income in the period in which they are incurred.

2) The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets; in which case, they are capitalized.

Operating lease payments are recognized as expenses on a straight-line basis over the lease term.

Contingent rentals are recognized as expenses in the period in which they are incurred.

c. Employee benefits

Retirement benefits

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

d. 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 consistently 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

Refer to the summary of critical accounting judgments and key sources of estimation uncertainty in the Group's consolidated financial statements for the year ended December 31, 2018.

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

a. Cash and cash equivalents

	September 30, 2019	December 31, 2018	September 30, 2018
Cash on hand	$ 11,253,496	$ 11,307,867	$ 10,699,839
Checks for clearing	9,084,226	18,042,831	18,124,287
Due from banks	10,612,986	20,056,292	9,180,884
Foreign currencies on hand	1,635,952	1,666,189	1,836,827
	$ 32,586,660	$ 51,073,179	$ 39,841,837

Refer to the consolidated statement of cash flows for the reconciliation information of cash and cash equivalents as of September 30, 2019 and 2018. Cash and cash equivalents as of December 31, 2018 as shown in the statement of cash flows can be reconciled to the related items in the balance sheets as follows:

	December 31, 2018
Cash and cash equivalents	$ 51,073,179
Call loans to banks	128,568,789
	$ 179,641,968

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

	September 30, 2019	December 31, 2018	September 30, 2018
Call loans to banks	$ 95,576,522	$ 128,568,789	$ 111,607,964
Reserve for checking accounts	8,194,651	17,165,934	21,805,692
Reserve for demand accounts	45,022,187	42,402,505	41,727,812
Reserve for foreign deposits	484,660	482,288	479,398
Others	6,116,940	9,323,084	5,492,601
	$ 155,394,960	$ 197,942,600	$ 181,113,467

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

7. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial Assets at Fair Value through Profit or Loss (FVTPL)

	September 30, 2019	December 31, 2018	September 30, 2018
Financial assets designated at FVTPL			
Interest rate-linked combination instruments	$ -	$ -	$ 183,095
Financial assets mandatorily classified at FVTPL			
Derivative financial assets (not under hedge accounting)			
Futures	85,304	173,149	180,082
Forward exchange contracts	64,495	49,518	214,979
Interest rate swaps	900,351	741,343	1,013,114
Cross-currency swaps	42,122	32,867	93,056
Swaps	2,167,513	1,314,821	2,560,483
Currency call option premiums	38,921	24,244	25,940
Non-derivative financial assets			
Investment in bills	6,769,862	6,626,120	5,144,318
Domestic listed stock	83,130	-	115,362
Government bonds	5,689	1,103,764	2,204,494
Corporate bonds	956,572	851,664	182,907
	11,113,959	10,917,490	11,734,735
	$ 11,113,959	$ 10,917,490	$ 11,917,830

The par values of bonds and notes provided for transactions with repurchase agreements were $277,000 thousand, $923,300 thousand and $393,000 thousand, as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

Financial Liabilities at FVTPL

	September 30, 2019	December 31, 2018	September 30, 2018
Financial liabilities designated at FVTPL	$ 9,834,927	$ 9,130,255	$ 8,836,392
Financial liabilities held for trading			
Derivative financial liabilities (not applying hedge accounting)			
Forward contracts	36,503	65,379	273,417
Interest rate swaps	573,258	953,280	1,081,153
Cross-currency swaps	26,140	32,761	29,952
Currency swaps	2,902,000	841,567	1,901,027
Currency put option premiums	38,941	24,246	25,948
	3,576,842	1,917,233	3,311,497
	$ 13,411,769	$ 11,047,488	$ 12,147,889

a. The unsecured U.S. dollar-denominated bank notes issued by the Group were as follows:

   Note C, 20-year term, US$260,000 thousand, issued at par value without interest payment, callable 5 years after issue date with interest payment, maturity date: December 17, 2034.

b. The Group designated the unsecured U.S. dollar-denominated bank notes as financial liabilities at FVTPL to reduce the inconsistency of measurement or recognition.

The Group entered into derivative contracts during the nine months ended September 30, 2019 and 2018 to manage exposures due to exchange rate and interest rate fluctuations. The financial risk management objective of the Group 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, 2019, December 31, 2018 and September 30, 2018 were as follows:

	September 30, 2019	December 31, 2018	September 30, 2018
Currency swaps	$ 475,344,333	$ 349,448,614	$ 377,805,370
Currency options	22,723,098	12,774,097	17,977,178
Forward exchange contracts	13,941,417	17,114,455	21,555,900
Interest rate swaps	400,059,967	358,411,064	421,925,168
Cross-currency swaps	6,208,000	3,688,200	3,661,800

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	September 30, 2019	December 31, 2018	September 30, 2018
Investments in equity instruments at FVTOCI			
Domestic listed stock	$ 6,276,778	$ 4,785,216	$ 4,809,651
Domestic unquoted stock	7,862,724	7,138,045	7,587,740
	14,139,502	11,923,261	12,397,391
Investments in debt instruments at FVTOCI			
Government bonds	29,077,601	17,893,192	29,860,417
Corporate bonds	22,480,062	16,494,550	15,247,717
Bank notes	51,259,670	31,428,851	29,272,820
Bonds issued by international organizations	2,531,925	11,025,870	10,201,883
Beneficiary and asset-based securities	2,933,198	666,787	57,225
Investments in bills	2,050,371	2,505,688	2,494,908
	110,332,827	80,014,938	87,134,970
	$ 124,472,329	$ 91,938,199	$ 99,532,361

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

a. Refer to Note 10 for information relating to their credit risk management and impairment.

b. The par values of bonds provided for transactions with repurchase agreements were $1,529,400 thousand, $4,380,200 thousand and $2,040,500 thousand as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

c. Government bonds placed as deposits in courts amounted to $351,200 thousand, $391,900 thousand and $393,600 thousand as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively. Another 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; overseas branches' bonds provided as collateral for operations were $157,831 thousand, $155,720 thousand and $156,611 thousand as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively. Government bonds pledged for call loans from banks amounted to $5,000,000 thousand as of September 30, 2018. Refer to Note 37 for information relating to investments in debt instruments at FVTOCI pledged as security.

9. INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST

	September 30, 2019	December 31, 2018	September 30, 2018
Investments in bills	$ 258,589,336	$ 251,312,321	$ 236,400,054
Bank notes	7,148,536	7,327,497	7,285,475
Corporate bonds	4,524,506	7,038,802	7,372,343
Government bonds	2,354,018	2,381,185	2,390,336
	$ 272,616,396	$ 268,059,805	$ 253,448,208

a. Refer to Note 10 for information relating to their credit risk management and impairment.

b. The amounts of the overseas branches' bonds provided as collateral for operations were $310,373 thousand, $307,061 thousand and $304,775 thousand as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

c. Certificates of deposit placed as reserves for clearing at the Central Bank amounted to $36,000,000 thousand; certificates of deposit which were issued by the Central Bank and pledged for call loans from banks amounted to $5,300,000 thousand, $5,300,000 thousand and $300,000 thousand as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

d. Refer to Note 37 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 are classified as at FVTOCI and at amortized cost.

September 30, 2019

	At FVTOCI	At Amortized Cost	Total
Gross carrying amount	$ 110,232,343	$ 272,621,345	$ 382,853,688
Less: Allowance for impairment loss	(177,700)	(4,949)	(182,649)
Amortized cost	110,054,643	$ 272,616,396	382,671,039
Adjustment to fair value	278,184		278,184
	$ 110,332,827		$ 382,949,223

December 31, 2018

	At FVTOCI	At Amortized Cost	Total
Gross carrying amount	$ 79,846,043	$ 268,066,420	$ 347,912,463
Less: Allowance for impairment loss	(167,408)	(6,615)	(174,023)
Amortized cost	79,678,635	$ 268,059,805	347,738,440
Adjustment to fair value	336,303		336,303
	$ 80,014,938		$ 348,074,743

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 Group only invests in debt instruments that are rated as investment grade or higher and are assessed as having low credit impairment. The credit rating information is supplied by independent rating agencies. The Group'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 Group considers the historical default rates of each credit rating supplied by external rating agencies to estimate 12-month or lifetime expected credit losses. The Group's current credit risk grading framework comprises the following categories:

Category	Description	Basis for Recognizing Expected Credit Losses
Stage 1	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows.	12-month ECL
Stage 2	There has been a significant increase in credit risk since initial recognition.	Lifetime ECL - not credit impaired
Stage 3	There is evidence indicating that the asset is credit impaired.	Lifetime ECL - credit impaired
Write-off	There is evidence indicating that the debtor is experiencing severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off

Gross carrying amount and applicable expected credit loss rate of investments in debt instruments are as follows:

September 30, 2019

Category	Expected Loss Rate	At FVTOCI	At Amortized Cost
Stage 1	0%-0.3271%	$ 110,088,943	$ 272,621,345
Stage 3	100%	143,400	-
		$ 110,232,343	$ 272,621,345

December 31, 2018

Category	Expected Loss Rate	At FVTOCI	At Amortized Cost
Stage 1	0%-0.3422%	$ 79,704,057	$ 268,066,420
Stage 3	100%	141,986	-
		$ 79,846,043	$ 268,066,420

September 30, 2018

Category	Expected Loss Rate	At FVTOCI	At Amortized Cost
Stage 1	0%-0.3422%	$ 86,835,741	$ 253,454,983
Stage 3	100%	140,978	-
		$ 86,976,719	$ 253,454,983

The allowance for impairment loss of investments in debt instruments at FVTOCI and at amortized cost for the nine months ended September 30, 2019 and nine months ended September 30, 2018 grouped by credit rating is reconciled as follows:

At FVTOCI

	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, 2019	$ 25,422	$ -	$ 141,986	$ 167,408
Purchase investments in debt instruments	21,155	-	-	21,155
Derecognition	(10,386)	-	-	(10,386)
Change in exchange rates or others	(1,891)	-	1,414	(477)
Balance at September 30, 2019	$ 34,300	$ -	$ 143,400	$ 177,700
Balance at January 1, 2018	$ 29,316	$ 27,285	$ 137,112	$ 193,713
Purchase investments in debt instruments	5,794	-	-	5,794
Derecognition	(7,853)	(27,285)	-	(35,138)
Change in exchange rates or others	(2,381)	-	3,866	1,485
Balance at September 30, 2018	$ 24,876	$ -	$ 140,978	$ 165,854

At amortized cost

	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, 2019	$ 6,615	$ -	$ -	$ 6,615
Purchase investments in debt instruments	56	-	-	56
Derecognition	(1,351)	-	-	(1,351)
Change in exchange rates or others	(371)	-	-	(371)
Balance at September 30, 2019	$ 4,949	$ -	$ -	$ 4,949
Balance at January 1, 2018	$ 9,623	$ -	$ -	$ 9,623
Derecognition	(2,389)	-	-	(2,389)
Change in exchange rates or others	(459)	-	-	(459)
Balance at September 30, 2018	$ 6,775	$ -	$ -	$ 6,775

11. RECEIVABLES, NET

a. Details of receivables

	September 30, 2019	December 31, 2018	September 30, 2018
Accounts receivable	$ 22,095,626	$ 16,329,369	$ 17,089,948
Accrued revenue	796	5,993	1,085
Interests receivable	4,952,926	5,401,681	4,855,830
Acceptances receivable	5,503,779	5,402,488	6,678,971
Credit cards accounts receivable	2,479,145	1,833,999	1,987,219
Settlement price	431,768	392,434	495,949
Accounts receivable for settlement	362,616	217,848	289,413
Other receivables	75,490	985,194	1,224,180
Less: Allowance for bad debts, receivables	(725,416)	(635,021)	(634,141)
	$ 35,176,730	$ 29,933,985	$ 31,988,454

b. Allowance for receivables

1) Movements in the allowance for receivables

	For the Nine Months Ended September 30, 2019					
	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	$ 32,258	$ 2,678	$ 19,906	$ 54,842	$ 580,179	$ 635,021
Changes from financial instruments recognized at the beginning of the period:						
Transfers to lifetime expected credit losses	(33)	58	(28)	(3)	-	(3)
Transfers to credit-impaired financial assets	(3)	(40)	314	271	-	271
Transfers to 12-months expected credit losses	274	(112)	(17)	145	-	145
Financial assets derecognized for the period	(30,616)	(1,615)	(14,262)	(46,493)	-	(46,493)
Purchase or originated financial assets	26,720	4,235	118,825	149,780	-	149,780

(Continued)

	For the Nine Months Ended September 30, 2019					
	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	$ -	$ -	$ -	$ -	$ (13,315)	$ (13,315)
Doubtful debts written off	-	-	(29,467)	(29,467)	-	(29,467)
Changes in exchange rates or others	8	2	29,467	29,477	-	29,477
Ending balance	$ 28,608	$ 5,206	$ 124,738	$ 158,552	$ 566,864	$ 725,416

