

Taichung Commercial Bank Co., Ltd.

**Financial Statements for the
Years Ended December 31, 2018 and 2017 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Taichung Commercial Bank Co., Ltd.

Opinion

We have audited the accompanying parent company only financial statements of Taichung Commercial Bank Co., Ltd. (the "Bank"), which comprise the balance sheets as of December 31, 2018 and 2017, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the parent company only financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company only financial statements present fairly, in all material respects, the financial position of the Bank as of December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks.

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 3 of the parent company only financial statements, which describes Taichung Commercial Bank Co., Ltd. initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks, the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRIC (IFRIC), and Interpretations of SIC (SIC) endorsed and issued into effect by the FSC starting from 2018. The Bank elects not to restate prior reporting periods when applying the abovementioned standards, interpretations and interpretations endorsed and issued. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the parent company only financial statements for the year ended December 31, 2018. These matters were addressed in the context of our audit of the parent company only financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following are the descriptions of the key audit matters in the audit of the parent company only financial statements of the Bank for the year ended December 31, 2018:

Expected Credit Losses of Notes Discounted and Loans, Net

As described in Notes 13 and 30 to the parent company only financial statements, notes discounted and loans amounted to \$451,728,578 thousand which accounted for 66% of total assets at December 31, 2018 and the expected credit losses of the notes discounted and loans and receivables amounted to \$487,296 thousand which accounted for 5% of total net revenue for the year ended December 31, 2018. Due to the large amount, the account has a significant influence on the Bank. As discussed in Note 5, the measurement of expected credit losses of notes discounted and loans involves various financial factors, such as probability of default and loss given default. Therefore, the expected credit losses of notes discounted and loans were identified as one of the key audit matters.

The relevant accounting policies, estimations, assumptions and other information are referred to in Notes 4, 5, 13 and 30 to the parent company only financial statements.

The audit procedures performed for the expected credit losses of notes discounted and loans were as follows:

- We understood and tested the internal controls for the expected credit losses of notes discounted and loans of Taichung Commercial Bank Co., Ltd.
- We selected samples from schedule of expected credit losses of the notes discounted and loans assessed by Taichung Commercial Bank Co., Ltd., and evaluated collateral's value and feasibility of the expected credit losses.
- We understood and tested the key parameters for the expected credit losses of notes discounted and loans (such as probability of default and loss given default) assessed by Taichung Commercial Bank Co., Ltd. in assessing whether the expected credit losses were reasonable and met the current experience and the economic situation in Taiwan.

Interest Revenue Recognition on Notes Discounted and Loans

As described in Note 33 to the parent company only financial statements, interest revenue on notes discounted and loans of Taichung Commercial Bank Co., Ltd. amounted to \$10,725,813 thousand which accounted for 100% of total net revenue for the year ended December 31, 2018, which was the main revenue for Taichung Commercial Bank Co., Ltd. The establishment of loans of Taichung Commercial Bank Co., Ltd. must be verified and reviewed by the supervisors who have been authorized. The input data done by person in-charge have to be reviewed by the division supervisors before loans are being disbursed. Taichung Commercial Bank Co., Ltd. use IT systems to compute monthly interest revenue on notes discounted and loans automatically. The computation of interest revenue on notes discounted and loans of Taichung Commercial Bank Co., Ltd. is highly dependent on the IT systems. The input data of loans and the operation logic are very important for the accuracy of the computation of interest revenue on notes discounted and loans. Therefore, interest revenue recognition on notes discounted and loans was identified as one of the key audit matters.

The relevant accounting policies, estimations and other information are referred to in Notes 4 and 30 to the parent company only financial statements.

The audit procedures performed for interest revenue recognition on notes discounted and loans were as follows:

- We understood and tested the internal controls for accuracy of interest revenue of notes discounted and loans, included the understanding and testing of internal controls for IT system.

- We selected samples of interest revenue computed by IT system and cross-checked whether the samples agreed with the contracts. Subsequently, we recomputed interest revenue and verified that the amounts did not differ significantly from the reported amounts.

Responsibilities of Management and Those Charged with Governance for the Parent Company Only Financial Statements

Management is responsible for the preparation and fair presentation of the parent company only financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, and for such internal control as management determines is necessary to enable the preparation of parent company only financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, including the audit committee, are responsible for overseeing the Bank's financial reporting process.

Auditors' Responsibilities for the Audit of the Parent Company Only Financial Statements

Our objectives are to obtain reasonable assurance about whether the parent company only financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company only financial statements.

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

1. Identify and assess the risks of material misstatement of the parent company only financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the parent company only financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

5. Evaluate the overall presentation, structure and content of the parent company only financial statements, including the disclosures, and whether the parent company only financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient and appropriate audit evidence regarding the financial information of entities or business activities within the Bank to express an opinion on the parent company only financial statements. We are responsible for the direction, supervision, and performance of the audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the parent company only financial statements for the year ended December 31, 2018 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Wen-Yea Shyu and Kwan-Chung Lai.

Deloitte & Touche
Taipei, Taiwan
Republic of China

March 14, 2019

Notice to Readers

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

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

TAICHUNG COMMERCIAL BANK CO., LTD.

BALANCE SHEETS DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

ASSETS	2018		2017	
	Amount	%	Amount	%
CASH AND CASH EQUIVALENTS (Notes 3, 4 and 6)	\$ 14,971,054	2	\$ 13,944,328	2
DUE FROM THE CENTRAL BANK AND CALL LOANS TO OTHER BANKS (Notes 3, 4 and 7)	31,768,897	5	30,121,642	5
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 3, 4 and 8)	26,136,939	4	30,965,512	5
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 3, 4 and 9)	28,197,495	4	-	-
INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST (Notes 3, 4, 10 and 34)	100,462,761	15	-	-
SECURITIES PURCHASED UNDER RESELL AGREEMENTS (Notes 3, 4 and 11)	9,094,151	1	11,283,082	2
RECEIVABLES, NET (Notes 3, 4, 5, 12, 13 and 33)	5,028,141	1	6,329,074	1
NOTES DISCOUNTED AND LOANS, NET (Notes 3, 4, 5, 13 and 33)	451,728,578	66	429,656,232	65
AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET (Notes 3, 4 and 14)	-	-	31,192,871	5
HELD-TO-MATURITY FINANCIAL ASSETS, NET (Notes 3, 4, 15 and 34)	-	-	85,542,095	13
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD, NET (Notes 3, 4 and 16)	5,224,701	1	4,735,107	1
OTHER FINANCIAL ASSETS, NET (Notes 3, 4 and 17)	1,111	-	1,067,625	-
PROPERTIES AND EQUIPMENT, NET (Notes 4 and 18)	9,368,329	1	9,296,259	1
INVESTMENT PROPERTIES, NET (Notes 4 and 19)	22,660	-	22,750	-
INTANGIBLE ASSETS, NET (Notes 4 and 20)	125,025	-	115,605	-
DEFERRED TAX ASSETS (Notes 4 and 31)	732,826	-	635,955	-
OTHER ASSETS (Notes 3, 21 and 34)	<u>1,295,939</u>	<u>-</u>	<u>1,581,823</u>	<u>-</u>
TOTAL	<u>\$ 684,158,607</u>	<u>100</u>	<u>\$ 656,489,960</u>	<u>100</u>
LIABILITIES AND EQUITY				
DUE TO THE CENTRAL BANK AND OTHER BANKS (Note 22)	\$ 3,378,752	1	\$ 9,518,872	1
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	162,127	-	207,225	-
SECURITIES SOLD UNDER REPURCHASE AGREEMENTS (Notes 4 and 23)	9,904,467	1	4,307,810	1
PAYABLES (Note 24)	11,342,864	2	12,195,742	2
CURRENT TAX LIABILITIES (Notes 4 and 31)	296,788	-	223,235	-
DEPOSITS AND REMITTANCES (Notes 25 and 33)	589,242,889	86	567,255,591	86
BANK DEBENTURES (Notes 26 and 33)	20,000,000	3	17,500,000	3
OTHER FINANCIAL LIABILITIES	2,127	-	43,434	-
PROVISIONS (Notes 4 and 27)	1,421,814	-	1,389,979	-
DEFERRED TAX LIABILITIES (Notes 4 and 31)	111,021	-	111,021	-
OTHER LIABILITIES (Notes 28 and 33)	<u>472,105</u>	<u>-</u>	<u>335,111</u>	<u>-</u>
Total liabilities	<u>636,334,954</u>	<u>93</u>	<u>613,088,020</u>	<u>93</u>
EQUITY (Note 29)				
Ordinary shares	35,255,084	5	32,931,789	5
Capital surplus	726,981	-	684,156	-
Retained earnings				
Legal reserve	6,985,726	1	5,896,530	1
Special reserve	110,159	-	73,833	-
Unappropriated earnings	4,093,133	1	3,630,655	1
Other equity	<u>652,570</u>	<u>-</u>	<u>184,977</u>	<u>-</u>
Total equity	<u>47,823,653</u>	<u>7</u>	<u>43,401,940</u>	<u>7</u>
TOTAL	<u>\$ 684,158,607</u>	<u>100</u>	<u>\$ 656,489,960</u>	<u>100</u>

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

(With Deloitte & Touche auditors' report dated March 14, 2019)

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease)
	Amount	%	Amount	%	%
INTEREST REVENUE (Notes 4, 30 and 33)	\$ 12,453,151	117	\$ 11,591,419	112	7
INTEREST EXPENSE (Notes 30 and 33)	<u>(4,462,015)</u>	<u>(42)</u>	<u>(3,768,078)</u>	<u>(36)</u>	18
NET INTEREST	7,991,136	75	7,823,341	76	2
NET INCOME AND LOSS OTHER THAN INTEREST					
Service fee income, net (Notes 4, 30 and 33)	1,792,954	17	1,553,501	15	15
Gains on financial assets and liabilities at fair value through profit or loss (Notes 4 and 30)	146,351	1	472,898	5	(69)
Realized gains on available-for-sale financial assets (Notes 4 and 30)	-	-	27,608	-	(100)
Realized gains on financial assets at fair value through other comprehensive income (Notes 4 and 30)	54,017	1	-	-	-
Foreign exchange gains (losses), net (Note 4)	254,894	2	(91,229)	(1)	379
Impairment losses on assets (Notes 4, 9, 10, 17 and 30)	(17,488)	-	(50,533)	-	(65)
Share of profit of associates and joint venture for using the equity method (Notes 4 and 16)	435,743	4	252,540	2	73
Net (loss) gain on disposal of property (Notes 4 and 19)	(2,689)	-	348,277	3	(101)
Other non-interest (losses) gains, net (Notes 27 and 30)	<u>20,105</u>	<u>-</u>	<u>11,676</u>	<u>-</u>	72
TOTAL NET REVENUE	<u>10,675,023</u>	<u>100</u>	<u>10,348,079</u>	<u>100</u>	3
BAD-DEBT EXPENSES AND PROVISION FOR LOSSES ON COMMITMENTS AND GUARANTEES (Notes 4, 12, 13, 27 and 30)	<u>(410,947)</u>	<u>(4)</u>	<u>(946,897)</u>	<u>(9)</u>	(57)