(Concluded)

	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-month expected credit losses	228	(171)	186	243	-	243
Financial assets derecognize 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)
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, 2019			
	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	$ 30,337,486	$ 159,683	$ 71,837	$ 30,569,006
Changes from financial instruments recognized at the beginning of the period:				
Transfers to lifetime expected credit loss	(32,970)	21,133	(206)	(12,043)
Transfers to credit-impaired financial assets	(7,530)	(909)	4,167	(4,272)
Transfers to 12-month expected credit losses	71,983	(12,027)	(116)	59,840
Purchase or originated financial assets	23,814,734	123,095	176,100	24,113,929
Derecognized	(18,691,784)	(96,231)	(9,064)	(18,797,079)
Doubtful debts written off	-	-	(29,467)	(29,467)
Change in exchange rates or others	2,013	218	1	2,232
Ending balance	$ 35,493,932	$ 194,962	$ 213,252	$ 35,902,146

	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)
Others	7,826	795	(107)	8,514
Ending balance	$ 32,365,264	$ 156,848	$ 100,483	$ 32,622,595

12. DISCOUNTS AND LOANS, NET

a. Details of discounts and loans

	September 30, 2019	December 31, 2018	September 30, 2018
Negotiated and discounted	$ 3,491,515	$ 4,541,384	$ 5,126,624
Overdrafts	1,391,431	1,388,976	1,326,746
Short-term loans	426,061,642	361,909,922	380,563,215
Margin loans receivable	276,380	230,047	297,022
Medium-term loans	429,970,597	421,455,388	438,678,594
Long-term loans	573,684,483	559,202,595	555,357,292
Overdue loans	4,761,871	4,545,418	3,432,258
	1,439,637,919	1,353,273,730	1,384,781,751
Less: Allowance for loan losses	(17,403,217)	(16,572,635)	(16,621,283)
	$ 1,422,234,702	$ 1,336,701,095	$ 1,368,160,468

Loans of which the accrual of interest income had ceased internally as of September 30, 2019, December 31, 2018 and September 30, 2018 were $4,761,871 thousand, $4,545,418 thousand and $3,432,258 thousand, respectively. The amounts of interest income that would have been accrued on these loans for the nine months ended September 30, 2019 and 2018 were $95,356 thousand and $68,731 thousand, respectively.

The Group did not write off any loans without legal claims process during the nine months ended September 30, 2019 and 2018.

b. Allowance for discounts and loans

1) Movements in the allowance for discounts and loans

	For the Nine Months Ended September 30, 2019					
	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	$ 1,884,305	$ 1,844,323	$ 5,102,485	$ 8,831,113	$ 7,741,522	$ 16,572,635
Changes from financial instruments recognized at the beginning of the period:						
Transfers to lifetime expected credit losses	(43,317)	44,084	(2,569)	(1,802)	-	(1,802)
Transfers to credit impaired financial assets	(5,673)	(72,273)	77,452	(494)	-	(494)
Transfers to 12-month expected credit losses	160,962	(157,458)	(5,139)	(1,635)	-	(1,635)
Financial assets derecognized for the period	(1,145,215)	(843,856)	(1,539,726)	(3,528,797)	-	(3,528,797)
Purchased or originated financial assets	862,503	848,147	3,328,950	5,039,600	-	5,039,600
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	-	-	-	-	1,114,308	1,114,308
Doubtful debts written off	-	-	(1,794,529)	(1,794,529)	-	(1,794,529)
Change in exchange rates or others	1,634	1,802	495	3,931	-	3,931
Ending balance	$ 1,715,199	$ 1,664,769	$ 5,167,419	$ 8,547,387	$ 8,855,830	$ 17,403,217

	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)
Purchase or originated financial assets	942,337	971,778	3,751,826	5,665,941	-	5,665,941
Recognized impairment difference base on the Regulations of the Procedures for Banking Institutions to evaluate assets and deal with non-performing loans and bad debts	-	-	-	-	(690,504)	(690,504)
Doubtful debts written off	(391,625)	(115,587)	(1,024,779)	(1,531,991)	-	(1,531,991)
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

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

	For the Nine Months Ended September 30, 2019			
	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	$ 1,285,960,041	$ 53,741,535	$ 13,572,154	$ 1,353,273,730
Changes from financial instruments recognized at the beginning of the period:				
Transfers to lifetime expected credit losses	(15,167,559)	15,120,975	(26,354)	(72,938)
Transfers to credit-impaired financial assets	(1,222,617)	(1,142,833)	2,363,667	(1,783)
Transfers to 12-month expected credit losses	2,888,993	(3,502,727)	(37,092)	(650,826)
Derecognized	(523,947,313)	(23,351,142)	(5,412,599)	(552,711,054)
Purchase or originated financial assets	611,980,821	23,644,597	5,244,354	640,869,772
Doubtful debts written off	-	-	(1,794,529)	(1,794,529)
Others	650,826	72,938	1,783	725,547
Ending balance	$ 1,361,143,192	$ 64,583,343	$ 13,911,384	$ 1,439,637,919

	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)
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

c. Details of provision for bad debts expense, commitment and guarantee for the three months and the nine months ended September 30, 2019 and 2018

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Provision for receivable and loan (including overdue loan) losses	$ 700,448	$ 377,047	$ 1,671,525	$ 1,620,529
Reversal for loan commitment	(6,298)	(32,169)	(39,279)	(140,447)
Provision (reversal) for guarantee liability	(3,406)	57,036	43,684	75,848
Provision for others	19,070	2,436	29,003	2,436
	$ 709,814	$ 404,350	$ 1,704,933	$ 1,558,366

13. FINANCIAL ASSETS FOR HEDGING

	September 30, 2019	December 31, 2018	September 30, 2018
Financial assets for hedging			
Fair value hedges - interest rate swaps	$ 267,177	$ 244,763	$ 215,841

The Group used interest rate swaps to minimize its exposure to the fair value fluctuations 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, 2019, December 31, 2018 and September 30, 2018 were $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, 2019 and 2018, the swaps were effective in hedging the fair value exposure to interest rate movements, and as a result, the carrying amounts of the fixed-rate borrowings were adjusted by $278,898 thousand, $249,055 thousand and $218,342 thousand as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively; these amounts were included in profit or loss at the same time that the fair value of the interest rate swap was included in profit or loss.

The information of hedging transactions is as follows:

a. Hedging type: Fair value hedging.

b. Hedging objective: To minimize the Bank's risks from changes in fair value due to fluctuating interest rates, by converting fixed-rate notes to floating-rate notes.

c. Hedging method: By signing interest rate swap contracts, which pay floating rates (interest rate range: 0.6680%-0.6681%) and charge fixed rates (interest rate range: 1.2900%-1.6075%).

d. Hedging effect: The results of hedging are all in the line with the effective range of hedge accounting as defined by IFRSs. The realized gains or losses from hedging tools were $9,168 thousand, $(5,570) thousand, $73,113 thousand and $23,542 thousand for the three months ended September 30, 2019 and 2018, and the nine months ended September 30, 2019 and 2018, respectively, and the realized gains or losses from fair-value hedging were $4,988 thousand, $20,562 thousand, $(29,843) thousand and $21,315 thousand, accounted for as net other non-interest income or loss, for the three months ended September 30, 2019 and 2018, and the nine months ended September 30, 2019 and 2018, respectively.

14. OTHER MISCELLANEOUS FINANCIAL ASSETS

	September 30, 2019	December 31, 2018	September 30, 2018
Time deposits with original maturities of more than 3 months	$ 34,523,200	$ 54,923,845	$ 57,267,723
Exchange bills negotiated	6,928	10,360	45,641
Overdue receivable	329,431	380,211	391,299
Call loan to security brokers	-	153,675	152,575
Less: Allowance for bad debts	(250,068)	(422,861)	(366,088)
	$ 34,609,491	$ 55,045,230	$ 57,491,150

The market rates of time deposits with original maturities of more than 3 months were ranging from 2.28%-3.53% and 2.65%-4.85% for the nine months ended September 30, 2019 and 2018, respectively.

Refer to Note 37 for information relating to other miscellaneous financial assets pledged as security.

15. SUBSIDIARIES

Subsidiaries Included in Consolidated Financial Statements

Investor	Investee	Main Business	% of Ownership September 30, 2019	% of Ownership December 31, 2018	% of Ownership September 30, 2018
The Bank	Chang Hua Commercial Bank, Ltd.	Banking	100	100	-
The Bank	Chang Hwa Bank Venture Capital Co., Ltd.	Investing	100	-	-

On December 11, 2018, the Bank changed its operation units in China by establishing its subsidiary Chang Hua Commercial Bank, Ltd. The Bank established Chang Hwa Bank Venture Capital Co., Ltd. on April 17, 2019.

16. PROPERTY AND EQUIPMENT

	September 30, 2019
Assets used by the Group	$ 20,534,701
Assets leased under operating leases	165,941
	$ 20,700,642

a. Asset used by the Group - 2019

	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, 2019	$ 14,677,460	$ 8,841,768	$ 4,593,715	$ 726,071	$ 1,458,869	$ 972,308	$ 908	$ 629,499	$ 31,900,598
Adjustments on initial application of IFRS 16	-	-	-	-	-	-	(908)	-	(908)
Balance at January 1, 2019, (restated)	14,677,460	8,841,768	4,593,715	726,071	1,458,869	972,308	-	629,499	31,899,690
Additions	-	25,995	135,476	18,423	29,160	8,440	-	51,081	268,575
Disposals	-	(26,065)	(86,445)	(14,714)	(6,663)	(4,185)	-	-	(138,072)
Transfers to assets leased under operating leases	-	11,557	-	-	-	-	-	-	11,557
Reclassification	(135,314)	278,921	50,406	6,459	1,933	6,997	-	(438,702)	(229,300)
Effect of foreign currency exchange differences	-	(6,768)	(1,222)	(31)	(146)	(524)	-	(15,277)	(23,968)
Balance at September 30, 2019	$ 14,542,146	$ 9,125,408	$ 4,691,930	$ 736,208	$ 1,483,153	$ 983,036	$ -	$ 226,601	$ 31,788,482
Accumulated depreciation and impairment									
Balance at January 1, 2019	$ -	$ 4,300,908	$ 3,937,165	$ 617,158	$ 1,307,289	$ 857,587	$ 148	$ -	$ 11,020,255
Adjustments on initial application of IFRS 16	-	-	-	-	-	-	(148)	-	(148)
Balance at January 1, 2019, (restated)	-	4,300,908	3,937,165	617,158	1,307,289	857,587	-	-	11,020,107
Disposals	-	(25,881)	(86,076)	(14,644)	(6,582)	(4,185)	-	-	(137,368)
Depreciation expense	-	135,075	163,771	33,683	33,873	28,787	-	-	395,189
Transfers to assets leased under operating leases	-	(8,924)	-	-	-	-	-	-	(8,924)
Reclassification	-	(12,429)	-	-	-	-	-	-	(12,429)
Effect of foreign currency exchange differences	-	(1,236)	(962)	(70)	(151)	(375)	-	-	(2,794)
Balance at September 30, 2019	$ -	$ 4,387,513	$ 4,013,898	$ 636,127	$ 1,334,429	$ 881,814	$ -	$ -	$ 11,253,781
Carrying amounts at September 30, 2019	$ 14,542,146	$ 4,737,895	$ 678,032	$ 100,081	$ 148,724	$ 101,222	$ -	$ 226,601	$ 20,534,701
Carrying amount at December 31, 2018 and January 1, 2019	$ 14,677,460	$ 4,540,860	$ 656,550	$ 108,913	$ 151,580	$ 114,721	$ 760	$ 629,499	$ 20,880,343

b. Assets leased under operating leases - 2019

	Buildings
Cost	
Balance at January 1, 2019	$ 341,422
Adjustments on initial application of IFRS 16	-
Balance at January 1, 2019 (restated)	341,422
Transfers from assets used by the Group	(11,557)
Balance at September 30, 2019	$ 329,865
Accumulated depreciation and impairment	
Balance at January 1, 2019	$ 150,467
Adjustments on initial application of IFRS 16	-
Balance at January 1, 2019 (restated)	150,467
Depreciation expense	4,533
Transfers from assets used by the Group	8,924
Balance at September 30, 2019	$ 163,924
Carrying amounts at September 30, 2019	$ 165,941
Carrying amounts at December 31, 2018 and January 1, 2019	$ 190,955

Operating leases relate to buildings owned by the Group with lease terms between 1 and 20 years without an option to extend lease terms. All operating lease contracts contain market review clauses in the event that the lessees exercise their options to extend. The lessees do not have bargain purchase options to acquire the assets at the expiry of the lease periods.

The maturity analysis of lease payments receivable under operating lease payments for property used by the Group was as follows:

	September 30, 2019
Year 1	$ 24,627
Year 2	17,452
Year 3	12,443
Year 4	2,985
	$ 57,507

2018

	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

Operating leases relate to the property owned by the Group with lease terms between 5 and 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 December 31, 2018 and September 30, 2018, refundable deposits received under operation leases amounted to $55,213 thousand and $55,092 thousand, respectively.

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

	December 31, 2018	September 30, 2018
Not later than 1 year	$ 239,809	$ 239,612
Later than 1 year and not later than 5 years	498,706	501,910
Later than 5 years	82,454	82,454
	$ 820,969	$ 823,976

The above items of property, plant and equipment leased under operating leases are depreciated on a straight-line basis over their estimated useful lives as follows:

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

17. LEASE ARRANGEMENTS

a. Right-of-use assets - 2019

	September 30, 2019
Carrying amounts	
Land	$ 1,972
Buildings	1,547,206
Machinery equipment	408
Transportation equipment	77,674
Miscellaneous equipment	15,463
	$ 1,642,723

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Additions to right-of-use assets	$ 137,250	$ 253,391
Depreciation charge for right-of-use assets		
Land	$ 336	$ 996
Buildings	163,950	477,547
Machinery equipment	116	348
Transportation equipment	9,285	28,057
Miscellaneous equipment	2,634	7,546
	$ 176,321	$ 514,494

b. Lease liabilities - 2019

	September 30, 2019
Carrying amounts	$ 1,445,377

Range of discount rate for lease liabilities was as follows:

	September 30, 2019
Land	0.91%
Buildings	0.20%-2.99%
Machinery equipment	0.20%-2.89%
Transportation equipment	2.12%-3.00%
Miscellaneous equipment	0.86%-2.89%

c. Material lease-in activities and terms

The Group leases certain buildings for operations of branches with lease terms from 3 to 15 years. The lease contract for offices located in New York specifies that lease payments are subject to 4 modifications during the lease terms and the Group can sublease the underlying assets. The lease contracts for offices located in Hong Kong and Taiwan specify that the premium for lease was $2,152 thousand and lease payments will be adjusted each year. In addition, the Group was prohibited from subleasing all or any portion of the underlying assets.

d. Other lease information

Lease arrangements under operating leases for the leasing out of investment properties and freehold property, plant and equipment are set out in Notes 16 and 18.

2019

	For the Three Months Ended September 30, 2019	For the Nine Months Ended September 30, 2019
Expenses relating to short-term leases	$ 9,232	$ 23,269
Expenses relating to low-value asset leases	$ 8,055	$ 24,057
Expenses relating to variable lease payments not included in the measurement of lease liabilities	$ 36,031	$ 131,762
Total cash outflow for leases		$ (179,088)

The Group leases certain land, buildings, transportation equipment and miscellaneous equipment which qualify as short-term leases and certain land, machinery equipment and miscellaneous equipment which qualify as low-value asset leases. The Group has elected to apply the recognition exemption and, thus, did not recognize right-of-use assets and lease liabilities for these leases.

For the nine months ended September 30, 2019, expenses relating to short-term leases also include expenses relating to leases for which the lease terms end on or before December 31, 2019 and for which the recognition exemption is applied. Just before the balance sheet date, the Group also entered into several lease arrangements for additional office equipment that qualified as short-term leases. The amount of lease commitments for short-term leases, for which the recognition exemption is applied was $7,315 thousand as of September 30, 2019.

2018

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 Group does not have a bargain purchase option to acquire the leased land, houses and cars at the expiration of the lease periods.

As of December 31, 2018 and September 30, 2018, refundable deposits paid under operation leases amounted to $47,992 thousand and $46,236 thousand, respectively.

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

	December 31, 2018	September 30, 2018
Not later than 1 year	$ 621,178	$ 621,126
Later than 1 year and not later than 5 years	1,118,117	1,193,629
Later than 5 years	255,874	268,050
	$ 1,995,169	$ 2,082,805

18. INVESTMENT PROPERTY

	September 30, 2019	December 31, 2018	September 30, 2018
Completed investment property	$ 13,874,524	$ 13,742,376	$ 13,743,307

Except for depreciation recognized, the Group had no significant additions, disposals, and impairment of investment property during the nine months ended September 30, 2019 and 2018.

Operating leases relate to the investment property owned by the Group with lease terms between 1 and 20 years, with no option to extend. 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.

The maturity analysis of lease payments receivable under operating leases of investment properties as of September 30, 2019 was as follows:

	September 30, 2019
Year 1	$ 200,502
Year 2	156,574
Year 3	126,373
Year 4	106,335
Year 5	94,805
Year 6 onwards	94,743
	$ 779,332

The investment properties are depreciated using the straight-line method over their estimated useful lives as follows:

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

The investment properties are measured and stated at cost in the balance sheet. For management purpose, the Group periodically measures the fair value of investment properties in accordance with the Group’s internal rules and procedures. The Group conducts regular evaluations. The fair values were $26,959,699 thousand, $26,506,226 thousand and $26,696,860 thousand as of September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

The rental incomes and direct operating expenses generated by the investment property for the three months ended September 30, 2019 and 2018 and nine months ended September 30, 2019 and 2018 were as follows:

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	**2018**	**2019**	**2018**
Rental incomes	$ 45,103	$ 47,671	$ 130,763	$ 141,031
Direct operating expenses	$ 26,953	$ 27,651	$ 77,835	$ 82,873

19. INTANGIBLE ASSETS

	September 30, 2019	December 31, 2018	September 30, 2018
Computer software	$ 707,733	$ 731,364	$ 339,978

	Computer Software
Cost	
Balance at January 1, 2019	$ 731,364
Additions	72,013
Amortization expense	(163,277)
Reclassification	67,767
Effect of foreign currency exchange differences and others	(134)
Balance at September 30, 2019	$ 707,733

Except for amortization recognized, the Group had no significant additions, disposals, and impairment of intangible assets during the nine months ended September 30, 2018.

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

20. OTHER ASSETS

	September 30, 2019	December 31, 2018	September 30, 2018
Refundable deposits	$ 1,005,860	$ 666,426	$ 671,911
Assumed collateral and residuals	23,462	23,462	23,462
Less: Accumulated impairment	(23,462)	(23,462)	(23,462)
Prepayments	343,471	332,556	419,514
Others	9,142	869	276
	$ 1,358,473	$ 999,851	$ 1,091,701

21. DEPOSITS FROM THE CENTRAL BANK AND BANKS

	September 30, 2019	December 31, 2018	September 30, 2018
Deposits from the Central Bank	$ 24,857	$ 25,835	$ 24,907
Deposits from banks	775,796	28,639,448	28,236,582
Overdrafts on banks	1,859,410	1,167,669	1,001,306
Call loans from banks	101,871,404	82,508,426	83,646,806
Deposits transferred from Chunghwa Post Co., Ltd.	454,875	697,163	802,057
	$ 104,986,342	$ 113,038,541	$ 113,711,658

22. PAYABLES

	September 30, 2019	December 31, 2018	September 30, 2018
Checks issued to payees for clearing	$ 11,596,466	$ 18,402,780	$ 18,446,895
Accounts payable	10,392,544	1,776,020	3,492,970
Accrued expenses	1,836,410	2,568,648	1,719,988
Accrued interests	2,999,060	2,711,071	2,731,300
Acceptances	5,602,619	6,105,324	6,717,883
Others	9,405,440	5,113,936	9,173,921
	$ 41,832,539	$ 36,677,779	$ 42,282,957

23. DEPOSITS AND REMITTANCES

	September 30, 2019	December 31, 2018	September 30, 2018
Checking account deposits	$ 34,794,433	$ 44,742,967	$ 36,605,449
Demand deposits	416,229,062	391,831,065	403,220,392
Time deposits	390,754,678	395,634,572	392,003,074
Negotiable certificates of deposit	5,437,264	5,670,685	6,297,778
Savings account deposits	881,642,094	849,749,138	843,656,054
Remittances	1,637,732	1,952,685	1,300,081
	$ 1,730,495,263	$ 1,689,581,112	$ 1,683,082,828

24. BANK NOTES PAYABLE

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

The Bank issued $5,000 million perpetual subordinated bank notes 99-1 on June 29, 2010, which is callable after 10 years of issue date.

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 term and Financial Debenture B $1,100 million with 10-year term.

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

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

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

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

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

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

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

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

The Bank issued $7,000 million perpetual subordinated bank notes 107-1 on April 26, 2018. Callable 5 years and 3 months after issue date.

The Bank issued $3,000 million perpetual subordinated bank notes 107-2 on November 8, 2018. Callable 5 years and 1 month after issue date.

The Bank issued $5,960 million perpetual subordinated bank notes 108-1 on June 27, 2019. Callable 5 years and 1 month after issue date.

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

Bank Note, Interest Rate and Maturity Date	September 30, 2019	December 31, 2018	September 30, 2018
Hedged financial liabilities at fair value			
103-1 Note A, 7-year term, 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 term, 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 term, 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 term, interest payable annually, interest rate 1.20%, maturity date: September 27, 2026	2,000,000	2,000,000	2,000,000
Valuation adjustment	278,898	249,055	218,342
	8,478,898	8,449,055	8,418,342
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 B, 10-year term, 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, 2019	December 31, 2018	September 30, 2018
100-2, 10-year term, 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 term, 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 term, 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 term, 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 term, 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 term, 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 term, 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	7,000,000	7,000,000
107-2, no maturity date, interest payable annually, interest rate 2.30%	3,000,000	3,000,000	-
108-1, no maturity date, interest payable annually, interest rate 1.90%	5,960,000	-	-
	47,060,000	41,100,000	38,100,000
	$ 55,538,898	$ 49,549,055	$ 46,518,342

(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 nominal principal of interest rate swaps was accounted as hedging derivative financial assets. (Refer to Note 13).

25. OTHER FINANCIAL LIABILITIES

	September 30, 2019	December 31, 2018	September 30, 2018
Principal received on structured notes	$ 3,654,763	$ 3,715,307	$ 3,627,465
Appropriations for loans	797,185	671,115	625,104
Lease payable	-	656	699
	$ 4,451,948	$ 4,387,078	$ 4,253,268

The principals received on structured notes were the hybrid instruments issued at fixed income with derivatives attached. The related income of structured notes were determined by the interest rates linked to targets.

26. OTHER LIABILITIES

	September 30, 2019	December 31, 2018	September 30, 2018
Advance receipts	$ 659,852	$ 662,897	$ 701,937
Guarantee deposits	2,026,288	2,115,346	2,585,549
Deferred revenue	19,359	14,959	23,362
Others	274,423	-	-
	$ 2,979,922	$ 2,793,202	$ 3,310,848

27. RESERVE FOR LIABILITIES

	September 30, 2019	December 31, 2018	September 30, 2018
Reserve for employee benefits (Note 28)	$ 4,102,841	$ 4,337,337	$ 4,081,264
Reserve for guarantee liabilities	601,188	557,933	560,004
Reserve for loan commitments	329,827	369,150	332,996
Reserve for decommissioning restoration and rehabilitation costs	58,491	-	-
Reserve for contingencies	281	-	392
Others	55,955	31,912	32,442
	$ 5,148,583	$ 5,296,332	$ 5,007,098

Movements in reserve for guarantee liabilities, reserve for loans commitments and reserve for others are as follows:

	For the Nine Months Ended September 30, 2019					
	12-month Expected Credit Losses	Lifetime Expected Credit Losses	Realized Credit Impairment	Loss Recognized Based on IFRS 9	Recognized Impairment Difference Based on the Laws	Total
Beginning balance	$ 458,177	$ 26,188	$ 41,182	$ 525,547	$ 433,448	$ 958,995
Changes from financial instruments recognized at the beginning of the period:						
Transfers to lifetime expected credit losses	(4,137)	4,028	-	(109)	-	(109)
Transfers to credit-impaired financial assets	(15)	(9)	25	1	-	1
Transfers to 12-month expected credit losses	2,875	(1,374)	(1,855)	(354)	-	(354)
Financial assets derecognize for the period	(301,432)	(3,736)	(16,150)	(321,318)	-	(321,318)
Purchase or originated financial assets	249,066	24,702	34,784	308,552	-	308,552
Recognized impairment difference based on the Laws	-	-	-	-	40,760	40,760
Changes in exchange rates or others	335	108	-	443	-	443
Ending balance	$ 404,869	$ 49,907	$ 57,986	$ 512,762	$ 474,208	$ 986,970

	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 the Laws	Total
Beginning balance	$ 490,854	$ 126,871	$ 427,500	$ 1,045,225	$ -	$ 1,045,225
Changes from financial instruments recognized at the beginning of the period:						
Transfers to lifetime expected credit losses	(3,195)	3,181	-	(14)	-	(14)
Transfers to credit-impaired financial assets	(73)	(18)	57	(34)	-	(34)
Transfers to 12-month expected credit losses	101,620	(102,520)	-	(900)	-	(900)
Financial assets derecognize for the period	(379,143)	(20,045)	(380,182)	(779,370)	-	(779,370)
Purchase or originated financial assets	249,690	8,729	16,646	275,065	-	275,065
Recognized impairment difference based on the Laws	-	-	-	-	384,523	384,523
Changes in exchange rates or others	898	15	34	947	-	947
Ending balance	$ 460,651	$ 16,213	$ 64,055	$ 540,919	$ 384,523	$ 925,442

28. RETIREMENT BENEFIT PLANS

Employee benefits expense in respect of the Bank's defined benefit retirement plans was calculated using the prior year's actuarially determined pension cost discount rate as of December 31, 2018 and 2017 and the amounts were $83,507 thousand, $81,092 thousand, $241,633 thousand and $242,978 thousand for the three months ended September 30, 2019 and 2018, and for the nine months ended September 30, 2019 and 2018, respectively.