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TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
OPERATING EXPENSES					
Employee benefits (Notes 4, 27 and 30)	\$ (3,343,879)	(31)	\$ (3,001,210)	(29)	11
Depreciation and amortization (Notes 4 and 30)	(235,924)	(2)	(258,431)	(3)	(9)
Other selling and administrative expenses (Notes 30 and 33)	<u>(2,046,101)</u>	<u>(19)</u>	<u>(1,871,903)</u>	<u>(18)</u>	9
Total operating expenses	<u>(5,625,904)</u>	<u>(52)</u>	<u>(5,131,544)</u>	<u>(50)</u>	10
PROFIT BEFORE INCOME TAX FROM CONTINUING OPERATIONS					
	4,638,172	44	4,269,638	41	9
INCOME TAX EXPENSE (Notes 4 and 31)					
	<u>(629,803)</u>	<u>(6)</u>	<u>(637,096)</u>	<u>(6)</u>	(1)
NET PROFIT FOR THE YEAR					
	<u>4,008,369</u>	<u>38</u>	<u>3,632,542</u>	<u>35</u>	10
OTHER COMPREHENSIVE INCOME					
Items that will not be reclassified subsequently to profit or loss:					
Remeasurement of defined benefit plans (Notes 4 and 27)	(69,552)	(1)	(3,687)	-	1,786
Unrealized gains on investments in equity instruments at fair value through other comprehensive income (Note 4)	50,761	1	-	-	-
Share of the other comprehensive income of associates and joint venture accounted for using the equity method	36,287	-	53	-	68,366
Income tax relating to items that will not be reclassified subsequently to profit or loss (Notes 4 and 31)	<u>29,425</u>	<u>-</u>	<u>626</u>	<u>-</u>	4,600
Items that will not be reclassified subsequently to profit or loss, net of income tax	<u>46,921</u>	<u>-</u>	<u>(3,008)</u>	<u>-</u>	1,660

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TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2018		2017		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on the translation of financial statements of foreign operations (Note 4)	\$ 13,818	-	\$ (2,856)	-	584
Unrealized gains on available-for-sale financial assets	-	-	196,642	2	(100)
Share of the other comprehensive loss of associates accounted and joint venture for using the equity method	(13,638)	-	(15,029)	-	(9)
Unrealized losses on investments in debt instruments designated as at fair value through other comprehensive income (Note 4)	(13,948)	-	-	-	-
Income tax relating to items that may be reclassified subsequently to profit or loss (Notes 4 and 31)	-	-	(7,414)	-	100
Items that may be reclassified subsequently to profit or loss, net of income tax	(13,768)	-	171,343	2	(108)
Other comprehensive income for the year, net of income tax	33,153	-	168,335	2	(80)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u>\$ 4,041,522</u>	<u>38</u>	<u>\$ 3,800,877</u>	<u>37</u>	<u>6</u>
EARNINGS PER SHARE (Note 32)					
Basic	<u>\$1.18</u>		<u>\$1.08</u>		
Diluted	<u>\$1.18</u>		<u>\$1.08</u>		

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

(With Deloitte & Touche auditors' report dated March 14, 2019)

(Concluded)

TAICHUNG COMMERCIAL BANK CO., LTD.

**STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In Thousands of New Taiwan Dollars)**

	Ordinary Shares	Capital Surplus	Retained Earnings			Exchange Differences on the Translation of Financial Statements of Foreign Operations	Other Equity		Total Equity
			Legal Reserve	Special Reserve	Unappropriated Earnings		Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Unrealized Gain on Available-for-sale Financial Assets	
BALANCE AT JANUARY 1, 2017	\$ 32,381,307	\$ 684,156	\$ 4,881,792	\$ 38,685	\$ 3,382,461	\$ (23,183)	\$ -	\$ 36,817	\$ 41,382,035
Appropriation of 2016 earnings									
Legal reserve	-	-	1,014,738	-	(1,014,738)	-	-	-	-
Special reserve	-	-	-	35,148	(35,148)	-	-	-	-
Cash dividends	-	-	-	-	(1,780,972)	-	-	-	(1,780,972)
Share dividends	550,482	-	-	-	(550,482)	-	-	-	-
Net profit for the year ended December 31, 2017	-	-	-	-	3,632,542	-	-	-	3,632,542
Other comprehensive (loss) income for the year ended December 31, 2017, net of income tax	-	-	-	-	(3,008)	(15,324)	-	186,667	168,335
Total comprehensive income (loss) for the year ended December 31, 2017	-	-	-	-	3,629,534	(15,324)	-	186,667	3,800,877
BALANCE AT DECEMBER 31, 2017	32,931,789	684,156	5,896,530	73,833	3,630,655	(38,507)	-	223,484	43,401,940
Effect of retrospective application and retrospective restatement (Notes 3)	-	-	-	-	(80,676)	-	623,457	(223,484)	319,297
BALANCE AT JANUARY 1, 2018 AS RETROSPECTIVE	32,931,789	684,156	5,896,530	73,833	3,549,979	(38,507)	623,457	-	43,721,237
Appropriation of 2017 earnings									
Legal reserve	-	-	1,089,196	-	(1,089,196)	-	-	-	-
Special reserve	-	-	-	36,326	(36,326)	-	-	-	-
Cash dividends	-	-	-	-	(1,481,931)	-	-	-	(1,481,931)
Share dividends	823,295	-	-	-	(823,295)	-	-	-	-
Net profit for the year ended December 31, 2018	-	-	-	-	4,008,369	-	-	-	4,008,369
Other comprehensive (loss) income for the year ended December 31, 2018, net of income tax	-	-	-	-	(29,117)	180	62,090	-	33,153
Total comprehensive income for the year ended December 31, 2018	-	-	-	-	3,979,252	180	62,090	-	4,041,522
Issuance of ordinary shares for cash	1,500,000	30,000	-	-	-	-	-	-	1,530,000
Compensation costs of employee share options	-	12,825	-	-	-	-	-	-	12,825
Disposals of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	(5,350)	-	5,350	-	-
BALANCE AT DECEMBER 31, 2018	<u>\$ 35,255,084</u>	<u>\$ 726,981</u>	<u>\$ 6,985,726</u>	<u>\$ 110,159</u>	<u>\$ 4,093,133</u>	<u>\$ (38,327)</u>	<u>\$ 690,897</u>	<u>\$ -</u>	<u>\$ 47,823,653</u>

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

(With Deloitte & Touche auditors' report dated March 14, 2019)

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 4,638,172	\$ 4,269,638
Adjustments for:		
Depreciation expenses	189,733	197,125
Amortization expenses	46,191	61,306
Expected credit losses/bad-debt expenses	410,947	946,897
Gains on financial assets and liabilities at fair value through profit or loss	(146,351)	(472,898)
Losses on disposal of properties and equipment	2,689	395
Gains on disposal of investment properties	-	(348,672)
Interest expense	4,462,015	3,768,078
Interest revenue	(12,453,151)	(11,591,419)
Dividend income	(27,230)	(21,619)
Provision for losses on others	(2,437)	26,000
Compensation costs of employee share options	12,825	-
Share of profit of associates	(435,743)	(252,540)
Gains on disposal of investments	(26,787)	(27,608)
Impairment loss on financial assets	17,488	50,533
Unrealized (gain) loss on foreign currency exchange	(356,756)	850,912
Total adjustment	<u>(8,306,567)</u>	<u>(6,813,510)</u>
Net changes in operating assets and liabilities		
Due from the central bank and call loans to other banks	(746,918)	(609,388)
Financial assets at fair value through profit or loss	5,834,931	(7,418,639)
Receivables	1,491,373	(2,189,611)
Notes discounted and loans	(22,586,332)	(6,492,597)
Other financial assets	38,085	(35,342)
Other assets	(24,203)	8,780
Due to the central Bank and other banks	(6,140,120)	(2,098,856)
Financial liabilities at fair value through profit or loss	(4,770)	(813,642)
Securities sold under repurchase agreements	5,596,657	85,552
Payables	(954,873)	2,939,543
Deposits and remittances	21,987,298	26,012,882
Other financial liabilities	(41,307)	(30,062)
Provision for employee benefits	(45,369)	(24,423)
Other liabilities	<u>136,994</u>	<u>45,134</u>
Changes in operating assets and liabilities	<u>4,541,446</u>	<u>9,379,331</u>
Cash generated from operations	873,051	6,835,459
Interest received	12,515,028	11,676,535
Dividend received	28,096	22,230
Interest paid	(4,360,020)	(3,637,226)
Income tax paid	<u>(623,696)</u>	<u>(410,195)</u>
Net cash generated from operating activities	<u>8,432,459</u>	<u>14,486,803</u>

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TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposal of financial assets at fair value through other comprehensive income	\$ 4,297,417	\$ -
Purchase of financial assets at amortized cost	(761,952,805)	-
Proceeds from sale of financial assets at amortized cost	45,650	-
Proceeds from repayments sale of financial assets at amortized cost	746,586,250	-
Purchase of available-for-sale financial assets	-	(1,050,000)
Proceeds from sale of available-for-sale financial assets	-	7,319,614
Purchase of held-to-maturity financial assets	-	(748,721,306)
Proceeds from sale of held-to-maturity financial assets	-	258,565
Proceeds from repayments sale of held-to-maturity financial assets	-	676,269,904
Payments for properties and equipment	(265,369)	(122,022)
Proceeds from disposal of properties and equipment	967	-
Decrease in refundable deposits	87,287	63,679
Payments for intangible assets	(55,611)	(52,367)
Proceeds from disposal of investment properties	-	403,950
Net cash used in investing activities	<u>(11,256,214)</u>	<u>(65,629,983)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of bank debentures	2,500,000	6,000,000
Repayments of bank debentures	-	(1,500,000)
Cash dividends paid to owners of the Bank	(1,481,931)	(1,780,972)
Proceeds from issuance of ordinary shares	<u>1,530,000</u>	<u>-</u>
Net cash generated from financing activities	<u>2,548,069</u>	<u>2,719,028</u>
EFFECTS OF EXCHANGE RATE CHANGES ON THE BALANCE OF CASH AND CASH EQUIVALENTS HELD IN FOREIGN CURRENCIES		
	<u>13,818</u>	<u>(2,856)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(261,868)	(48,427,008)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF YEAR	<u>38,811,338</u>	<u>87,238,346</u>
CASH AND CASH EQUIVALENTS AT THE END OF YEAR	<u>\$ 38,549,470</u>	<u>\$ 38,811,338</u>

(Continued)

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars)

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
RECONCILIATIONS OF THE AMOUNTS IN THE STATEMENTS OF CASH FLOWS WITH THE EQUIVALENT ITEMS REPORTED IN THE BALANCE SHEETS AT DECEMBER 31, 2018 AND 2017		
Cash and cash equivalents in the balance sheets	\$ 14,971,054	\$ 13,944,328
Due from the central bank and call loans to other banks in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”	14,484,265	13,583,928
Securities purchased under resell agreements in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”	<u>9,094,151</u>	<u>11,283,082</u>
Cash and cash equivalents at the end of the year	<u>\$ 38,549,470</u>	<u>\$ 38,811,338</u>

The notes are an integral part of the financial statements.

(With Deloitte & Touche auditors’ report dated March 14, 2019)

(Concluded)

TAICHUNG COMMERCIAL BANK CO., LTD.

NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Taichung Commercial Bank Co., Ltd. (the “Bank”), formerly known as Taichung District Association Saving Co., Ltd. (Taichung District Association) was established on September 27, 1952 by the Taiwan Provincial Government. It was incorporated in April of 1953 and opened in August of the same year. In July of 1975, the Banking Law was revised and implemented. On January 1, 1978, the Taichung District Association Saving Co., Ltd. (Taichung District Association) was restructured into Taichung SME Bank Co., Ltd. (Taichung SME Bank) and the share was listed on May 15, 1984.

In line with the national financial policy to provide public social financial services and support the economic construction as well as the development of industrial and commercial, Taichung SME Bank was renamed as Taichung Commercial Bank Co., Ltd. in December 1998. As of December 31, 2018, the Bank had a business department, a trust department, a foreign exchange transaction department, 80 domestic branches, a Labuan branch and an offshore banking unit (OBU). The operations of the Bank consist of planning, managing, operating a trust business and overseas financial business. These operations are regulated under the Bank Law of the Republic of China (“ROC”).

At the time of the Bank establishment, the capital was \$500 thousand. In order to improve the capital structure and cooperate with the government decree, the Bank has successively applied for increase and decrease of capital. As of December 31, 2018, the Bank’s capital amount was \$35,255,084 thousand.

The parent company only financial statements are presented in the Bank’s functional currency, the New Taiwan dollar.

2. APPROVAL OF FINANCIAL STATEMENTS

The parent company only financial statements were approved by the Bank’s board of directors on March 14, 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 Public Banks, and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), Interpretations of IFRIC (IFRIC), and Interpretations of SIC (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC).

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

IFRS 9 “Financial Instruments” and related amendments

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

Classification, measurement and impairment of financial assets

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

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

Financial Assets Category	Measurement Category		Carrying Amount		Remark
	IAS 39	IFRS 9	IAS 39	IFRS 9	
<u>Financial assets</u>					
Cash and cash equivalents	Loans and receivables	Amortized cost	\$ 13,944,328	\$ 13,944,328	
Due from the central bank and call loans to other banks	Loans and receivables	Amortized cost	30,121,642	30,121,642	
Financial assets at fair value through profit or loss	Fair value through profit or loss (i.e. FVTPL)	FVTPL	30,965,512	30,965,512	
Securities purchased under resell agreements	Loans and receivables	Amortized cost	11,283,082	11,283,082	
Receivables, net	Loans and receivables	Amortized cost	6,329,074	6,328,849	8)
Notes discounted and loans, net	Loans and receivables	Amortized cost	429,656,232	429,656,232	
Available-for-sale financial assets, net	Available-for-sale	Fair value through other comprehensive income (i.e. FVTOCI)	31,192,871	31,192,871	2), 3), 4)
Held-to-maturity financial assets, net	Held-to-maturity	Amortized cost	85,542,095	84,752,656	5)
Other financial assets, net	Financial assets carried at cost	FVTOCI	145,684	493,910	7)
Other assets, net	Loans and receivables	FVTPL	900,335	900,335	1)
	Loans and receivables	Amortized cost	1,512,798	1,512,798	

- b) The following table shows the reconciliation of financial assets from measurement categories under IAS 39 to IFRS 9.

	IAS 39 Carrying Amount as of January 1, 2018	Reclassifications	Remeasurements	IFRS 9 Carrying Amount as of January 1, 2018	Retained Earnings Effect on January 1, 2018	Other Equity Effect on January 1, 2018	Remark
FVTPL	\$ 30,965,512	\$ -	\$ -	\$ 30,965,512	\$ -	\$ -	
Add: Reclassification from other financial assets (IAS 39)	-	900,335	-	900,335	-	-	1)
	<u>30,965,512</u>	<u>900,335</u>	<u>-</u>	<u>31,865,847</u>	<u>-</u>	<u>-</u>	
FVTOCI	-	-	-	-	-	-	
Debt instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	31,034,046	-	31,034,046	(19,079)	19,079	2)
Add: Reclassification and remeasurement from held-to-maturity (IAS 39)	-	780,262	5,177	785,439	(256)	5,433	6)
Equity instruments							
Add: Reclassification from available-for-sale (IAS 39)	-	158,825	-	158,825	5,195	(5,195)	3)
Add: Reclassification and remeasurement from financial assets carried at cost (IAS 39)	-	145,684	348,226	493,910	-	348,226	7)
	<u>-</u>	<u>32,118,817</u>	<u>353,403</u>	<u>32,472,220</u>	<u>(14,140)</u>	<u>367,543</u>	
Amortized cost							
Add: Reclassification from available-for-sale (IAS 39)	-	-	-	-	-	-	4)
Add: Reclassification and remeasurement from held-to-maturity (IAS 39)	-	84,761,833	(9,177)	84,752,656	(9,177)	-	5)
Add: Reclassification and remeasurement from loans and receivables (IAS 39)	-	492,847,156	(225)	492,846,931	(225)	-	8)
	<u>-</u>	<u>577,608,989</u>	<u>(9,402)</u>	<u>577,599,587</u>	<u>(9,402)</u>	<u>-</u>	
	<u>\$ 30,965,512</u>	<u>\$ 610,628,141</u>	<u>\$ 344,001</u>	<u>\$ 641,937,654</u>	<u>\$ (23,542)</u>	<u>\$ 367,543</u>	
Investments accounted for using the equity method	\$ 4,735,107	\$ -	\$ 32,069	\$ 4,767,176	\$ (361)	\$ 32,430	9)

- c) The following table shows the reconciliation of allowance for impairment loss from measurement categories under IAS 39 to IFRS 9.

Allowance for Impairment Reconciliation	Balance of Allowance for Impairment Under IAS 39 and IAS 37	Reclassifications	Remeasurements	Balance of Allowance for Impairment Under IFRS 9	Remark
Loans and receivables (IAS 39)/ amortized cost (IFRS 9)					
Receivables	\$ 187,472	\$ -	\$ 225	\$ 187,697	8)
Notes discounted and loans	6,344,810	-	-	6,344,810	
Available-for-sale (IAS 39)/FVTOCI (IFRS 9)	-	-	19,335	19,335	2), 6)
Held-to-maturity (IAS 39)/amortized cost (IFRS 9)	-	-	9,177	9,177	5)
Provision for losses on guarantees and financing commitments					
Provision	269,937	-	56,773	326,710	8)

- 1) Other financial assets of \$900,335 thousand previously classified as loans and receivables under IAS 39 were classified as at FVTPL under IFRS 9, because the contractual cash flows were not solely payments of principal and interest on the principal outstanding.
- 2) Debt instruments of \$31,034,046 thousand previously classified as available-for-sale financial assets under IAS 39 were classified as at FVTOCI with an assessment of expected credit losses under IFRS 9, because the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustments comprised a decrease in retained earnings of \$19,079 thousand and an increase in other equity of \$19,079 thousand on January 1, 2018.
- 3) Investments in listed shares and mutual funds of \$158,825 thousand previously classified as available-for-sale financial assets under IAS 39 were designated as at FVTOCI under IFRS 9. As a result of retrospective application, the related adjustment comprised an increase in retained earnings of \$5,195 thousand and a decrease in other equity of \$5,195 thousand on January 1, 2018.
- 4) Credit certificate previously classified as available-for-sale financial assets under IAS 39 was classified as at amortized cost under IFRS 9, because the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows.
- 5) Debt instruments of \$84,761,833 thousand previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at amortized cost with an assessment of expected credit losses under IFRS 9, because the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is to collect contractual cash flows. As a result of retrospective application, the related adjustments comprised a decrease in retained earnings of \$9,177 thousand on January 1, 2018.

- 6) Debt instruments of \$780,262 thousand previously classified as held-to-maturity financial assets and measured at amortized cost under IAS 39 were classified as at FVTOCI with an assessment of expected credit losses under IFRS 9, because the contractual cash flows were solely payments of principal and interest on the principal outstanding and these investments were held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets. As a result of retrospective application, the related adjustments comprised a decrease in retained earnings of \$256 thousand and an increase in other equity of \$5,433 thousand on January 1, 2018.
 - 7) Investments in unlisted shares of \$145,684 thousand previously classified as measured at cost under IAS 39 were classified as at FVTOCI under IFRS 9 and were remeasured at fair value. As a result of retrospective application, the related adjustments comprised an increase in other equity of \$348,226 thousand on January 1, 2018.
 - 8) Receivables that were previously classified as loans and receivables under IAS 39 were classified as at amortized cost and off-balance financial commitments with an assessment of expected credit losses under IFRS 9. As a result of retrospective application, the adjustments comprised a decrease in retained earnings of \$225 thousand and \$56,773 thousand, respectively, on January 1, 2018.
 - 9) As a result of the retrospective application of IFRS 9 by investments accounted for using the equity method of \$4,735,107 thousand, the adjustments comprised decrease in retained earnings of \$361 thousand and increase in other equity of \$32,430 thousand on January 1, 2018.
- b. Amendments to the Regulations Governing the Preparation of Financial Reports by Public Banks and the IFRSs endorsed by the FSC for application starting from 2019.

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

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

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

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

- IFRS 16 “Leases”

IFRS 16 sets out the accounting standards for leases that will supersede IAS 17, IFRIC 4 and a number of related interpretations.

Definition of a lease

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

The Bank as lessee

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

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

Lease liabilities will be recognized on January 1, 2019 for leases currently classified as operating leases with the application of IAS 17. Lease liabilities will be measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on January 1, 2019. Right-of-use assets will be measured at an amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments. The Bank will apply IAS 36 to all right-of-use assets.

The Bank expects to apply the following practical expedients:

- a) The Bank will apply a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Bank will account for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- c) The Bank will exclude initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- d) The Bank will use hindsight, such as in determining lease terms, to measure lease liabilities.

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

The Bank as lessor

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

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
Right-of-use assets	\$ _____ -	\$ 821,579	\$ 821,579
Total effect on assets	\$ _____ -	\$ 821,579	\$ 821,579
Lease liabilities - current	\$ -	\$ 100,570	\$ 100,570
Lease liabilities - non-current	_____ -	721,009	721,009
Total effect on liabilities	\$ _____ -	\$ 821,579	\$ 821,579

Except for the above impact, as of the date the parent company only financial statements were authorized for issue, the Bank assessed the application of the standards above would not have any material impact on the Bank's financial position and financial performance.

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

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

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

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

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

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Statement of compliance

The parent company only financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks.

b. Basis of preparation

The parent company only financial statements have been prepared on the historical cost basis except for financial instruments which are measured at fair value and net defined benefit liabilities which are measured at the present value of the defined benefit obligation less the fair value of plan assets.