29. EQUITY

a. Capital

<u>Common stock</u>

	September 30, 2019	December 31, 2018	September 30, 2018
Shares granted (in thousands)	11,000,000	11,000,000	11,000,000
Capital stock granted	$ 110,000,000	$ 110,000,000	$ 110,000,000
Shares issued and fully paid (in thousands)	9,985,311	9,789,521	9,789,521
Capital stock issued	$ 99,853,111	$ 97,895,207	$ 97,895,207

Fully paid common stocks, with a par value at $10, carry one vote per stock and carry a right to dividends.

As of January 1, 2018, the Bank's authorized and registered capital was $110,000,000 thousand divided into 11,000,000 thousand shares at $10 par value; the total paid-in capital was $94,130,007 thousand. In August 2019 and September 2018, the Bank resolved its capitalization of earnings and increased its paid-in capital by $1,957,904 thousand and $3,765,200 thousand, respectively. The amount of the Bank's authorized and registered capital as at September 30, 2019 and 2018 was $110,000,000 thousand divided into 11,000,000 thousand shares and, also at those dates, the total amounts of paid-in capital were $99,853,111 thousand and $97,895,207 thousand divided into 9,985,311 thousand and 9,789,521 thousand outstanding shares at $10 par value, respectively.

b. Distribution of earnings and dividend policy

Under the dividend policy as set forth in the Bank's amended Articles of Incorporation, where the Bank generates 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 of directors after amendment, refer to Note 30g, "employee benefits expenses".

To ensure the Bank has sufficient cash for present and future expansion plans and to enhance 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 balance of legal reserve reaches 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 stock 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 from the authority and also the Bank appropriates the legal reserve based on the Banking Law.

The appropriations of earnings for 2018 and 2017 were approved in the stockholders' meetings on June 14, 2019 and June 8, 2018, respectively. The appropriations of earnings and dividends per stock were as follows:

	Appropriation of Earnings		Dividends Per Stock (NT$)	
	2018	**2017**	**2018**	**2017**
Legal reserve	$ 3,793,961	$ 3,627,932	$ -	$ -
Special reserve	63,232	60,466	-	-
Dividends of common stock - cash	6,265,293	4,235,850	0.64	0.45
Dividends of common stock - stock	1,957,904	3,765,200	0.20	0.40

c. Special reserve

	September 30, 2019	December 31, 2018	September 30, 2018
Special reserves appropriated following first-time adoption of IFRSs	$ 11,778,829	$ 11,778,829	$ 11,778,829
Others	425,819	362,587	362,587
	$ 12,204,648	$ 12,141,416	$ 12,141,416

30. NET INCOME

a. Net interest income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	**2018**	**2019**	**2018**
Interest income				
Loans	$ 7,367,447	$ 7,398,219	$ 22,048,905	$ 21,874,348
Due from and call loans to banks	1,216,590	1,279,539	4,336,286	3,689,141
Investments in marketable securities	1,207,401	960,764	3,260,462	2,708,578
Others	66,408	64,269	204,164	210,896
	9,857,846	9,702,791	29,849,817	28,482,963
Interest expense				
Deposits	(3,201,420)	(2,990,043)	(9,554,675)	(8,542,875)
Due to central bank and call loans from banks	(650,690)	(624,885)	(2,048,103)	(1,861,373)
Others	(300,916)	(263,426)	(858,341)	(686,052)
	(4,153,026)	(3,878,354)	(12,461,119)	(11,090,300)
Net interest income	$ 5,704,820	$ 5,824,437	$ 17,388,698	$ 17,392,663

b. Net service fee income

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Service fee income				
Fees from import and export	$ 77,424	$ 81,660	$ 233,999	$ 252,968
Remittance fees	113,543	122,569	340,135	364,459
Loan fees	90,579	199,089	323,459	456,379
Fees from trust	211,008	186,515	560,141	684,271
Fees from trust business	88,425	80,819	239,568	234,828
Fees from insurance agency	568,742	565,882	1,701,732	1,550,791
Others	320,728	299,451	919,747	855,147
	1,470,449	1,535,985	4,318,781	4,398,843
Service charge				
Interbank charges	(40,094)	(38,484)	(120,072)	(114,360)
Charges from trust	(6,678)	(6,007)	(15,885)	(23,475)
Custodian charges	(31,822)	(26,708)	(83,262)	(79,611)
Charges from insurance agency	(75,051)	(44,998)	(196,115)	(127,500)
Others	(166,289)	(136,469)	(455,950)	(378,464)
	(319,934)	(252,666)	(871,284)	(723,410)
Net service fee income	$ 1,150,515	$ 1,283,319	$ 3,447,497	$ 3,675,433

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Realized gain (loss) on financial assets or liabilities measured at FVTPL				
Stock and beneficiary certificates	$ 11,015	$ (48,212)	$ 17,608	$ (53,044)
Bonds	14,148	(780)	26,961	(5,295)
Bills	(32)	23	(32)	34
Derivative financial instruments	401,068	680,509	1,603,787	2,220,767
Net interest loss	(82,569)	(85,313)	(251,705)	(248,053)
Stock dividends and bonus	1,269	3,877	2,469	6,989
	344,899	550,104	1,399,088	1,921,398
Valuation gain (loss) on financial assets or liabilities measured at FVTPL				
Stock and beneficiary certificates	357	5,876	901	(4,961)
Bonds	10,219	86,653	(315,365)	441,823
Bills	(688)	(639)	(687)	(351)
Derivative financial instruments	32,637	51,071	103,843	(316,137)
	42,525	142,961	(211,308)	120,374
	$ 387,424	$ 693,065	$ 1,187,780	$ 2,041,772

d. Realized gain (loss) on financial assets at FVTOCI

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	**2018**	**2019**	**2018**
Stock dividends and bonus	$ 266,616	$ 318,895	$ 521,158	$ 457,001
Disposal gains				
Beneficiary securities	1,787	-	1,821	-
Bonds	459,988	42,957	671,680	61,318
Disposal losses				
Beneficiary securities	(122)	(1)	(255)	(2)
Bonds	(3,746)	(21)	(4,909)	(36)
	$ 724,523	$ 361,830	$1,189,495	$ 518,281

e. Depreciation and amortization expense

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	**2018**	**2019**	**2018**
Property and equipment	$ 133,609	$ 125,661	$ 399,722	$ 381,263
Investment property	1,742	1,672	5,133	4,996
Right-of-use assets	176,321	-	514,494	-
Intangible assets and other deferred assets	53,634	50,847	163,535	149,520
	$ 365,306	$ 178,180	$ 1,082,884	$ 535,779

f. Employee benefits expenses

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	**2018**	**2019**	**2018**
Short-term employee benefits	$ 2,514,791	$ 2,278,253	$ 7,254,587	$ 6,926,846
Post-employment benefits				
Defined contribution plans	50,201	45,927	143,964	135,080
Defined benefit plans	83,507	81,092	241,633	242,978
High-yield savings account for employees	135,922	130,371	399,721	386,510
Other post-employment benefits	2,699	2,316	7,923	6,715
Termination benefits	-	5,341	8,383	8,983
	$ 2,787,120	$ 2,543,300	$ 8,056,211	$ 7,707,112

g. 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, 2019 and 2018 were as follows:

Accrual rate

	For the Nine Months Ended September 30	
	2019	**2018**
Employees' compensation	5.00%	4.00%
Remuneration of directors	0.40%	0.30%

Amount

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	**2018**	**2019**	**2018**
	Cash	**Cash**	**Cash**	**Cash**
Employees' compensation	$ 193,050	$ 128,000	$ 579,150	$ 512,000
Remuneration of directors	$ 15,450	$ 10,200	$ 46,350	$ 40,800

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 2018 and 2017 having been resolved by the board of directors on March 15, 2019 and March 20, 2018, respectively, were as below:

	For the Year Ended December 31	
	2018	**2017**
	Cash	**Cash**
Employees' compensation	$ 777,327	$ 749,711
Remuneration of directors	62,186	59,977

Due to changes in accounting estimates, the actual amount of employees' compensation and directors' remuneration, which was resolved in the meeting of the board of directors dated on March 15, 2019 differs from what was accrued in the consolidated financial statements for 2018. The difference was then adjusted to profit and loss for 2019.

	For the Year Ended December 31, 2018	
	Employees' Compensation	**Remuneration of Directors**
Amounts approved in the board of directors' meeting	$ 777,327	$ 62,186
Amounts recognized in the annual consolidated financial statements	$ 777,500	$ 62,500
Differences	$ (173)	$ (314)

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

Information on the employees' compensation and remuneration of directors resolved by the Bank's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

31. 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	
	2019	**2018**	**2019**	**2018**
Current income tax				
In respect of the current period	$ 401,684	$ 704,901	$ 1,298,385	$ 1,418,283
Income tax on unappropriated earnings	-	-	15,617	5,396
Deferred income tax				
In respect of the current period	117,334	(125,757)	253,283	545,716
Adjustments to deferred tax attributable to changes in tax rates and laws	-	-	-	(483,061)
Income tax expense recognized in profit or loss	$ 519,018	$ 579,144	$ 1,567,285	$ 1,486,334

The Income Tax Act in the Republic of China ("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 had been 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	
	2019	2018	2019	2018
Deferred tax				
Effect of change in tax rate	$ -	$ -	$ -	$ (24,422)
In respect of the current year:				
Exchange differences on translation	(144,131)	(71,654)	(69,518)	6,938
Unrealized gains (losses) on financial assets at FVTOCI	4,946	(253)	12,118	(5,476)
Total income tax benefit recognized in other comprehensive income	$ (139,185)	$ (71,907)	$ (57,400)	$ (22,960)

c. Income tax assessments

The Bank's income tax returns through 2017 had been examined and cleared by the tax authority.

32. EARNINGS PER SHARE

The computation of earnings per share was retrospectively adjusted for the effects of adjustments resulting from bonus stock issues on August 12, 2019. The basic and diluted after-tax earnings per stock for the three months and the nine months ended September 2018 were adjusted retrospectively as follows:

Unit: NT$ Per Stock

	Before Adjusted Retrospectively		After Adjusted Retrospectively	
	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018	For the Three Months Ended September 30, 2018	For the Nine Months Ended September 30, 2018
Basic earnings per stock	$ 0.35	$ 1.02	$ 0.34	$ 1.00
Diluted earnings per stock	$ 0.35	$ 1.01	$ 0.34	$ 0.99

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Net profit for the period	$ 2,983,357	$ 3,403,212	$ 8,982,420	$ 9,968,126

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Weighted average number of common stock in computation of basic earnings per stock	9,985,311	9,985,311	9,985,311	9,985,311
Effect of potentially dilutive common stock:				
Employees' compensation issued	26,751	27,090	36,323	36,865
Weighted average number of common stock used in the computation of diluted earnings per stock	10,012,062	10,012,401	10,021,634	10,022,176

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

33. CAPITAL RISK MANAGEMENT

The description of the goals and procedures of the capital risk management of the Group is the same as the description in the Group's financial statements for the year ended December 31, 2018.