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

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

c. Classification of current and non-current assets and liabilities

Accounts included in the Bank's financial statements are not classified as current or non-current but are stated in the order of their liquidity. Refer to Note 37 for the maturity analysis of assets and liabilities.

d. Foreign currencies

In preparing the Bank's financial statements, transactions in currencies other than the Bank's functional currency (i.e. foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

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

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

For the purpose of presenting parent company only financial statements, the functional currencies of the Bank is translated into the presentation currency, the New Taiwan dollar, as follows: Assets and liabilities are translated at the exchange rates prevailing at the end of the reporting period; and income and expense items are translated at the average exchange rates for the period. The resulting currency translation differences are recognized in other comprehensive income.

e. Bonds purchased under resell/notes issued under repurchase agreements

A bond purchased under resell/a note issued under repurchase agreements is considered as a financing transaction if the risk and reward are attributed to the dealer. When a bond is purchased under a resell agreement, its purchase price is listed as "bonds purchased under resell agreements," an asset account. For a note issued under repurchase agreement, the selling price is listed as "notes issued under repurchase agreements," a liability account. The difference between purchase (sale) price under the agreement and actual sale (purchase) price is recorded as interest income (expense).

f. Investments in subsidiaries

The Bank uses the equity method to account for its investments in subsidiaries. A subsidiary is an entity (including a structured entity) that is controlled by the Bank.

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

The Bank assesses its investment for any impairment by comparing the carrying amount with the estimated recoverable amount as assessed based on the investee's financial statements as a whole. Impairment loss is recognized when the carrying amount exceeds the recoverable amount. If the recoverable amount of the investment subsequently increases, the Bank recognizes a reversal of the impairment loss; the adjusted post-reversal carrying amount should not exceed the carrying amount that would have been recognized (net of amortization or depreciation) had no impairment loss been recognized in prior years.

Profits or losses resulting from downstream transactions are eliminated in full only in the parent company's financial statements. Profits and losses resulting from upstream transactions and transactions between subsidiaries are recognized only in the parent company's financial statements only to the extent of interests in the subsidiaries that are not related to the Bank.

g. Investments in associates

An associate is an entity over which the Bank has significant influence and which is neither a subsidiary nor an interest in a joint venture.

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

Under the equity method, investments in an associate are initially recognized at cost and adjusted thereafter to recognize the Bank's share of the profit or loss and other comprehensive income of the associate. The Bank also recognizes the changes in the Bank's share of the equity of associates attributable to the Bank.

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

When the Bank transacts with its associate and joint venture, profits and losses resulting from the transactions with the associate and joint venture are recognized in the Bank's financial statements only to the extent that interests in the associate and the joint venture are not related to the Bank.

h. Property and equipment

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

Depreciation of property and equipment is recognized using the straight-line method. Each significant part is depreciated separately. 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.

i. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes). Investment properties also include land held for a currently undetermined future use.

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

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

j. Intangible assets

1) Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful lives, residual values, and amortization methods are reviewed at the end of each reporting period, with the effect of any changes in the estimates accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are measured at cost less accumulated impairment loss.

2) Derecognition of intangible assets

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

k. Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Bank reviews the carrying amounts of its tangible and intangible assets, excluding goodwill, to determine whether there is any indication that those assets have suffered any impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. When it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. Corporate assets are allocated to the individual cash-generating units on a reasonable and consistent basis of allocation, or conversely, the smallest group of cash-generating units on a reasonable basis.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually and whenever there is an indication that the assets may be impaired.

The recoverable amount is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount, with the resulting impairment loss recognized in profit or loss.

When an impairment loss is subsequently reversed, the carrying amount of the corresponding asset, cash-generating unit or assets related to contract costs is increased to the revised estimate of its recoverable amount, but only to the extent of the carrying amount that would have been determined had no impairment loss been recognized for the asset, cash-generating unit or assets related to contract costs in prior years. A reversal of an impairment loss is recognized in profit or loss.

1. Financial instruments

Financial assets and financial liabilities are recognized when a group entity becomes a party to the contractual provisions of the instruments.

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

1) Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

a) Measurement categories

2018

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

i. Financial assets at FVTPL

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

Financial assets at FVTPL are subsequently measured at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 36.

ii. Financial assets at amortized cost

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

- i) The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- ii) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, due from the central bank and call loans to other banks, securities purchased under resell agreements, notes discounted and loans, trade receivables at amortized cost, other financial assets and refundable deposits, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of such a financial asset, except for:

- i) Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of such financial assets; and
- ii) Financial assets that are not credit-impaired on purchase or origination but have subsequently become credit-impaired, for which interest income is calculated by applying the effective interest rate to the amortized cost of such financial assets in subsequent reporting periods.

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

iii. Investments in debt instruments at FVTOCI

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

- i) The debt instrument is held within a business model whose objective is achieved by both the collecting of contractual cash flows and the selling of such financial assets; and
- ii) The contractual terms of the debt instrument give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Investments in debt instruments at FVTOCI are subsequently measured at fair value. Changes in the carrying amounts of these debt instruments relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and impairment losses or reversals are recognized in profit or loss. Other changes in the carrying amount of these debt instruments are recognized in other comprehensive income and will be reclassified to profit or loss when the investment is disposed of.

iv. Investments in equity instruments at FVTOCI

On initial recognition, the Bank may make an irrevocable election to designate investments in equity instruments as at FVTOCI. Designation as at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination.

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income and accumulated in other equity. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments; instead, it will be transferred to retained earnings.

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

2017

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

i. Financial assets at FVTPL

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any dividends or interest earned on such a financial asset. Fair value is determined in the manner described in Note 36.

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

ii. Held-to-maturity investments

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

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

iii. Available-for-sale financial assets

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

Available-for-sale financial assets are measured at fair value. Changes in the carrying amounts of available-for-sale monetary financial assets (relating to changes in foreign currency exchange rates, interest income calculated using the effective interest method and dividends on available-for-sale equity investments) are recognized in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognized in other comprehensive income and will be reclassified to profit or loss when such investments are disposed of or are determined to be impaired.

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

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

iv. Loans and receivables

Loans and receivables (including trade receivables, cash and cash equivalents, debt investments with no active market, due from the central bank and call loans to other banks, securities purchased under resell agreements, notes discounted and loans, other financial assets and refundable deposits) are measured using the effective interest method at amortized cost less any impairment, except for short-term receivables when the effect of discounting is immaterial.

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

b) Impairment of financial assets and contract assets

2018

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

The Bank always recognizes lifetime expected credit losses (ECLs) for discounts and loans, trade receivables and lease receivables. For all other financial instruments, the Bank recognizes lifetime ECLs when there has been a significant increase in credit risk since initial recognition. If, on the other hand, the credit risk on a financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECLs.

Expected credit losses reflect the weighted average of credit losses with the respective risks of default occurring as the weights. Lifetime ECLs represent the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECLs represent the portion of lifetime ECLs that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

According to the Regulations, the Bank determines the allowance for credit losses by evaluating the recoverability of the outstanding balances of various loans at the balance sheet date. The allowances for doubtful accounts are determined based on management's evaluation of the collectability of individual accounts, the borrowers'/clients' financial condition and payment history. Such doubtful accounts are categorized into: Normal loans, need attention, less likely to be collectible in full, difficult to collect, and uncollectible accounts; and the allowance should be provided at 1%, 2%, 10%, 50%, and 100%, respectively, of the loan amount to meet the minimum requirement for each category. Under the rule No. 10010006830 issued by the Banking Bureau of the FSC, additional allowance for doubtful accounts should be provided at 1% of the total loans. Under the rule No. 10300329440 issued by the Banking Bureau of the FSC, allowance for doubtful accounts should be provided at 1.5% or more of the loans for real estate.

The Bank recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt instruments that are measured at FVTOCI, for which the loss allowance is recognized in other comprehensive income and does not reduce the carrying amount of such a financial asset.

2017

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

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

Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the holder of an asset about the following loss events:

- i. Significant financial difficulty of the issuer or obligor;
- ii. A breach of contract, such as a default or delinquency in interests or principal payments;
- iii. The lender, for economic or legal reasons relating to the borrower's financial difficulty, grants the borrower a concession that the lender would not otherwise consider;
- iv. The disappearance of an active market for that financial asset because of financial difficulties

According to the Regulations, the Bank determines the allowance for credit losses by evaluating the recoverability of the outstanding balances of various loans at the balance sheet date. The allowances for doubtful accounts are determined based on management's evaluation of the collectability of individual accounts, the borrowers'/clients' financial condition and payment history. Such doubtful accounts are categorized into: Normal loans, need attention, less likely to be collectible in full, difficult to collect, and uncollectible accounts; and the allowance should be provided at 1%, 2%, 10%, 50%, and 100%, respectively, of the loan amount to meet the minimum requirement for each category. Under the rule No. 10010006830 issued by the Banking Bureau of the FSC, additional allowance for doubtful accounts should be provided at 1% of the total loans. Under the rule No. 10300329440 issued by the Banking Bureau of the FSC, allowance for doubtful accounts should be provided at 1.5% or more of the loans for real estate.

If there is objective evidence that an impairment loss on financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

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

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

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

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

For evidence of objective impairment of other financial assets, refer to the statement of financial assets presented at amortized cost.

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

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

c) Derecognition of financial assets

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

Before 2017, on derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. Starting from 2018, on derecognition of a financial asset at amortized cost in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss. On derecognition of an investment in a debt instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss which had been recognized in other comprehensive income is recognized in profit or loss. However, on derecognition of an investment in an equity instrument at FVTOCI, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss, and the cumulative gain or loss which had been recognized in other comprehensive income is transferred directly to retained earnings, without recycling through profit or loss.

2) Equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments issued by a group entity are recognized at the proceeds received, net of direct issue costs.

3) Financial liabilities

a) Subsequent measurement

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

i. Financial liabilities at FVTPL

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

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss incorporates any interest paid on the financial liability and is included in the other gains and losses line item. Fair value is determined in the manner described in Note 36.

During the reporting period which was before the commencement of 2017, financial liabilities at FVTPL, which are obligations to deliver unquoted equity instruments borrowed by a short seller whose fair value cannot be reliably measured, and derivatives, which are linked to and must be settled by delivery of such unquoted equity instruments, are subsequently measured at cost less any identified impairment loss at the end of each reporting period and presented as a separate line item as financial liabilities measured at cost. If, in a subsequent period, the fair value of the financial liabilities can be reliably measured, the financial liabilities are remeasured at fair value. The difference between the carrying amount and the fair value is recognized in profit or loss.

ii. Financial guarantee contracts

2018

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

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

2017

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

b) Derecognition of financial liabilities

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

4) Derivative financial instruments

The Bank enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risks, including foreign exchange forward contracts, interest rate swaps and convertible bond asset exchange contracts.

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

Before 2017, derivatives embedded in non-derivative host contracts were treated as separate derivatives when they met the definition of a derivative; their risks and characteristics were not closely related to those of the host contracts; and the contracts were not measured at FVTPL. Starting from 2018, derivatives embedded in hybrid contracts that contain financial asset hosts that is within the scope of IFRS 9 are not separated; instead, the classification is determined in accordance with the entire hybrid contract. Derivatives embedded in non-derivative host contracts that are not financial assets that is within the scope of IFRS 9 (e.g. financial liabilities) are treated as separate derivatives when they meet the definition of a derivative; their risks and characteristics are not closely related to those of the host contracts; and the host contracts are not measured at FVTPL.

m. Provisions

Provisions are measured at the best estimate of the discounted cash flows of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

n. Revenue recognition

2018

1) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably.