34. FINANCIAL INSTRUMENTS

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

Fair value of financial instruments not measured at fair value

September 30, 2019

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets at amortized cost	$ 272,616,396	$ 6,210,502	$ 266,446,869	$ -	$ 272,657,371
Financial liabilities					
Bank notes payable	55,538,898	-	8,478,898	48,192,975	56,671,873

December 31, 2018

	Carrying Amount	Fair Value			
		Level 1	Level 2	Level 3	Total
Financial assets					
Financial assets at amortized cost	$ 268,059,805	$ 7,170,574	$ 260,872,765	$ -	$ 268,043,339
Financial liabilities					
Bank notes payable	49,549,055	-	8,449,055	42,173,161	50,622,216

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

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, 2019			
	Total	Level 1	Level 2	Level 3
Non-derivative financial products				
Assets				
Financial assets at FVTPL	$ 7,815,253	$ 83,130	$ 7,732,123	$ -
Financial assets mandatorily measured at FVTPL	7,815,253	83,130	7,732,123	-
Stock investments	83,130	83,130	-	-
Bond investments	962,261	-	962,261	-
Others	6,769,862	-	6,769,862	-
Financial assets at FVTOCI	124,472,329	84,595,568	32,055,037	7,821,724
Stock investments	14,139,502	6,276,778	41,000	7,821,724
Bond investments	108,282,456	76,268,419	32,014,037	-
Others	2,050,371	2,050,371	-	-
Liabilities				
Financial liabilities at FVTPL	9,834,927	-	9,834,927	-
Derivative financial products				
Assets				
Financial assets at FVTPL	3,298,706	85,304	3,213,402	-
Other financial assets				
Financial assets for hedging	267,177	-	267,177	-
Liabilities				
Financial liabilities at FVTPL	3,576,842	-	3,576,842	-

Fair Value Measurement of Financial Instruments	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Non-derivative financial products				
Assets				
Financial assets at FVTPL	$ 8,581,548	$ 300,526	$ 8,281,022	$ -
Financial assets mandatorily measured at FVTPL	8,581,548	300,526	8,281,022	-
Bond investments	1,955,428	300,526	1,654,902	-
Others	6,626,120	-	6,626,120	-
Financial assets at FVTOCI	91,938,199	67,016,293	17,783,861	7,138,045
Stock investments	11,923,261	4,785,216	-	7,138,045
Bond investments	77,509,250	59,725,389	17,783,861	-
Others	2,505,688	2,505,688	-	-
Liabilities				
Financial liabilities at FVTPL	9,130,255	-	9,130,255	-
Derivative financial products				
Assets				
Financial assets at FVTPL	2,335,942	173,149	2,162,793	-
Other financial assets				
Financial assets for hedging	244,763	-	244,763	-
Liabilities				
Financial liabilities at FVTPL	1,917,233	-	1,917,233	-

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	-
Stock 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	-

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, 2019

Financial Assets	Financial Assets at FVTOCI Equity Instrument
Beginning balance	$ 7,138,045
Realized losses on other comprehensive income/unrealized gain (loss) on financial assets at FVTOCI	683,679
Ending balance	$ 7,821,724

For the nine months ended September 30, 2018

Financial Assets	Financial Assets at FVTOCI Equity Instrument
Beginning balance	$ 7,678,043
Realized losses on other comprehensive income/unrealized gain (loss) on financial assets at FVTOCI	(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 stock, 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 Group's investments in off-the-run government bonds, corporate bonds, bank debentures, convertible bonds and most derivative bank debentures issued by the Group 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 Group's investments in derivatives and equity investments without an active market are included in Level 3.

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

a) Determination of fair value

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

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

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

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

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

b) The types and nature of the valuation methods for financial instruments used by the Bank and its subsidiaries are as follows:

i. NTD central government bonds: The bond market rate and theoretical interest rate are price-per-hundred conversions announced by TPEx.

ii. NTD corporate bonds and bank notes: The corporate bond reference rate is announced by TPEx, and the Group 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 stock, call/put warrants and depositary receipts: The closing price listed on TWSE or TPEx is adopted.

viii. Unlisted stock: The fair value is referenced from related financial information or estimated using the price or parameter of listed companies which have similar service attributes.

ix. Beneficiary certificates: Closed-end funds use the closing price in an active market as the fair value and open-end funds use the net asset value of the fund as the fair value.

x. Derivatives:

i) Call/put warrants and stock index futures: Prices quoted from an active market are deemed the fair values.

ii) Foreign currency forward contracts, currency swaps, interest rate swaps, cross currency swaps and operating deposits of transactions: Discounted future cash flows are adopted.

iii) Options: The Black-Scholes model, binomial tree model and Monte Carlo method are mainly adopted for valuation.

iv) Certain derivatives use the quoted price from counterparties.

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

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

Credit valuation adjustment (CVA) is a measurement for derivatives which are not transacted through the stock market, or for over-the-counter derivatives. CVA reflects the fair value 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 Group 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 Group’s investments denominated in foreign currencies, such as foreign currency spots, currency futures and foreign currency options.

b) Market risk management policy

The Group classifies the financial instruments held by the Group as trading book and banking book, and determines the market risk as interest rate risk, exchange rate risk, and equity security price risk. The Group 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, and 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 Group 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 Group’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 Group 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 Group 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 Group 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 on a real-time or daily basis. The hedging derivatives are valued at least twice a month. The resources of fair value of financial instruments are categorized as: (1) those derived from quoted prices in active markets; (2) the latest price without active market; (3) valuation without active market.

iv. Risk measuring methods

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

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

iii) The Group 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 Group 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 Group 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 Group'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 Group's 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 Group's interest rate risk management policy, the Group 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 Group 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 Group 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 Group'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 Group'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 Group when the equity security price changes. The Group's equity security price risk mainly comes from public and over-the-counter stock, 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 stock. With regard to the Group's Value at Risk assumptions and calculation methods, please refer to item i.

iii. Equity security price risk management procedures

The Group 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 which holds the position to subject to the related regulations. The department which 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 Group 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 Group 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 Group has been using historical simulation method to calculate VaR since January 27, 2014. 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 Group would use proxy to respond to the limitations mentioned above.

According to the Group'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 Group. 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 Group's risk management department.

ii. As of September 30, 2019 and 2018, the Bank's VaR factors based on historical simulation method were as follows:

	For the Nine Months Ended September 30, 2019			
	Average	**Highest**	**Lowest**	**Ending Balance**
Exchange VaR	$ 82,917	$ 112,663	$ 57,223	$ 84,916
Interest rate VaR	4,275	6,860	2,070	3,884
Equity securities VaR	4,143	6,559	985	4,451
Value at risk	$ 91,335	$ 126,082	$ 60,278	$ 93,251

	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

2) Primary foreign currencies

The significant foreign-currency financial assets and liabilities as of September 30, 2019, December 31, 2018 and September 30, 2018 were as follows:

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	September 30, 2019		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 8,091,444	31.0400	$ 251,158,422
GBP	57,277	38.1700	2,186,263
AUD	1,365,634	20.9950	28,671,486
HKD	722,312	3.9580	2,858,911
CAD	115,052	23.4500	2,697,969
ZAR	3,353,011	2.0500	6,873,673
JPY	43,071,959	0.2876	12,387,495
EUR	415,000	33.9500	14,089,250
RMB	10,219,018	4.3540	44,493,604
Financial liabilities			
Monetary items			
USD	9,667,106	31.0400	300,066,970
GBP	50,664	38.1700	1,933,845
AUD	1,213,066	20.9950	25,468,321
HKD	446,954	3.9580	1,769,044
CAD	112,389	23.4500	2,635,522
ZAR	3,152,527	2.0500	6,462,680
JPY	43,598,394	0.2876	12,538,898
EUR	480,670	33.9500	16,318,747
NZD	64,128	19.4700	1,248,572
RMB	12,326,258	4.3540	53,668,527
Non-monetary items			
USD	319,115	31.0400	9,905,330

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	December 31, 2018		
	Foreign Currencies	**Exchange Rate**	**New Taiwan Dollars**
Financial assets			
Monetary items			
USD	$ 8,898,028	30.7350	$ 273,480,891
GBP	27,843	38.9000	1,083,093
AUD	1,095,013	21.6550	23,712,507
HKD	1,199,145	3.9230	4,704,246
SGD	21,017	22.4400	471,621
CAD	67,346	22.5800	1,520,673
ZAR	72,053	2.1200	152,752
JPY	49,710,296	0.2774	13,789,636
EUR	390,042	35.1800	13,721,678
RMB	13,892,214	4.4690	62,084,304
Financial liabilities			
Monetary items			
USD	10,260,713	30.7350	315,363,014
GBP	46,133	38.9000	1,794,574
AUD	1,089,360	21.6550	23,590,091
HKD	993,636	3.9230	3,898,034
CAD	80,216	22.5800	1,811,277
ZAR	1,759,369	2.1200	3,729,862
JPY	52,062,479	0.2774	14,442,132
EUR	452,284	35.1800	15,911,351
NZD	62,078	20.6300	1,280,669
RMB	12,686,266	4.4690	56,694,923
Non-monetary items			
USD	306,665	30.7350	9,425,349

(In Thousands of Foreign Currencies/New Taiwan Dollars)

	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
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

For the three months ended September 30, 2019 and 2018, net foreign exchange gains were $373,236 thousand and $130,088 thousand, respectively. For the nine months ended September 30, 2019 and 2018, net foreign exchange gains were $994,581 thousand and $892,998 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

The related mechanism and procedures for monitoring credit risk includes:

i. The Bank continuously improves its credit risk management technology and its efficiency to meet the requirements of internal operations, business scale and management objectives and buildup the risk management system that fits the requirement of accuracy and completeness of the Bank's risk management technology.

ii. The Group is building a complete monitoring mechanism, setting up a loan early warning system to track down bad indications and risk changes of high-risk credits, setting up "corporate clients' risk exposure and credit risk quick-search system" to understand the negative reporting and transactions with the Bank in order to enhance the credit risk's identification, measurement and monitoring and improve the quality of risk management.

iii. The Group continues to develop methods of credit risk quantification models to elevate credit risk management techniques, which enable the Group's capital requirement and expected loss to become more risk sensitive.

iv. The Group implements strict and forward-looking credit risk stress testing to respond to the events or changes which may be unfavorable to the Group and in compliance with the requirements of the competent authority supervising risk management and improves the effectiveness of the Group's risk management.

v. The Group is holding sessions and training in risk management to strengthen risk management intelligence and increase the Group's financial institution of loan.

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

i. Credit business (including loan commitments and guarantees)

i) A significant increase in credit risk since initial recognition.

At the end of every reporting period, the Group 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 Group 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 Group 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.

- Qualitative indicators

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

iii) Expected credit loss measurement

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

Business	Combination
Corporate banking loans	Government
	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 Group measures the expected credit loss as follows:

- Stage 1, no significant increase in credit risk

  The Group 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 Group 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 Group 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 Group 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 (i.e. guarantees, letters of credit issued yet unused, irrevocable loan commitments issued, and revocable loan commitments issued) is converted into the equivalent exposure amount of on-balance sheet assets through a credit conversion factor (CCF). The CCF is determined according to the standardized approach of the Capital Adequacy Ratio as either 0%, 20%, 50% or 100% by referring to the respective off-balance sheet item's characteristics.

- The LGD is one minus the present value of the annual recovery rate. The annual recovery rate refers to the annual recovery amount of principal (including litigation expenses) and interest over non-performing loans plus accrued interest and litigation expenses.

iv) Forward-looking information

The Group classifies credit assets as either corporate banking - domestic, corporate banking - overseas, corporate banking - Singapore branch or individual banking business. Macroeconomic indicators for each the above categories are estimated using the domestic economic growth rate, global economic growth rate, Southeast Asia economic growth rate and the domestic unemployment rate, respectively, and are updated at least once a year.

Macroeconomic indicators include the actual statistical value of the past five years and predicted value of the current year and the next five years at the time of calculation. The forward-looking adjusted PD is adjusted based on the reasonableness of each value's predicted trend.

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

	September 30	
	2019	**2018**
Loans	$ 5,039,601	$ 5,665,940

ii. Call loans to banks

The Group evaluates the credit status of counterparties before deals are closed. The Group grants different limits to counterparties based on their respective credit ratings as suggested by domestic and foreign credit rating agencies. The Group assesses the credit limits of counterparties by level and financial status; the Group efficiently manages counterparties' credit risks through regular and special reviews, monitoring and reporting. Additionally, in accordance with the application of IFRS 9, the Group 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 Group 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 Group conducts derivative transactions are mostly considered investment grade. The Group 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 Group classifies the credit qualities of debt instruments as strong, medium, weak and non-rating.

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

c) Credit risk hedging or mitigation policies

i. Collateral

The Group 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 Group 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 Group stipulates the security mechanism for loans and the conditions and terms for collateral offsetting to state clearly that the Group 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 Group's credit risks.

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

To avoid the concentration of credit risks, the Group has included credit limits for a single counterparty and for a single group in its credit-related guidelines. The Group 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 Group has set credit limits by industry, conglomerate, transactions collateralized by stock, 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 Group's balance sheet:

<u>September 30, 2019</u>

		Maximum Exposure to Credit Risk Mitigated by			
	Carrying Amount	**Collateral**	**Master Netting Arrangement**	**Other Credit Enhancements**	**Total**
Discounts and loans	$ 1,439,637,919	$ 936,628,666	$ -	$ -	$ 936,628,666
Financial assets at FVTPL	11,113,959	3,316,667	-	-	3,316,667
Investments in debt instruments at FVTOCI	110,332,827	2,502,573	-	-	2,502,573
Investments in debt instruments at amortized cost	272,616,396	405,115	-	-	405,115

December 31, 2018

	Carrying Amount	Maximum Exposure to Credit Risk Mitigated by: Collateral	Master Netting Arrangement	Other Credit Enhancements	Total
Discounts and loans	$ 1,353,273,730	$ 912,119,282	$ -	$ -	$ 912,119,982
Financial assets at FVTPL	10,917,490	4,148,425	-	-	4,148,425
Investments in debt instruments at FVTOCI	80,014,938	4,184,101	-	-	4,184,101
Investments in debt instruments at amortized cost	268,059,805	1,099,404	-	-	1,099,404

September 30, 2018

	Carrying Amount	Maximum Exposure to Credit Risk Mitigated by: 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, 2019			
	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	$ 843,154,363	$ 3,828,277	$ 4,530	$ 846,987,170
Levels 16-18	-	58,413,359	3,486,500	61,899,859
Levels 19-21	-	-	8,739,530	8,739,530
No rating	517,988,829	2,341,707	1,680,824	522,011,360
Total carrying amount	$ 1,361,143,192	$ 64,583,343	$ 13,911,384	$ 1,439,637,919
Expected credit losses	$ 1,715,199	$ 1,664,769	$ 5,167,419	$ 8,547,387
Recognized impairment based on the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing Loans and Bad Debts				8,855,830
				$ 17,403,217

	Discounts and Loans December 31, 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	$ 829,132,008	$ 794,433	$ 36,123	$ 829,962,564
Levels 16-18	-	50,738,114	3,166,966	53,905,080
Levels 19-21	-	-	8,286,739	8,286,739
No rating	456,828,033	2,208,988	2,082,326	461,119,347
Total carrying amount	$ 1,285,960,041	$ 53,741,535	$ 13,572,154	$ 1,353,273,730
Expected credit losses	$ 1,884,305	$ 1,844,323	$ 5,102,485	$ 8,831,113
Recognized impairment based on the Regulations of the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing Loans and Bad Debts				7,741,522
				$ 16,572,635

	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	-	45,526,952	3,174,539	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	$ 48,376,165	$ 14,227,191	$ 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, 2019			
	Stage 1 12-month Expected Credit Losses	**Stage 2 Lifetime Expected Credit Losses**	**Stage 3 Lifetime Expected Credit Losses**	**Total**
Carrying amount	$ 50,960,815	$ 533,256	$ 101,029	$ 51,595,100
Expected credit losses	104,085	11,133	22,734	137,952

	Guarantee Payments			
	December 31, 2018			
	Stage 1 12-month Expected Credit Losses	**Stage 2 Lifetime Expected Credit Losses**	**Stage 3 Lifetime Expected Credit Losses**	**Total**
Carrying amount	$ 46,464,389	$ 643,055	$ 132,833	$ 47,240,277
Expected credit losses	114,722	4,510	29,977	149,209

	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, 2019			
	Stage 1 12-month Expected Credit Losses	Stage 2 Lifetime Expected Credit Losses	Stage 3 Lifetime Expected Credit Losses	Total
Carry amount - non-cancellable	$ 66,948,122	$ 4,629,806	$ -	$ 71,577,928
Carry amount - cancellable	536,631,942	9,329,657	119,948	546,081,547
	$ 603,580,064	$ 13,959,463	$ 119,948	$ 617,659,475
Expected credit losses - non-cancellable	$ 69,610	$ 37,027	$ -	$ 106,637
Expected credit losses - cancellable	219,925	370	1,278	221,573
	$ 289,535	$ 37,397	$ 1,278	$ 328,210

	Loan Commitments			
	December 31, 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	$ 64,459,258	$ 4,316,557	$ 515	$ 68,776,330
Carry amount - cancellable	616,419,050	8,671,211	1,649,431	626,739,692
	$ 680,878,308	$ 12,987,768	$ 1,649,946	$ 695,516,022
Expected credit losses - non-cancellable	$ 78,405	$ 21,022	$ 168	$ 99,595
Expected credit losses - cancellable	254,219	41	1,383	255,643
	$ 332,624	$ 21,063	$ 1,551	$ 355,238

	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

d) Maximum exposure to credit risk

The maximum credit risk exposures of various financial instruments held by the Group are the same as per book amounts. Refer to the notes to the financial statements.
As of September 30, 2019, December 31, 2018 and September 30, 2018, 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, 2019	December 31, 2018	September 30, 2018
Unused loan commitments (excluding credit card)	$ 71,577,928	$ 68,776,330	$ 75,777,891
Credit card commitments	391,126	316,154	394,260
Unused issued letters of credit	25,757,139	23,341,732	27,584,005
Guarantees in guarantee business	51,595,100	47,240,277	47,002,081

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

	September 30, 2019	
Industry Type	Carrying Amount	Percentage of Item (%)
Financial and insurance	$ 59,082,041	4
Manufacturing	371,675,251	26
Wholesale and retail	122,679,195	8
Real estate and leasing	111,146,360	8
Service	42,744,767	3
Individuals	461,605,972	32
Others	270,704,333	19
	$ 1,439,637,919	

Industry Type	December 31, 2018 Carrying Amount	Percentage of Item (%)
Financial and insurance	$ 61,513,658	5
Manufacturing	357,106,346	26
Wholesale and retail	119,732,031	9
Real estate and leasing	103,658,818	8
Service	42,521,269	3
Individuals	450,420,900	33
Others	218,320,708	16
	$ 1,353,273,730	

Industry Type	September 30, 2018 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	

Geographic Location	September 30, 2019 Carrying Amount	Percentage of Item (%)
Asia	$ 1,325,495,489	92
America	82,967,721	6
Europe	17,483,579	1
Others	13,691,130	1
	$ 1,439,637,919	

Geographic Location	December 31, 2018 Carrying Amount	Percentage of Item (%)
Asia	$ 1,247,574,057	93
America	84,018,748	6
Europe	17,022,782	1
Others	4,658,143	-
	$ 1,353,273,730	

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	

Securities Type	September 30, 2019 Carrying Amount	Percentage of Item (%)
Unsecured	$ 503,009,253	35
Secured		
Properties	798,097,562	55
Others	138,531,104	10
	$ 1,439,637,919	

Securities Type	December 31, 2018 Carrying Amount	Percentage of Item (%)
Unsecured	$ 441,154,448	33
Secured		
Properties	773,714,213	57
Others	138,405,069	10
	$ 1,353,273,730	

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	

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

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

4) Liquidity risk management

a) The definition of liquidity risk

Liquidity risk is the potential loss that the Group 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 Group's liquidity risk management policy, the Group 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 Group's funding liquidity.

As of September 30, 2019 and 2018, the ratio of the liquidity reserve were 18.93% and 18.72%, 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 Group 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, 2019					
	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	$ 21,202,753	$ -	$ -	$ -	$ -	$ 21,202,753
Due from the Central Bank and call loans to banks	13,578,250	4,104,601	5,039,378	6,109,028	30,279,462	59,110,719
Financial assets at FVTPL	6,945,804	-	-	-	-	6,945,804
Receivables	22,929,698	982,519	856,605	359,858	280,189	25,408,869
Discounts and loans	86,949,395	166,350,757	127,670,802	181,318,101	639,985,278	1,202,274,333
Investments in equity instruments designated at FVTOCI	-	-	-	-	14,098,501	14,098,501
Investments in debt instruments at FVTOCI	2,000,613	-	97,013	1,023,805	37,340,039	40,461,470
Investments in debt instruments at amortized cost	150,000,000	11,649,636	5,250,000	40,639,401	12,934,018	220,473,055
Other maturity funds inflow items	-	-	-	-	27,259,422	27,259,422
	303,606,513	183,087,513	138,913,798	229,450,193	762,176,909	1,617,234,926
Major maturity fund outflows						
Deposits from the Central Bank and banks	746,927	113,750	36,747	291,094	-	1,188,518
Due to the Central Bank and banks	705,000	15,000	-	-	-	720,000
Securities sold under repurchase agreements	645,020	1,323,140	-	-	-	1,968,160
Payables	33,293,136	1,737,891	246,839	1,698,753	896,609	37,873,228
Deposits and remittances	104,258,682	120,834,450	148,897,289	180,501,977	775,767,316	1,330,259,714
Bank notes payable	-	-	-	5,000,000	50,260,000	55,260,000
Other maturity fund outflow items	69,487	90,263	119,336	310,467	5,770,706	6,360,259
	139,718,252	124,114,494	149,300,211	187,802,291	832,694,631	1,433,629,879
Gap	$ 163,888,261	$ 58,973,019	$ (10,386,413)	$ 41,647,902	$ (70,517,722)	$ 183,605,047

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

(In Thousands of New Taiwan Dollars)

Item	December 31, 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	$ 29,443,416	$ -	$ -	$ -	$ -	$ 29,443,416
Due from the Central Bank and call loans to banks	39,646,647	4,129,049	4,423,093	6,255,338	28,968,211	83,422,338
Financial assets at FVTPL	7,729,884	-	-	-	-	7,729,884
Receivables	16,275,268	872,180	445,913	248,936	191,491	18,033,788
Discounts and loans	94,031,335	107,115,359	116,662,681	162,850,400	644,681,385	1,125,341,160
Investments in equity instruments designated at FVTOCI	-	-	-	-	11,923,261	11,923,261
Investments in debt instruments at FVTOCI	800,273	1,401,115	502,125	2,213,254	18,516,789	23,433,556
Investments in debt instruments at amortized cost	141,525,000	11,239,961	6,474,259	41,699,432	14,245,505	215,184,157
Other maturity funds inflow items	-	-	-	-	26,733,348	26,733,348
	329,451,823	124,757,664	128,508,071	213,267,360	745,259,990	1,541,244,908
Major maturity fund outflows						
Deposits from the Central Bank and banks	189,672	191,747	19,089	424,959	-	825.467
Due to the Central Bank and banks	5,705,000	10,000	-	-	-	5,715,000
Securities sold under repurchase agreements	714,914	1,650,586	-	-	-	2,365,500
Payables	29,361,163	2,156,063	442,880	1,424,538	807,250	34,191,894
Deposits and remittances	110,834,474	124,202,476	133,370,347	188,618,379	721,545,066	1,278,570,742
Bank notes payable	-	-	-	-	49,300,000	49,300,000
Other maturity fund outflow items	40,584	75,316	48,354	269,826	5,793,570	6,227,650
	146,845,807	128,286,188	133,880,670	190,737,702	777,445,886	1,377,196,253
Gap	$ 182,606,016	$ (3,528,524)	$ (5,372,599)	$ 22,529,658	$ (32,185,896)	$ 164,048,655

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

(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 United States Dollars)

Item	September 30, 2019					
	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	$ 209,789	$ 300,000	$ -	$ -	$ -	$ 509,789
Due from the Central Bank and call loans to banks	1,982,020	733,567	66,990	1,908	3,496	2,787,981
Financial assets at FVTPL	28,011	-	-	-	-	28,011
Receivables	378,951	112,223	211,609	45,732	16,155	764,670
Discounts and loans	700,147	753,510	504,101	398,061	3,383,427	5,739,246
Investments in debt instruments at FVTOCI	3,202	45,012	12,981	49,532	869,408	980,135
Investments in debt instruments at amortized cost	2,999	-	7,997	32,464	239,424	282,884
Other maturity fund inflow items	-	-	400,000	200,000	24,875	624,875
	3,305,119	1,944,312	1,203,678	727,697	4,536,785	11,717,591
Major maturity fund outflows						
Deposits from the Central Bank and banks	25,625	271	407	814	85	27,202
Due to the Central Bank and banks	2,051,362	338,000	-	-	-	2,389,362
Financial liabilities at FVTPL	-	316,847	-	-	-	316,847
Payables	456,090	35,385	7,756	5,620	832	505,683
Deposits and remittances	1,940,367	1,983,833	1,596,719	1,520,525	2,866,230	9,907,674
Other maturity fund outflow items	54,761	8,072	131	3,288	69,533	135,785
	4,528,205	2,682,408	1,605,013	1,530,247	2,936,680	13,282,553
Gap	$ (1,223,086)	$ (738,096)	$ (401,335)	$ (802,550)	$ 1,600,105	$ (1,564,962)

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

(In Thousands of United States Dollars)