2) Service fee and commissions income

Service fee income and expenses are recognized when loans or other services are provided, the Bank allocates the transaction price to each performance obligation after the customer contract recognizes the performance obligation, and recognizes the income when the performance obligation is fulfilled. The contract between the labor service and the collection of consideration is within one year, the major financial components of the contract will not be adjusted.

3) Dividend income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Bank and that the amount of income can be measured reliably.

2017

1) Interest income

Interest income from a financial asset is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

2) Service fee and commissions income

Service revenue and real estate management service revenue are recognized at once after providing loans or other services. If the service revenue belongs to several significant items, it is recognized when the significant items have been accomplished, such as the service revenue which the lead arranger received from syndication of bank loans. If the service revenue is for further loan service and of significant amount, it is allocated during the period of the service or included in the base of calculating the effective interest rate of loans and receivables.

3) Dividend income

Dividend income from investments is recognized when a shareholder's right to receive payment has been established and provided that it is probable that the economic benefits will flow to the Bank and that the amount of income can be measured reliably.

o. Leasing

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 Bank as lessor

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

2) The Bank as lessee

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

p. Employee benefits

1) Short-term employee benefits

Liabilities recognized in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related services.

2) Retirement benefits

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

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

Net defined benefit liabilities represent the actual deficit in the Bank's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any refunds from the plans or reductions in future contributions to the plans.

3) Employee benefit - employees' preferential deposits

The Bank has granted a preferential interest rate to its current employees and retired employees for their deposits within a prescribed amount. The preferential interest rate in excess of market interest rate is considered employee benefits.

Under Article 30 of the "Regulations Governing the Preparation of Financial Reports by Public Bank", if the Bank's preferential deposit interest rate for an employee as stated in the employment contract exceeds the market interest rate, the excess will be subject to IAS 19 "Employee Benefits" upon the employee's retirement. The actuarial valuation assumptions and parameters are based on the guidelines announced by authority.

4) Other long-term employee benefits

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

q. Taxation

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

1) Current tax

According to the Income Tax Law, an additional tax at 10% of unappropriated earnings is provided for as income tax in the year the shareholders approve to retain earnings.

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

2) Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit.

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

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liabilities are settled or the assets are realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. If investment properties measured using the fair value model, the carrying amounts of such assets are presumed to be recovered entirely through sale.

3) Current and deferred taxes for the year

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

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

a. Business model assessment for financial assets - 2018

The Bank determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment about all relevant evidence including how the performance of the assets is evaluated, the risks that affect the performance of the assets and how these are managed, and how the managers of the assets are compensated. The Bank monitors financial assets measured at amortized cost or at fair value through other comprehensive income, and when assets are derecognized prior to their maturity, the Bank understands the reasons for their disposal and whether the reasons are consistent with the objective of the business for which the assets were held. Monitoring is part of the Bank's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and, if it is not appropriate, whether there has been a change in the business model such that a prospective change to the classification of those assets is proper.

b. Estimated credit loss assessment for loans and accounts receivable - 2018

The difference between all contractual cash flows received by the Bank and the estimated cash flows received from the contract is discounted at the original effective interest rate or the credit-adjusted effective interest rate, and the risk of default is calculated as weight of the weighted average by considering forward-looking information to measure expected credit losses.

c. Estimated impairment of loans and accounts receivable - 2017

The Bank performs impairment assessments of loans and receivables, including individual impairment assessments and overall impairment assessments, and uses the following methods to estimate future cash flows.

1) Individual impairment assessments

The Bank has a total balance of more than \$10,000 thousand (inclusive) after returning to the household. When there is objective evidence for signs of impairment, it will consider factors such as the collateral, the nature of collateral, the characteristics of the case and the historical experience to estimate the future cash flow.

2) Overall impairment assessments

The Bank conducts an overall impairment assessment in a combined classification for loans and receivables that do not meet the above-mentioned household amount and that have no objective evidence for signs of impairment. The Bank's book value according to the combination classification is based on the default rate and recovery rate to estimate future cash flow.

The amount of impairment loss is measured by the difference between carrying amount of the asset and the present value of estimated future cash. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2018	2017
Cash on hand	\$ 4,330,449	\$ 3,783,476
Checks for clearing	5,715,927	6,021,021
Due from banks	<u>4,924,678</u>	<u>4,139,831</u>
	<u>\$ 14,971,054</u>	<u>\$ 13,944,328</u>

Reconciliations of cash and cash equivalents between the statements of cash flows and the balance sheets as of December 31, 2018 and 2017 were stated below.

	December 31	
	2018	2017
Cash and cash equivalents, ending balance in the balance sheets	\$ 14,971,054	\$ 13,944,328
Due from the central bank and call loans to other banks in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”	14,484,265	13,583,928
Securities purchased under resell agreements in accordance with cash and cash equivalents under IAS 7 “Statement of Cash Flows”	<u>9,094,151</u>	<u>11,283,082</u>
Cash and cash equivalents, ending balance in the statements of cash flows	<u>\$ 38,549,470</u>	<u>\$ 38,811,338</u>

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

	December 31	
	2018	2017
Deposit reserves		
Deposit reserves - account A	\$ 12,624,827	\$ 12,171,562
Deposit reserves - account B	17,001,032	16,396,414
Inter-bank clearing account	1,798,018	1,020,959
Deposit reserves - foreign currency deposits	61,420	53,586
Due from banks	223,600	429,121
Deposit reserves for trust compensation	<u>60,000</u>	<u>50,000</u>
	<u>\$ 31,768,897</u>	<u>\$ 30,121,642</u>

- a. The monthly depositary reserves to be deposited in the central bank of the Republic of China are calculated by applying the legally required reserve ratio to the monthly average balance of the reserve accounts. These reserve accounts can be used any time but the demand account can only be used for monthly deposit reserve adjustments.
- b. The Bank deposited the reserves for trust compensation on government bonds measured at amortized cost on December 31, 2018, with a nominal amount of 60,000 thousand. Refer to Note 34.
- c. The Bank deposited the reserves for trust compensation on government bonds held to maturity on December 31, 2017, with a nominal amount of 50,000 thousand. Refer to Note 34.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	December 31	
	2018	2017
<u>Financial assets at FVTPL</u>		
Commercial paper	\$ 22,044,240	\$ 27,935,360
Domestic listed shares and emerging market shares	852,977	802,483
PEM group policy assets	998,147	-
Beneficiary certificate	172,843	361,332
Asset swap contracts	1,911,673	1,648,955
Cross-currency swap contracts	29,105	77,442
Foreign exchange forward contracts	49,726	57,188
Cross-currency option contracts	78,217	82,462
Interest structured instrument contracts	11	290
	<u>\$ 26,136,939</u>	<u>\$ 30,965,512</u>

Financial liabilities at FVTPL

Cross-currency swap contracts	\$ 55,386	\$ 98,478
Foreign exchange forward contracts	27,744	25,612
Cross-currency option contracts	78,986	82,845
Interest structured instrument contracts	11	290
	<u>\$ 162,127</u>	<u>\$ 207,225</u>

- a. The Bank engages in exchange rate-related derivative financial contracts, mainly to provide customers with hedging instruments for foreign exchange positions arising from transactions such as import/export and currency exchange, to avoid the risks arising from the business and to flatten the demand for foreign exchange funds arising from non-transactional operations.
- b. As of December 31, 2018 and 2017, the outstanding cross-currency swap contracts were as follows:

December 31							
2018				2017			
Contract Amounts		Maturity Date		Contract Amounts		Maturity Date	
(In Thousands)				(In Thousands)			
Sell	CNY 121,693	2019/01/11-2019/11/13		Sell	CNY 462,369	2018/01/26-2018/12/04	
	HKD 162,378	2019/01/22-2019/03/05			HKD 209,761	2018/01/11-2018/02/26	
	EUR 3,000	2019/01/09			EUR 16,500	2018/01/05-2018/01/17	
	USD 42,219	2019/01/07-2019/12/04			GBP 8,500	2018/01/03-2018/01/09	
	JPY 3,671,053	2019/01/04-2019/01/07			USD 22,996	2018/01/04-2018/04/12	
Buy	CNY 28,799	2019/01/28-2019/12/04		Buy	CNY 11,586	2018/03/27-2018/04/12	
	NZD 7,000	2019/01/11			NZD 8,000	2018/01/11	
	ZAR 316,333	2019/01/11-2019/01/22			ZAR 28,107	2018/01/04	
	AUD 15,000	2019/01/07-2019/01/22			AUD 8,000	2018/01/04	
	GBP 13,500	2019/01/04-2019/01/07			CAD 9,508	2018/01/04	
	USD 58,134	2019/01/04-2019/11/13			JPY 940,850	2018/01/05	
					USD 118,149	2018/01/03-2018/12/04	

c. As of December 31, 2018 and 2017, the outstanding foreign exchange forward contract were as follows:

	Currency	Expiration Date	Contract Amounts (In Thousands of New Taiwan Dollars)
<u>December 31, 2018</u>			
Sell forward exchange	USD/NTD	2019/01/02-2019/11/08	USD53,603/NTD1,620,267
Sell forward exchange	EUR/NTD	2019/02/12-2019/10/30	EUR3,215/NTD113,526
Sell forward exchange	CNY/NTD	2019/01/24	CNY1,000/NTD4,428
Sell forward exchange	JPY/NTD	2019/03/05-2019/12/04	JPY211,000/NTD57,484
Buy forward exchange	NTD/USD	2019/02/15	NTD57,030/USD2,000
Buy forward exchange	EUR/USD	2019/01/12-2019/06/21	EUR17,700/USD20,771
Buy forward exchange	GBP/USD	2019/01/15-2019/05/17	GBP11,700/USD15,167
Buy forward exchange	JPY/USD	2019/01/23-2019/01/28	JPY441,740/USD4,000
Buy forward exchange	CNY/USD	2019/01/09-2019/12/04	CNY27,128/USD3,982
Buy forward exchange	USD/EUR	2019/02/21-2019/06/24	USD22,660/EUR19,600
Buy forward exchange	USD/GBP	2019/03/12-2019/05/07	USD2,413/GBP1,900
Buy forward exchange	GBP/JPY	2019/02/15-2019/03/22	GBP7,600/JPY1,097,730
Buy forward exchange	USD/JPY	2019/03/20-2019/06/28	USD17,000/JPY1,880,498
Buy forward exchange	EUR/JPY	2019/06/25	EUR1,000/JPY125,910
<u>December 31, 2017</u>			
Sell forward exchange	USD/NTD	2018/01/02-2018/12/27	USD115,951/NTD3,468,476
Sell forward exchange	EUR/NTD	2018/01/05-2018/03/16	EUR1,394/NTD49,404
Sell forward exchange	CNY/NTD	2018/01/24-2018/03/12	CNY3,170/NTD14,114
Sell forward exchange	JPY/NTD	2018/02/13-2018/07/11	JPY160,575/NTD43,614
Sell forward exchange	CAD/NTD	2018/01/18-2018/03/09	CAD389/NTD9,382
Buy forward exchange	NTD/USD	2018/01/04-2018/01/19	NTD29,822/USD1,000
Buy forward exchange	EUR/USD	2018/01/02-2018/06/07	EUR18,700/USD22,224
Buy forward exchange	CNY/USD	2018/03/27-2018/05/07	CNY29,785/USD4,277
Buy forward exchange	GBP/USD	2018/01/18-2018/03/29	GBP5,500/USD7,377
Buy forward exchange	JPY/USD	2018/01/22-2018/06/26	JPY1,935,589/USD17,300
Buy forward exchange	HKD/USD	2018/01/11	HKD1,798/USD230
Buy forward exchange	NZD/USD	2018/02/08	NZD1,000/USD736
Buy forward exchange	AUD/USD	2018/02/06	AUD600/USD460
Buy forward exchange	USD/GBP	2018/01/18-2018/04/10	USD19,104/GBP14,250
Buy forward exchange	CNY/USD	2018/01/08-2018/03/29	CNY42,000/USD6,353
Buy forward exchange	EUR/USD	2018/01/08-2018/06/12	EUR25,050/USD29,717
Buy forward exchange	JPY/USD	2018/02/22-2018/05/17	JPY718,241/USD6,400
Buy forward exchange	AUD/USD	2018/03/15	AUD2,000/USD1,533
Buy forward exchange	CAD/USD	2018/03/29	CAD629/USD500
Buy forward exchange	JPY/EUR	2018/03/22-2018/03/23	JPY268,900/EUR2,000