Item	December 31, 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	$ 806,846	$ 230,024	$ -	$ -	$ -	$ 1,036,870
Due from the Central Bank and call loans to banks	2,212,411	821,005	66,451	146,453	3,256	3,249,576
Financial assets at FVTPL	27,710	-	-	-	-	27,710
Receivables	540,228	189,153	234,864	13,399	16,178	993,822
Discounts and loans	532,202	713,629	589,275	290,123	3,459,503	5,584,732
Investments in debt instruments at FVTOCI	7,231	11,006	5,000	72,133	1,063,024	1,158,394
Investments in debt instruments at amortized cost	7,996	-	4,083	2,991	279,875	294,945
Other maturity fund inflow items	5,000	-	28,000	525,000	6,904	564,904
	4,139,624	1,964,817	927,673	1,050,099	4,828,740	12,910,953
Major maturity fund outflows						
Deposits from the Central Bank and banks	809,709	74,535	10,802	1,605	85	896,736
Due to the Central Bank and banks	1,394,916	469,000	-	-	-	1,863,916
Financial liabilities at FVTPL	-	-	-	297,064	-	297,064
Securities sold under repurchase agreements	95,018	-	-	-	-	95,018
Payables	622,700	34,674	4,841	4,924	-	667,139
Deposits and remittances	2,576,125	2,334,002	1,212,298	1,256,576	2,766,131	10,145,132
Other maturity fund outflow items	60,389	1,001	552	10,946	87,633	160,521
	5,558,857	2,913,212	1,228,493	1,571,115	2,853,849	14,125,526
Gap	$ (1,419,233)	$ (948,395)	$ (300,820)	$ (521,016)	$ 1,974,891	$ (1,214,573)

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

d) Maturity analysis of derivative financial assets and liabilities

The derivative instruments held by the Group, 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, 2019					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	$ 145,016,753	$ 248,900,087	$ 66,041,870	$ 32,554,484	$ 310,400	$ 492,823,594
Inflows	144,840,717	248,666,422	66,101,032	32,319,032	312,944	492,240,147
Interest rate derivative instruments						
Outflows	-	2,468,650	620,800	3,119,000	10,872	6,219,322
Inflows	59,676	2,785,251	620,400	3,104,160	-	6,569,487
Others						
Outflows	-	-	-	-	-	-
Inflows	28,741	-	-	-	-	28,741
Total outflows	$ 145,016,753	$ 251,368,737	$ 66,662,670	$ 35,673,484	$ 321,272	$ 499,042,916
Total inflows	$ 144,929,134	$ 251,451,673	$ 66,721,432	$ 35,423,192	$ 312,944	$ 498,838,375

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

Item	December 31, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	$ 130,622,908	$ 177,417,727	$ 45,739,365	$ 12,335,558	$ 619,367	$ 366,734,925
Inflows	130,934,978	177,661,565	45,998,167	12,261,809	637,758	367,494,277
Interest rate derivative instruments						
Outflows	210,160	-	1,202,820	2,465,600	3,915	3,882,495
Inflows	156,431	-	1,202,820	2,461,765	-	3,821,016
Total outflows	$ 130,833,068	$ 177,417,727	$ 46,942,185	$ 14,801,158	$ 623,282	$ 370,617,420
Total inflows	$ 131,091,409	$ 177,661,565	$ 47,200,987	$ 14,723,574	$ 637,758	$ 371,315,293

(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

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, 2019					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	$ 54,738,961	$ 1,046,085	$ 1,366,030	$ 3,146,240	$ 11,280,612	$ 71,577,928
Credit card commitments	470	2,829	7,432	27,224	353,171	391,126
Letters of credit issued yet unused	25,655,308	76,701	25,130	-	-	25,757,139
Guarantees	50,434,360	429,740	363,083	280,294	87,623	51,595,100
	$ 130,829,099	$ 1,555,355	$ 1,761,675	$ 3,453,758	$ 11,721,406	$ 149,321,293

(In Thousands of New Taiwan Dollars)

Item	December 31, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	Over 1 Year	Total
Irrevocable loan commitments issued	$ 49,422,517	$ 1,564,066	$ 2,456,218	$ 3,611,264	$ 11,722,265	$ 68,776,330
Credit card commitments	40	1,182	2,455	40,898	271,579	316,154
Letters of credit issued yet unused	23,262,124	61,214	18,394	-	-	23,341,732
Guarantees	45,816,420	397,062	142,655	762,602	121,538	47,240,277
	$ 118,501,101	$ 2,023,524	$ 2,619,722	$ 4,414,764	$ 12,115,382	$ 139,674,493

(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

35. OTHER DISCLOSURES OF FINANCIAL INSTITUTION

a. Asset quality

Business Type \ Item			September 30, 2019					September 30, 2018				
			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		$ 3,368,860	$ 474,616,129	0.71%	$ 5,531,161	164.18%	$ 1,875,858	$ 455,589,811	0.41%	$ 5,285,052	281.74%
	Unsecured		212,761	487,217,751	0.04%	5,515,126	2,592.17%	536,625	479,160,246	0.11%	5,368,256	1,000.37%
Consumer finance	Mortgage loans (Note d)		781,654	272,818,429	0.29%	4,145,096	530.30%	961,586	270,375,235	0.36%	4,118,327	428.28%
	Cash cards (Note h)		-	-	-	-	-	-	-	-	-	-
	Credit loans (Note e)		3,746	1,643,328	0.23%	18,590	496.26%	4,275	1,598,289	0.27%	18,293	427.91%
	Others (Note f)	Secured	696,360	185,995,404	0.37%	1,916,598	275.23%	717,235	176,814,690	0.41%	1,817,486	253.40%
		Unsecured	2,950	1,148,811	0.26%	12,934	438.44%	3,645	1,243,480	0.29%	13,869	380.49%
Total			5,066,331	1,423,439,852	0.36%	17,139,505	338.30%	4,099,224	1,384,781,751	0.30%	16,621,283	405.47%

Business Type \ Item	September 30, 2019					September 30, 2018				
	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	$ 4,809	$ 2,317,011	0.21%	$ 20,553	427.39%	$ 5,059	$ 1,912,778	0.26%	$ 22,301	440.82%
No recourse receivable factoring (Note g)	-	11,811,706	-	168,117	-	-	13,163,979	-	131,640	-

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, 2019		September 30, 2018	
	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)	$ -	$ 1,053	$ -	$ 1,367
Negotiated accounts receivable transacted in accordance with the agreement and exempted from reporting as non-performing receivables (Note b)	503	18,894	571	16,819
Total	503	19,947	571	18,186

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, 2019			
Rank (Note a)	**Transaction Party (Note b)**	**Loans (Note c)**	**As Proportion of Net Equity (%) (Note d)**
1	A Corporation (railway transportation industry)	$ 25,823,864	16.15
2	B Group (airline industry)	25,362,186	15.86
3	C Group (synthesis construction industry)	18,351,000	11.48
4	D Group (concrete manufacturing industry)	14,304,796	8.95
5	E Group (steel smelting industry)	14,149,536	8.85
6	F Group (other computer peripheral equipment manufacturing industry)	8,316,349	5.20
7	G Group (steel manufacturing industry)	7,584,208	4.74
8	H Group (steel manufacturing industry)	6,531,391	4.08
9	I Group (wire and cable manufacturing industry)	6,262,842	3.92
10	J Group (semiconductor packaging and testing industry)	6,064,220	3.79

September 30, 2018			
Rank (Note a)	**Transaction Party (Note b)**	**Loans (Note c)**	**As Proportion of Net Equity (%) (Note d)**
1	A Group (railway transportation industry)	$ 26,064,364	16.86
2	E Corporation (steel smelting industry)	20,714,940	13.40
3	B Group (airline industry)	19,647,561	12.71
4	C Group (synthesis construction industry)	17,637,845	11.41
5	D Group (basic chemical material manufacturing industry)	16,327,743	10.56
6	G Group (steel manufacturing industry)	7,571,767	4.90
7	F Group (other computer peripheral equipment manufacturing industry)	6,876,474	4.45
8	K Group (real estate development industry)	5,797,530	3.75
9	L Group (real estate development industry)	5,664,792	3.66
10	M Group (financial intermediation industry)	5,643,592	3.65

Note a: Sorted by the balance of loans on September 30, 2019 and 2018, 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, 2019				
	1-90 Days	**91-180 Days**	**181 Days-1 Year**	**More Than 1 Year**	**Total**
Interest-sensitive assets	$ 1,338,004,219	$ 50,569,991	$ 55,315,672	$ 111,615,320	$ 1,555,505,202
Interest-sensitive liabilities	313,106,047	900,048,731	85,901,536	54,390,612	1,353,446,926
Interest sensitivity gap	1,024,898,172	(849,478,740)	(30,585,864)	57,224,708	202,058,276
Net equity					139,212,700
Ratio of interest-sensitive assets to liabilities					114.93%
Ratio of interest sensitivity gap to net equity					145.14%

(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%

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, 2019				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	$ 12,864,906	$ 1,275,418	$ 356,239	$ 173,395	$ 14,669,958
Interest-sensitive liabilities	13,307,618	1,493,853	1,255,355	149	16,056,975
Interest sensitivity gap	(442,712)	(218,435)	(899,116)	173,246	(1,387,017)
Net equity					482,278
Ratio of interest-sensitive assets to liabilities					91.36%
Ratio of interest sensitivity gap to net equity					(287.60%)

(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%)

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, 2019	September 30, 2018
Return on total assets	Pretax	0.50%	0.56%
	After tax	0.43%	0.48%
Return on net equity	Pretax	6.67%	7.65%
	After tax	5.68%	6.66%
Profit margin		36.79%	40.38%

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

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

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

Note d: Profitability presented above is cumulative from January 1 to September 30 of 2019 and 2018.

e. Maturity analysis of assets and liabilities

(In Thousands of New Taiwan Dollars)

	Total	September 30, 2019					
		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	$ 1,845,388,491	$ 165,978,992	$ 167,824,834	$ 333,556,327	$ 158,492,280	$ 235,643,559	$ 783,892,499
Major maturity cash outflows	2,338,401,858	127,809,948	136,386,429	382,570,435	281,544,707	414,850,453	995,239,886
Gap	(493,013,367)	38,169,044	31,438,405	(49,014,108)	(123,052,427)	(179,206,894)	(211,347,387)

(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)

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, 2019				
		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	$ 22,783,429	$ 9,768,748	$ 4,548,252	$ 2,325,602	$ 1,596,368	$ 4,544,459
Major maturity cash outflows	27,041,841	9,582,417	5,164,881	3,419,597	4,047,336	4,827,610
Gap	(4,258,412)	186,331	(616,629)	(1,093,995)	(2,450,968)	(283,151)

(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)

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, 2019 and 2018 were as follows:

	September 30	
	2019	2018
Special purpose trust accounts - domestic	$ 32,184,108	$ 30,053,071
Special purpose trust accounts - foreign	75,510,368	75,935,355
Insurance trust	10,744	10,681
Retirement and breeds trust	443,475	300,221
Umbilical-cord-blood trust	12,004,515	10,927,800
Money claim and guarantee trust	61,800	65,800
Marketable securities trust	753,320	711,075
Real estate trust	21,989,595	19,599,203
Securities under custody	203,299,840	135,082,703
Other money trust	1,929,083	3,393,494
	$ 348,186,848	$ 276,079,403

36. 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 the Bank's corporate director
Powtec Electrochemical Corporation (former name is Powertec Energy Corporation)	Its director is the Bank's corporate director
United Renewable Energy Co., Ltd.	Its director is the Bank's corporate director
Kaohsiung Rapid Transit Corporation	Its director is the Bank's corporate director
Adimmune Corporation	Its director 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, 2019	$ 30,342,093	2.13
Balance as of December 31, 2018	29,195,481	2.18
Balance as of September 30, 2018	29,534,527	2.16

For the nine months ended September 30, 2019 and 2018, interest rates ranged from 0.63% to 3.82% and from 0.63% to 3.73%, respectively, and interest income amounted to $453,180 thousand and $434,622 thousand, respectively. For the three months ended September 30, 2019 and 2018, interest income amounted to $155,802 thousand and $163,483 thousand, respectively.