d. As of December 31, 2018 and 2017, the asset swap contracts of the Bank amounted to \$1,911,400 thousand and \$1,648,300 thousand, respectively, with interest rate ranges of 0.90% to 1.35% and 0.90% to 1.40%, respectively.

e. As of December 31, 2018 and 2017, the cross-currency option contracts of the Bank amounted to \$6,233,293 thousand (US\$202,973 thousand) and \$8,770,121 thousand (US\$294,596 thousand), respectively.

- f. As of December 31, 2018 and 2017, the interest structured instrument contracts of the Bank amounted to \$14,889 thousand and \$43,434 thousand, respectively, with interest rate ranges of 6.50% and 6.50% to 6.60%, respectively.
- g. The PEM Group policy assets were classified as other financial assets under IAS 39. Refer to Notes 3 and 17 for information relating to their reclassification and comparative information for 2017.

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	December 31, 2018
Investments in equity instruments at FVTOCI	\$ 705,301
Investments in debt instruments at FVTOCI	<u>27,492,194</u>
	<u>\$ 28,197,495</u>

a. Investments in equity instruments at FVTOCI

	December 31, 2018
Domestic unlisted shares	\$ 510,523
Foreign listed shares	<u>194,778</u>
	<u>\$ 705,301</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Bank's strategy of holding these investments for long-term purposes. These investments in equity instruments were classified as available-for-sale under IAS 39. Refer to Notes 3, 14 and 17 for information relating to their reclassification and comparative information for 2017.

b. Investments in debt instruments at FVTOCI

	December 31, 2018
Corporate bonds	\$ 20,730,435
Government bonds	5,976,359
Foreign bonds	<u>785,400</u>
	<u>\$ 27,492,194</u>

- 1) The investments in debt instruments were classified as available-for-sale financial assets and held-to-maturity financial assets under IAS 39. Refer to Notes 3, 14 and 15 for information relating to their reclassification and comparative information for 2017.
- 2) The Bank recognized gain on reversal of impairment loss of \$3,820 thousand in 2018 after assessing the expected credit losses of the investments in debt instruments at FVTOCI.
- 3) Refer to Note 37 for information relating to their credit risk management and impairment.

10. INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST

	December 31, 2018
Foreign bonds	\$ 21,361,293
Government bonds	13,123,603
NCDs issued by the CBC	55,500,000
Corporate bonds	11,418,483
Credit certificate	<u>9,511</u>
	101,412,890
Less: Allowance for impairment loss	(105,129)
Less: Withdrawal of reserves for trust compensation and refundable deposits	<u>(845,000)</u>
	<u>\$ 100,462,761</u>

- a. The foreign bonds denominated in foreign currencies were as follows:

	December 31, 2018
USD	\$ 571,613
RMB	510,000
AUD	61,000
ZAR	70,000

- b. The investments in debt instruments at amortized cost were classified as available-for-sale financial assets and held-to-maturity financial assets under IAS 39. Refer to Notes 3, 14 and 15 for information relating to their reclassification and comparative information for 2017.
- c. As of December 31, 2018, the government bonds and the foreign bonds at amortized cost amounted to \$1,200,000 thousand and \$9,642,940 thousand (US\$314,000 thousand), respectively, which had been sold under repurchase agreements.
- d. The Bank recognized the impairment loss of \$21,308 thousand in 2018 after assessing the expected credit losses of the investments in debt instruments at amortized cost.
- e. Refer to Note 37 for information relating to their credit risk management and impairment.

11. SECURITIES PURCHASED UNDER RESELL AGREEMENTS

Securities purchased for \$9,094,151 thousand, \$11,283,082 thousand under repurchase agreements as of December 31, 2018 and 2017, respectively, would subsequently be sold for \$9,095,775 thousand and \$11,284,292 thousand, respectively, with interest rate ranges of 0.54% to 0.65% and 0.40% to 0.42%, respectively.

12. RECEIVABLES, NET

	December 31	
	2018	2017
Receivables on credit cards	\$ 748,384	\$ 791,111
Accounts receivable factored without recourse	133,277	1,656,114
Acceptances	836,196	871,032
Interest receivables	1,294,953	1,114,474
Receivables on foreign currency settlement	1,909,476	1,805,037
Receivables on sale of securities	119,576	45,958
Other receivables	<u>137,664</u>	<u>232,820</u>
	5,179,526	6,516,546
Less: Allowance for doubtful accounts (Note 13)	<u>(151,385)</u>	<u>(187,472)</u>
	<u>\$ 5,028,141</u>	<u>\$ 6,329,074</u>

- a. The following table shows the movement of the total carrying amount of receivables for the year ended December 31, 2018:

	12-month ECL	Lifetime ECL	Credit-impaired Financial Assets	Total
Balance at January 1, 2018	\$ 51,287,061	\$ 261,946	\$ 155,793	\$ 51,704,800
Transfers to lifetime ECL	(14,154)	14,204	(50)	-
Transfers to credit-impaired financial assets	(8,074)	(12,217)	20,291	-
Transfers to 12-month ECL	14,106	(13,764)	(342)	-
New receivables purchased or originated	1,445,585	12,086	4,071	1,461,742
Write-offs	-	-	(43,353)	(43,353)
Derecognition	(3,574,029)	(226,240)	(52,082)	(3,852,351)
Change in others	<u>951,740</u>	<u>5,246</u>	<u>38,007</u>	<u>994,993</u>
Balance at December 31, 2018	<u>\$ 50,102,235</u>	<u>\$ 41,261</u>	<u>\$ 122,335</u>	<u>\$ 50,265,831</u>

The above-mentioned carrying amount of receivables include due to the banks, due from the central banks and call loans to other banks, securities purchased under resell agreements, notes receivable, receivables on credit cards, accounts receivable factored without recourse, interest receivables, acceptances, receivables on securities settlement, other receivables, delinquent receivables not arising from loans and refundable deposits.

- b. The following table shows the movement of the allowance for doubtful accounts of receivables for the year ended December 31, 2018:

	12-month ECL	Lifetime ECL	Credit-impaired Financial Assets	Impairment Loss Accessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2018	\$ 40,814	\$ 47,733	\$ 92,916	\$ 181,463	\$ 28,056	\$ 209,519
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(47)	66	(19)	-	-	-
Transfers to credit-impaired financial assets	(29)	(1,109)	1,138	-	-	-
Transfers to 12-month ECL	2,169	(1,889)	(280)	-	-	-
Derecognition of financial assets in current period	(37,279)	(44,177)	(10,204)	(91,660)	-	(91,660)
New financial assets purchased or originated	16,395	1,416	1,154	18,965	-	18,965
Difference of impairment loss under regulations	-	-	-	-	12,241	12,241
Write-offs	-	-	(34,971)	(34,971)	(8,382)	(43,353)
Recovery of written-offs	-	-	-	-	17,227	17,227
Change in exchange influence or others	(2,280)	1,865	33,093	32,678	-	32,678
Balance at December 31, 2018	<u>\$ 19,743</u>	<u>\$ 3,905</u>	<u>\$ 82,827</u>	<u>\$ 106,475</u>	<u>\$ 49,142</u>	<u>\$ 155,617</u>

The allowance for doubtful accounts of the abovementioned receivables includes allowances for delinquent receivables not arising from loans, refer to Note 17.

- c. Receivables classified according to the credit risk characteristics of the products as of December 31, 2017 were as follows:

Items			Receivables	Allowance for Possible Losses
			December 31, 2017	December 31, 2017
With objective evidence of individual impairment	Individual assessment of impairment	Corporate loans	\$ 65,962	\$ 18,835
		Consumer loans	8,672	223
		Others	57,805	57,805
	Collective assessment of impairment	Corporate loans	9,051	1,901
Consumer loans		30,483	14,482	
Without objective evidence of individual impairment	Collective assessment of impairment	Corporate loans	2,809,370	36,763
		Consumer loans	980,249	7,403
		Others	47,743,208	-
Total			51,704,800	137,412

The above-mentioned receivables of the Bank on December 31, 2017 include due to the banks, due from the central bank and call loans to other banks, securities purchased under resell agreements, notes receivable, receivables on credit card, accounts receivable factored without recourse, interest receivables, acceptances, delinquent receivables not arising from loans and refundable deposits.

According to IAS 39, the amount of allowance for doubtful accounts was measured based on the credit risk characteristics of the accounts. The amount measured under IAS 39 was less than the amount calculated under rule No. 10010006830 issued by the Banking Bureau of the FSC, which should be 1% higher than the ratio of allowance for receivables recognized over total receivables. Consequently, bad-debt expense increased as of December 31, 2017.

13. NOTES DISCOUNTED AND LOANS, NET

	December 31	
	2018	2017
Bills negotiated	\$ 475,822	\$ 648,036
Overdrafts	1,061	1,555
Secured overdrafts	10,031	23,154
Account receivable financing	80,862	28,060
Short-term unsecured loans	43,046,052	46,156,527
Short-term secured loans	103,198,900	93,034,520
Medium-term unsecured loans	49,659,266	42,237,777
Medium-term secured loans	109,958,945	108,897,802
Long-term unsecured loans	4,499,987	4,405,504
Long-term secured loans	145,623,202	139,335,006
Delinquent loans	<u>1,662,082</u>	<u>1,185,395</u>
	458,216,210	435,953,336
Add: Adjustment of premium or discount	44,071	47,706
Less: Allowance for doubtful accounts	<u>(6,531,703)</u>	<u>(6,344,810)</u>
	<u>\$ 451,728,578</u>	<u>\$ 429,656,232</u>

- a. As of December 31 2018 and 2017, the delinquent loans on which interest ceased to accrue amounted to \$1,640,185 thousand and \$1,168,006 thousand, respectively. The unrecognized interest revenues on these loans were \$34,228 thousand and \$30,298 thousand for the years ended December 31, 2018 and 2017, respectively.
- b. There was no credit loan written off without a lawsuit in 2018 and 2017.