	September 30, 2019					
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
Consumer loans						
34 accounts	$ 17,230	$ 18,141	$ 17,230	$ -	Credit	None
Self-use residential mortgage loans						
219 accounts	1,391,084	1,429,519	1,391,084	-	Real estate	None
Others						
Taiwan High Speed Rail Corporation	25,678,075	25,880,962	25,678,075	-	Credit and station equipment	None
Yang Ming Marine Transport Corporation	1,719,000	2,259,000	1,719,000	-	Credit and ship	None
Powtec Electrochemical Corporation	666,383	687,675	666,383	-	Credit and plant	None
United Renewable Energy Co., Ltd.	390,000	680,000	390,000	-	Credit and land and plant	None
Other - corporation 8 accounts (Note 1)	477,333	757,062	477,333	-	Credit and fund guarantee and real estate	None
Other - individual 2 accounts (Note 2)	2,987	4,373	2,987	-	Deposit	None

	December 31, 2018					
	Ending Balance	Highest Amount	Normal Loans	Non-performing Loans	Collateral	Difference in Terms Between Related Parties and Non-related Parties
Consumer loans						
28 accounts	$ 14,309	$ 15,788	$ 14,309	$ -	Credit	None
Self-use residential mortgage loans						
207 accounts	1,237,988	1,271,456	1,237,988	-	Real estate	None
Others						
Taiwan High Speed Rail Corporation	25,739,237	26,764,830	25,739,237	-	Credit and station equipment	None
Yang Ming Marine Transport Corporation	1,140,000	2,180,000	1,140,000	-	Ship	None
Powtec Energy Corporation	628,791	628,791	628,791	-	Credit	None
Other - corporation 9 accounts (Note 1)	431,595	779,460	431,595	-	Credit and fund guarantee and real estate	None
Other - individual 5 accounts (Note 2)	2,936	2,966	2,936	-	Deposit	None

	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
Powtec 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

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, 2019, December 31, 2018 and September 30, 2018. 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, 2019				
	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	21,327	21,327	213	0.50	None
Adimmune Corporation	18,771	18,771	188	1.80	Pledged demand deposit

	December 31, 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

	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

3) Deposits

	Balance	Percentage of Loans (%)
Balance as of September 30, 2019	$ 4,378,215	0.25
Balance as of December 31, 2018	4,283,912	0.25
Balance as of September 30, 2018	4,533,912	0.27

For the nine months ended September 30, 2019 and 2018, the interest rate intervals were both between 0.00% and 13.00%, the interest expense amounted to $38,079 thousand and $39,527 thousand, respectively, for the three months ended September 30, 2019 and 2018, the interest expense amounted to $11,909 thousand and $12,244 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, 2019					
Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	For the Three Months Ended September 30, 2019 Interest Income	For the Nine Months Ended September 30, 2019 Interest Income
Land Bank	DBU	NTD	$ 5,000	0.17-0.66	$ 233	$ 548
	OBU	USD	152,000	2.15-3.28	1,123	4,208
	Hong Kong Branch	USD	65,000	2.41-3.32	686	2,156
Taiwan Business Bank	OBU	USD	30,000	1.95-3.25	283	1,092
	Hong Kong Branch	USD	10,000	2.25-3.25	195	491

	December 31, 2018				
Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Income
Land Bank	DBU	NTD	$ 1,500,000	0.18-0.19	$ 274
	OBU	USD	155,000	1.48-3.28	3,089
	OBU	RMB	60,000	1.45-3.53	78
	Singapore Branch	USD	10,000	2.79	68
	Hong Kong Branch	USD	90,000	1.62-3.32	2,239
Taiwan Business Bank	OBU	USD	10,000	1.45-3.25	816
	Hong Kong Branch	USD	20,000	1.50-3.25	714

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
	September 30, 2018					
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

Call loans from banks

(In Thousands of Original Currencies)

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	For the Three Months Ended September 30, 2019 Interest Expense	For the Nine Months Ended September 30, 2019 Interest Expense
	September 30, 2019					
Land Bank	Singapore Branch	USD	$ 20,000	2.40-2.71	$ 114	$ 185
	New York Branch	USD	10,000	2.05-3.30	21	265
	London Branch	USD	68,000	2.06-2.90	39	55
Taiwan Business Bank	Singapore Branch	AUD	20,000	1.37-1.43	12	12
	Singapore Branch	GBP	6,000	1.05	7	7
	Singapore Branch	SGD	4,000	1.40-2.55	19	44

Name	Department	Currency	Ending Balance	Interest Rate (Per Annum %)	Interest Expense
	December 31, 2018				
Land Bank	New York Branch	USD	$ 30,000	1.44-3.30	$ 344
	Los Angeles Branch	USD	90,000	1.44-3.30	392
	Hong Kong Branch	USD	30,000	1.44-3.20	176
Taiwan Business Bank	Singapore Branch	SGD	4,500	0.80-2.55	20
	New York Branch	USD	135,000	1.75-3.32	116
	Los Angeles Branch	USD	47,000	2.30-3.30	32

Name	Department	Currency	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
	September 30, 2018					
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

5) Due from banks and deposits from banks

Due from banks

(In Thousands of New Taiwan Dollars)

Name	Department	Currency	September 30, 2019 Ending Balance	December 31, 2018 Ending Balance	September 30, 2018 Ending Balance
Land Bank	DBU	NTD	$ 2	$ 225	$ 225
Taiwan Business Bank	DBU	NTD	475	28	32

Deposits from banks

(In Thousands of Original Currencies)

Name	Department	Currency	September 30, 2019 Ending Balance	December 31, 2018 Ending Balance	September 30, 2018 Ending Balance
Land Bank	DBU	NTD	$ 277	$ 277	$ 277
The Export-Import Bank	DBU	NTD	700	1,173	803
Taishin International Bank	New York Branch	USD	66	62	61

c. Compensation of directors and management personnel

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2019	2018	2019	2018
Short-term employee benefits	$ 10,972	$ 8,989	$ 34,126	$ 27,817
Post-employment benefits	409	403	10,421	13,569
	$ 11,381	$ 9,392	$ 44,547	$ 41,386

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

37. PLEDGED ASSETS

The summary of the Bank's pledged assets as of September 30, 2019, December 31, 2018 and September 30, 2018 is as follows:

Pledged Assets	Description	September 30, 2019	December 31, 2018	September 30, 2018
Investments in debt instruments at FVTOCI	Bonds	$ 1,009,031	$ 1,047,620	$ 6,050,211
Investments in debt instruments at amortized cost	Bonds and certificates of deposit	41,610,373	41,607,061	36,604,775
Time deposits with original maturities of more than 3 months	Time deposits	2,612,400	2,681,400	2,659,800
Refundable deposits	Cash	1,005,860	666,426	671,911

38. 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, 2019, December 31, 2018 and September 30, 2018:

	September 30, 2019	December 31, 2018	September 30, 2018
Trust liabilities	$ 348,186,848	$ 273,725,158	$ 276,079,403
Unused loan commitments (excluding credit cards)	71,577,928	68,776,330	75,777,891
Credit card commitments	391,126	316,154	394,260
Unused issued letters of credit	25,757,139	23,341,732	27,584,005
Guarantees issued in guarantee business	51,595,100	47,240,277	47,002,081
Repayment notes and times deposit held for custody	14,714,768	14,756,665	13,258,549
Liabilities on joint loans	883,681	764,376	764,445

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, 2019 were $331,324 thousand, $49,599 thousand, $16,900 thousand, $448,522 thousand and $34,700 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 had appealed to the Supreme Court. The Supreme Court remanded and had held hearing on September 3, 2019. Then, the Supreme Court will hold another hearing on November 4, 2019.

39. 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, 2019	None
2	Acquisition of fixed assets over NT$300 million or 10% of outstanding capital for the nine months ended September 30, 2019	None
3	Disposal of fixed assets over NT$300 million or 10% of outstanding capital for the nine months ended September 30, 2019	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, 2019	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.	Table 1
2	Capital lending to another party	None
3	Endorsement for another party	None
4	Marketable securities held as of September 30, 2019	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, 2019	None
6	Acquisition of property, plant and equipment over NT$300 million or 10% of outstanding capital for the nine months ended September 30, 2019	None
7	Disposal of property, plant and equipment over NT$300 million or 10% of outstanding capital for the nine months ended September 30, 2019	None
8	Receivables from related parties over NT$300 million or 10% of outstanding capital as of September 30, 2019	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 2

d. Intercompany relationships and significant intercompany transactions: Table 3

40. 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, 2019							
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch	Others	Adjustments	Total
Net interest income	$ 9,684,300	$ 4,652,484	$ 282,463	$ -	$ 2,785,118	$ (15,667)	$ -	$ 17,388,698
Net service fee income	881,134	195,640	(25,183)	2,296,446	99,460	-	-	3,447,497
Net income on financial instrument	-	-	3,417,575	-	(13,882)	-	-	3,403,693
Others	9,543	-	6,911	-	3,230	153,666	-	173,350
Net revenue and gains	10,574,977	4,848,124	3,681,766	2,296,446	2,873,926	137,999	-	24,413,238
Bad debts expense, commitment and guarantee liability provision	(1,562,311)	-	(55)	-	(142,567)	-	-	(1,704,933)
Operating expenses	-	-	-	-	-	-	-	(12,158,600)
Income before income tax	$ 9,012,666	$ 4,848,124	$ 3,681,711	$ 2,296,446	$ 2,731,359	$ 137,999	$ -	$ 10,549,705

	For the Nine Months Ended September 30, 2018						
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch	Others	Total
Net interest income	$ 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, commitment 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

The revenue and results on the segment information reported does not include inter-segment revenue for the nine months ended September 30, 2019 and 2018.

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, 2019							
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch and subsidiary	Others	Adjustments	Total
Assets	$ 1,314,559,589	$ (222,031)	$ 530,364,083	$ -	$ 190,029,785	$ 95,488,396	$ -	$ 2,130,219,822
Liabilities	$ 2,471,437	$ 1,687,601,620	$ 92,422,911	$ -	$ 131,440,031	$ 56,371,317	$ -	$ 1,970,307,316

	December 31, 2018							
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch and subsidiary	Others	Adjustments	Total
Assets	$ 1,237,462,200	$ -	$ 711,859,108	$ -	$ 197,998,354	$ 94,714,265	$ (160,222,257)	$ 2,081,811,670
Liabilities	$ 2,612,375	$ 1,642,094,011	$ 200,817,962	$ -	$ 177,011,862	$ 50,289,122	$ (147,575,293)	$ 1,925,250,039

	September 30, 2018							
	Loans	Deposits and Remittances	Financial Instruments and Investments	Wealth Management	Oversea Branch	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

TABLE 1

CHANG HWA COMMERCIAL BANK, LTD.

INFORMATION ON INVESTEES' NAMES AND LOCATIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In Thousands of New Taiwan Dollars, Except for Percentage and Shares)

Investor	Investees' Names	Investees' Location	Line of Business	Original Investment Amount		Ending Balance			Net Income (Loss) of Current Period	Recognized Income (Loss) of Current Period	Note
				End of September 30, 2019	End of December 31, 2018	Stock	Ownership Interest (%)	Book Value			
Chang Hwa Bank	Chang Hua Commercial Bank, Ltd.	China	Banking	$ 12,117,288	$ 12,117,288	Note	100	$ 12,390,496	$ 177,589	$ 177,589	
	Chang Hwa Bank Venture Capital Co., Ltd.	Taiwan	Venture capital	600,000	-	60,000,000	100	595,029	(5,099)	(5,099)	

Note: Department of organization.

CHANG HWA COMMERCIAL BANK, LTD.

INFORMATION ON INVESTMENT IN MAINLAND CHINA
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(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, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of September 30, 2019	Net Income (Loss) of the Investee (Note 2)	% of Direct or Indirect Investment	Investment Gain (Loss)	Carrying Amount as of September 30, 2019	Accumulated Repatriation of Investment Income as of September 30, 2019	Note
					Outflow	Inflow							
Chang Hua Commercial Bank, Ltd.	Banking	$ 12,117,288 (US$ 399,558)	Note 1.c.	$ 12,117,288 (US$ 399,558)	$ -	$ -	$ 12,117,288 (US$ 399,558)	$ 177,589	100	$ 177,589	$ 12,390,496	$ -	

2.

Accumulated Outward Remittance for Investment in Mainland China September 30, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on the Amount of Investment Stipulated by Investment Commission, MOEA (Note 3)
$ 12,117,288 (US$ 399,558)	$ 12,372,787 (US$ 410,928)	$ 23,986,876

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.

TABLE 3

CHANG HWA COMMERCIAL BANK, LTD.

INTERCOMPANY RELATIONSHIPS AND SIGNIFICANT TRANSACTIONS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2019
(In Thousands of New Taiwan Dollars, Except for Percentage and Stock)

No. (Note 1)	Investee Company	Counterparty	Relationship (Note 2)	Transactions Details			
				Financial Statement Accounts	Amount	Payment Terms	% to Total Sales or Assets
0	The Bank	Chang Hua Commercial Bank, Ltd.	a.	Due from the Central Bank and call loans to bank	$ 25,476	Same as normal customers	-
				Cash and cash equivalents	222,031	Same as normal customers	0.01
				Interest income	47,138	Same as normal customers	0.19
				Interest expense	333	Same as normal customers	-
		Chang Hwa Bank Venture Capital Co., Ltd.	a.	Deposits and remittances	555,884	Same as normal customers	0.03
				Other liabilities	5	Same as normal customers	-
				Interest expense	607	Same as normal customers	-
				Net non-interest income	440	Same as normal customers	-

Note 1: Transaction details: Methods of numbering are as follows:

a. 0 for parent company.
b. In accordance with subsidiary number starts from 1.

Note 2: Relationships are as follows:

a. Parent company to subsidiary.
b. Subsidiary to parent company.
c. Subsidiary to subsidiary.

Note 3: Transactions amounts are calculated as percentage of accrued amounts of total income or ending balance of total assets.