- c. The following table shows the movement of the total carrying amount of notes discounted and loans for the year ended December 31, 2018:

	12-month ECL	Lifetime ECL	Credit-impaired Financial Assets	Total
Balance at January 1, 2018	\$ 401,603,091	\$ 32,188,249	\$ 2,209,702	\$ 436,001,042
Reconciliation arising from financial instruments recognized at the beginning of the year:				
Transfers to lifetime ECL	(7,160,622)	7,163,352	(2,730)	-
Transfers to credit-impaired financial assets	(1,835,301)	(4,787,508)	6,622,809	-
New notes discounted and loans purchased or originated	7,142,086	(7,141,465)	(621)	-
Write-offs	251,247,141	3,555,867	1,327,498	256,130,506
Derecognition	(20,366)	(306,169)	(707,249)	(1,033,784)
Change in others	(195,245,211)	(14,245,972)	(875,437)	(210,366,620)
	<u>(20,728,689)</u>	<u>(1,084,623)</u>	<u>(657,551)</u>	<u>(22,470,863)</u>
Balance at December 31, 2018	<u>\$ 435,002,129</u>	<u>\$ 15,341,731</u>	<u>\$ 7,916,421</u>	<u>\$ 458,260,281</u>

- d. The following table shows the movement of the allowance for doubtful accounts of notes discounted and loans for the year ended December 31, 2018:

	12-month ECL	Lifetime ECL	Credit-impaired Financial Assets	Impairment Loss under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2018	\$ 1,644,957	\$ 2,624,516	\$ 490,440	\$ 4,759,913	\$ 1,584,897	\$ 6,344,810
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(15,810)	16,855	(1,045)	-	-	-
Transfers to credit-impaired financial assets	(6,279)	(442,489)	448,768	-	-	-
Transfers to 12-month ECL	376,160	(376,096)	(64)	-	-	-
Derecognition of financial assets in current period	(1,035,356)	(1,590,753)	(172,658)	(2,798,767)	-	(2,798,767)
New financial assets purchased or originated	1,277,130	200,940	421,442	1,899,512	-	1,899,512
Difference of Impairment loss under regulations	-	-	-	-	550,859	550,859
Write-offs	(3)	(15,876)	(242,177)	(258,056)	(775,728)	(1,033,784)
Recovery of written-offs	-	-	-	-	706,691	706,691
Change in exchange influence or others	<u>(472,863)</u>	<u>244,743</u>	<u>1,090,502</u>	<u>862,382</u>	<u>-</u>	<u>862,382</u>
Balance at December 31, 2018	<u>\$ 1,767,936</u>	<u>\$ 661,840</u>	<u>\$ 2,035,208</u>	<u>\$ 4,464,984</u>	<u>\$ 2,066,719</u>	<u>\$ 6,531,703</u>

- e. Notes discounted and loans classified according to the credit risk characteristics of the products as of December 31, 2017 were as follows:

Items			Notes Discounted and Loans	Allowance for Possible Losses
			December 31, 2017	December 31, 2017
With objective evidence of individual impairment	Individual assessment of impairment	Corporate loans	\$ 7,071,371	\$ 1,855,412
		Consumer loans	2,273,811	255,556
	Collective assessment of impairment	Corporate loans	911,688	283,721
		Consumer loans	2,177,833	278,992
Without objective evidence of individual impairment	Collective assessment of impairment	Corporate loans	221,343,141	1,632,665
		Consumer loans	202,175,492	214,635
Total			435,953,336	4,520,981

According to IAS 39, the amount of allowance for doubtful accounts was measured based on the credit risk characteristics of the accounts. The amount measured under IAS 39 was less than the amount calculated under rule No. 10010006830 issued by the Banking Bureau of the FSC, which should be 1% higher than the ratio of allowance for notes discounted and loans recognized over total loans, and under rule No. 10300329440 issued by the Banking Bureau of the FSC, allowance for doubtful accounts should be provided at 1.5% or more of the loans for real estate. Consequently, bad-debt expense increased on notes discounted and loans.

- f. The changes in allowance for possible losses on receivables and notes discounted and loans for the year ended December 31, 2017 were as follows:

	For the Year Ended December 31, 2017		
	Receivables	Discounts and Loans	Total
Balance, January 1	\$ 122,534	\$ 6,226,687	\$ 6,349,221
Provision for possible losses	98,719	770,744	869,463
Write-offs	(30,869)	(1,010,672)	(1,041,541)
Recovery of written-off credits	19,840	391,827	411,667
Exchange influence	(930)	(33,776)	(34,706)
Balance, December 31	<u>\$ 209,294</u>	<u>\$ 6,344,810</u>	<u>\$ 6,554,104</u>

The allowance for doubtful accounts of the abovementioned receivables includes allowances for delinquent receivables arising from loans, refer to Note 17.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS, NET - 2017

	December 31, 2017
Corporate bonds	\$ 24,536,414
Government bonds	6,497,632
Foreign listed shares	158,825
Credit certificate and depository receipts	<u>-</u>
	<u>\$ 31,192,871</u>

a. The foreign listed shares and depository receipts denominated in foreign currencies were as follows:

	December 31, 2017
USD	\$ 5,335

b. As of December 31, 2017, the investments in credit certificate and depository receipts at available-for-sale had been fully assessed for impairment losses.

15. HELD-TO-MATURITY FINANCIAL ASSETS, NET - 2017

	December 31, 2017
Foreign bonds	\$ 19,529,633
Government bonds	8,512,462
Central bank transferable deposit slip	<u>57,500,000</u>
	<u>\$ 85,542,095</u>

a. The foreign bonds denominated in foreign currencies were as below:

	December 31, 2017
USD	\$ 483,962
RMB	750,000
AUD	61,000
ZAR	70,000

b. As of December 31, 2017, government bonds and foreign bonds at held-to-maturity amounted to \$2,200,000 thousand and \$2,232,750 thousand (US\$75,000 thousand), respectively, had been sold under repurchase agreements.

16. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Investments in subsidiaries	\$ 5,071,278	\$ 4,606,994
Investments in associates	<u>153,423</u>	<u>128,113</u>
	<u>\$ 5,224,701</u>	<u>\$ 4,735,107</u>

a. Investments in subsidiaries

	<u>December 31</u>			
	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>Proportion of Ownership (%)</u>	<u>Amount</u>	<u>Proportion of Ownership (%)</u>
Domestic non-listed (cabinet) companies				
Taichung Bank Leasing Co., Ltd.	\$ 1,858,956	100.00	\$ 1,790,773	100.00
Taichung Bank Insurance Brokers Co., Ltd.	1,828,479	100.00	1,432,236	100.00
Taichung Bank Securities Co., Ltd.	<u>1,383,843</u>	100.00	<u>1,383,985</u>	100.00
	<u>\$ 5,071,278</u>		<u>\$ 4,606,994</u>	

b. Investments in associates

	<u>December 31</u>			
	<u>2018</u>		<u>2017</u>	
	<u>Amount</u>	<u>Proportion of Ownership (%)</u>	<u>Amount</u>	<u>Proportion of Ownership (%)</u>
Associates that are not individually material				
Reliance Securities Investment Trust Co., Ltd.	\$ <u>153,423</u>	38.46	\$ <u>128,113</u>	38.46

Detail of share of loss of associates for using the equity method was as follows:

Investee Company	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Reliance Securities Investment Trust Co., Ltd.	<u>\$ (6,716)</u>	<u>\$ (2,875)</u>

Investment was accounted for using the equity method and the share of loss of the investment was calculated based on financial statements which have been audited.

17. OTHER FINANCIAL ASSETS, NET

	December 31	
	2018	2017
Financial assets carried at cost	\$ -	\$ 145,684
Other financial assets - other	-	900,335
Other delinquent receivables, net	<u>1,111</u>	<u>21,606</u>
	<u>\$ 1,111</u>	<u>\$ 1,067,625</u>

- a. Financial assets carried at cost were as follows:

	December 31, 2017
Domestic non-public ordinary shares	<u>\$ 145,684</u>

Management believed that the above unlisted equity investments held by the Bank had fair values which could not be reliably measured, because the range of reasonable fair value estimates was so significant. Therefore, they were measured at cost less impairment at the end of the reporting period.

- b. Other financial assets – other were as follows:

	December 31, 2017
Products issued by PEM group	\$ 2,000,308
Less: Accumulated impairment	<u>(1,099,973)</u>
	<u>\$ 900,335</u>

On May 6, 2009, the Bank set the Private Equity Management Group (PEM Group) linked debt customer rights protection plan, and decided to buy back those financial instruments from investors with the resolution of board of directors and as of February 2011, the Bank received the policy assets from PEM Group.

The Bank assessed the value of the policy assets issued by PEM Group in 2017, and recognized the impairment loss of \$50,533 thousand.

- c. Other delinquent receivables, net were as follows:

	December 31	
	2018	2017
Delinquent receivables not arising from loans	\$ 5,343	\$ 43,428
Less: Allowance for doubtful accounts (Notes 12 and 13)	<u>(4,232)</u>	<u>(21,822)</u>
	<u>\$ 1,111</u>	<u>\$ 21,606</u>

18. PROPERTIES AND EQUIPMENT, NET

	2018					
	Land	Building and Structures	Transportation Equipment	Miscellaneous Equipment	Construction in Progress	Total
<u>Cost</u>						
Balance, beginning of year	\$ 7,843,120	\$ 2,086,402	\$ 34,554	\$ 1,498,222	\$ 143,380	\$ 11,605,678
Addition	-	-	8,763	194,571	62,035	265,369
Disposals	-	-	(2,503)	(59,918)	-	(62,421)
Reclassifications	-	-	-	2,580	(2,580)	-
Exchange influence	<u>7,843,120</u>	<u>2,086,402</u>	<u>40,814</u>	<u>1,635,455</u>	<u>202,835</u>	<u>11,808,626</u>
Balance, end of year						
<u>Accumulated depreciation</u>						
Balance, beginning of year	-	1,105,281	21,524	1,105,614	-	2,232,419
Addition	-	39,788	3,858	145,997	-	189,643
Disposals	-	-	(1,432)	(57,333)	-	(58,765)
Reclassifications	-	<u>1,145,069</u>	<u>23,950</u>	<u>1,194,278</u>	-	<u>2,363,297</u>
Exchange influence	-	-	-	-	-	-
Balance, end of year						
<u>Impairment</u>						
Balance, beginning of year	77,000	-	-	-	-	77,000
Addition	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Balance, end of year	<u>77,000</u>	-	-	-	-	<u>77,000</u>
Balance, end of year, net	<u>\$ 7,766,120</u>	<u>\$ 941,333</u>	<u>\$ 16,864</u>	<u>\$ 441,177</u>	<u>\$ 202,835</u>	<u>\$ 9,368,329</u>
	2017					
	Land	Building and Structures	Transportation Equipment	Miscellaneous Equipment	Construction in Progress	Total
<u>Cost</u>						
Balance, beginning of year	\$ 7,843,120	\$ 2,086,402	\$ 32,458	\$ 1,446,429	\$ 100,965	\$ 11,509,374
Addition	-	-	2,179	77,428	42,415	122,022
Disposals	-	-	(83)	(25,635)	-	(25,718)
Reclassifications	-	-	-	-	-	-
Exchange influence	<u>7,843,120</u>	<u>2,086,402</u>	<u>34,554</u>	<u>1,498,222</u>	<u>143,380</u>	<u>11,605,678</u>
Balance, end of year						
<u>Accumulated depreciation</u>						
Balance, beginning of year	-	1,065,488	18,039	977,330	-	2,060,857
Addition	-	39,793	3,568	153,524	-	196,885
Disposals	-	-	(83)	(25,240)	-	(25,323)
Reclassifications	-	-	-	-	-	-
Exchange influence	-	<u>1,105,281</u>	<u>21,524</u>	<u>1,105,614</u>	-	<u>2,232,419</u>
Balance, end of year						
<u>Impairment</u>						
Balance, beginning of year	77,000	-	-	-	-	77,000
Addition	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Reclassifications	-	-	-	-	-	-
Balance, end of year	<u>77,000</u>	-	-	-	-	<u>77,000</u>
Balance, end of year, net	<u>\$ 7,766,120</u>	<u>\$ 981,121</u>	<u>\$ 13,030</u>	<u>\$ 392,608</u>	<u>\$ 143,380</u>	<u>\$ 9,296,259</u>

Depreciation is calculated by the straight-line method over service lives estimated as follows:

Building and structures	
Building	30 to 60 years
Renovation	10 to 29 years
Transportation equipment	3 to 5 years
Miscellaneous equipment	2 to 15 years

19. INVESTMENT PROPERTIES, NET

	2018		
	Land	Structures	Total
<u>Cost</u>			
Balance, beginning of year	\$ 20,269	\$ 12,575	\$ 32,844
Additions	<u>-</u>	<u>-</u>	<u>-</u>
Balance, end of year	<u>20,269</u>	<u>12,575</u>	<u>32,844</u>
<u>Accumulated depreciation</u>			
Balance, beginning of year	-	10,094	10,094
Additions	<u>-</u>	<u>90</u>	<u>90</u>
Balance, end of year	<u>-</u>	<u>10,184</u>	<u>10,184</u>
Balance, end of year, net	<u>\$ 20,269</u>	<u>\$ 2,391</u>	<u>\$ 22,660</u>
	2017		
	Land	Structures	Total
<u>Cost</u>			
Balance, beginning of year	\$ 71,180	\$ 29,453	\$ 100,633
Disposals	<u>(50,911)</u>	<u>(16,878)</u>	<u>(67,789)</u>
Balance, end of year	<u>20,269</u>	<u>12,575</u>	<u>32,844</u>
<u>Accumulated depreciation</u>			
Balance, beginning of year	-	22,365	22,365
Additions	-	240	240
Disposals	<u>-</u>	<u>(12,511)</u>	<u>(12,511)</u>
Balance, end of year	<u>-</u>	<u>10,094</u>	<u>10,094</u>
Balance, end of year, net	<u>\$ 20,269</u>	<u>\$ 2,481</u>	<u>\$ 22,750</u>

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

Building and structures

Building	60 years
Renovation	10 to 25 years

- b. The board of directors of the Bank resolved to sell part of the investment properties in 2017, and the proceeds amounted to 403,950 thousand, which resulted in gain on disposals of 348,672 thousand and land value increment tax of 57,840 thousand.
- c. The fair value of the investment properties of the Bank on December 31, 2018 and 2017 were \$63,122 thousand and \$61,652 thousand, respectively. The fair value was not evaluated by independent qualified professional valuers. The valuation was arrived at by reference to the market evidence of transaction price for similar properties.

20. INTANGIBLE ASSETS, NET

Movements of intangible assets were as follows:

	For the Year Ended December 31	
	2018	2017
Balance, beginning of year	\$ 115,605	\$ 124,544
Additions	55,611	52,367
Amortization	<u>(46,191)</u>	<u>(61,306)</u>
Balance, ending of year	<u>\$ 125,025</u>	<u>\$ 115,605</u>

Computer software was amortized on a straight-line basis over their estimated useful lives as follows:

Computer software	5 years
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21. OTHER ASSETS, NET

	December 31	
	2018	2017
Refundable deposits	\$ 1,202,712	\$ 1,512,798
Prepayments	<u>93,227</u>	<u>69,025</u>
	<u>\$ 1,295,939</u>	<u>\$ 1,581,823</u>

As of December 31, 2018 and 2017, the government bonds at amortized cost and held-to-maturity government bonds amounted to \$785,000 thousand and \$1,017,800 thousand, respectively, were pledged to district court for litigation, as a collateral for the overdraft of the US dollar clearing account and the provision of guarantee deposit for business operations, which were stated as refundable deposits. Refer to Note 34.

22. DUE TO THE CENTRAL BANK AND OTHER BANKS

	December 31	
	2018	2017
Call loans from banks	\$ 2,874,850	\$ 9,007,150
Due to Chunghwa Post Co., Ltd.	503,276	511,474
Due to banks	<u>626</u>	<u>248</u>
	<u>\$ 3,378,752</u>	<u>\$ 9,518,872</u>

23. SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

	December 31	
	2018	2017
Government bonds	\$ 1,200,036	\$ 2,202,581
Foreign bonds	<u>8,704,431</u>	<u>2,105,229</u>
	<u>\$ 9,904,467</u>	<u>\$ 4,307,810</u>

The post-year repurchase price and rate were as follows:

	December 31	
	2018	2017
Government bonds	\$ 1,200,797	\$ 2,203,231
Foreign bonds	<u>8,768,302</u>	<u>2,114,799</u>
	<u>\$ 9,969,099</u>	<u>\$ 4,318,030</u>
Government bonds	0.42%-0.52%	0.37%-0.43%
Foreign bonds	2.69%-2.90%	1.68%-1.90%

The foreign bonds denominated in foreign currencies were as follows:

	December 31	
	2018	2017
USD	\$ 283,440	\$ 70,716

24. PAYABLES

	December 31	
	2018	2017
Notes and checks in clearing	\$ 5,715,927	\$ 6,021,021
Foreign currency settlement payable	1,912,669	1,804,654
Accrued expenses	1,361,270	1,023,315
Acceptances	845,279	872,015
Interest payable	532,536	430,541
Securities settlement payable	438,763	-
Factored accounts payable	33,552	1,581,918
Collections payable	25,981	25,994
Other payables	<u>476,887</u>	<u>436,284</u>
	<u>\$ 11,342,864</u>	<u>\$ 12,195,742</u>

25. DEPOSITS AND REMITTANCES

	December 31	
	2018	2017
Deposits		
Checking	\$ 9,766,073	\$ 9,696,673
Demand	130,125,733	129,321,426
Demand savings	126,189,743	121,997,110
Time	165,278,089	160,119,564
Time savings	157,855,126	146,104,716
Remittances	<u>28,125</u>	<u>16,102</u>
	<u>\$ 589,242,889</u>	<u>\$ 567,255,591</u>

26. BANK DEBENTURES

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Subordinated financial debenture	<u>\$ 20,000,000</u>	<u>\$ 17,500,000</u>

a. The Bank issued first subordinated financial debenture on November 13, 2012, which was approved under ruling reference No. 10100305900 issued by the Banking Bureau of the FSC on September 24, 2012. Detail of the subordinated financial debenture issuance is summarized as follows:

- 1) Total approved principal: \$3,000,000 thousand.
- 2) Principal issued: \$3,000,000 thousand.
- 3) Denomination: \$1,000 thousand, issued at par.
- 4) Period: 7 years with maturities on November 13, 2019.
- 5) Nominal interest rate: Fixed interest rate, 2.1%.
- 6) Repayment: The subordinated financial debenture will be paid on the maturity date.
- 7) The interest will be paid semi-annually from the issuance date.

b. The Bank issued first subordinated financial debenture and second subordinated financial debenture on June 25, 2013 and December 16, 2013, respectively, which were approved under ruling reference No. 10200089330 issued by the Banking Bureau of the FSC on April 8, 2013. Details of the financial subordinated debenture issuance are summarized as follows:

- 1) Total approved principal: \$6,000,000 thousand.
- 2) Principal issued:
 - a) Debenture I on 2013: \$2,500,000 thousand.
 - b) Debenture II on 2013: \$3,000,000 thousand.
- 3) Denomination:
 - a) Debenture I on 2013: \$500 thousand, issued at par.
 - b) Debenture II on 2013: \$500 thousand, issued at par.
- 4) Period:
 - a) Debenture I on 2013: 7 years with maturities on June 25, 2020.
 - b) Debenture II on 2013: 6 years with maturities on December 16, 2019.
- 5) Nominal interest rate:
 - a) Debenture I on 2013: Fixed interest rate, 2.1%.
 - b) Debenture II on 2013: Fixed interest rate, 2.1%.

6) Repayment: The subordinated financial debenture will be paid on the maturity date.

7) The interest will be paid semi-annually from the issuance date.

c. The Bank issued first subordinated financial debenture on December 28, 2015, which was approved under ruling reference No. 10400200460 issued by the Banking Bureau of the FSC on August 26, 2015. Detail of the subordinated financial debenture issuance is summarized as follows:

- 1) Total approved principal: \$1,500,000 thousand.

- 2) Principal issued: \$1,500,000 thousand.
 - 3) Denomination: \$10,000 thousand, issued at par.
 - 4) Period: No due date.
 - 5) Nominal interest rate: According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%.
 - 6) Repayment: Execute according to the issuance.
 - 7) The interest will be paid annually from the issuance date.
- d. The Bank issued first no due date non-cumulative subordinated financial debenture, second no due date non-cumulative subordinated financial debenture, third no due date non-cumulative subordinated financial debenture and first no due date non-cumulative subordinated financial debenture on March 28, 2017, May 18, 2017, August 28, 2017 and December 28, 2016, respectively, which were approved under ruling reference No. 10500210950 issued by the Banking Bureau of the FSC on September 2, 2016. Details of the subordinated financial debenture issuance are summarized as follows:
- 1) Total approved principal: \$3,500,000 thousand.
 - 2) Principal issued:
 - a) Debenture I on 2016: \$1,500,000 thousand.
 - b) Debenture I on 2017: \$1,000,000 thousand.
 - c) Debenture II on 2017: \$500,000 thousand.
 - d) Debenture III on 2017: \$500,000 thousand.
 - 3) Denomination:
 - a) Debenture I on 2016: \$10,000 thousand, issued at par.
 - b) Debenture I on 2017: \$10,000 thousand, issued at par.
 - c) Debenture II on 2017: \$10,000 thousand, issued at par.
 - d) Debenture III on 2017: \$10,000 thousand, issued at par.
 - 4) Period: No due date.
 - 5) Nominal interest rate: According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%.
 - 6) Repayment: Execute according to the issuance.
 - 7) The interest will be paid annually from the issuance date.
- e. The Bank issued first no due date non-cumulative subordinated financial debenture, fourth no due date non-cumulative subordinated financial debenture and fifth no due date non-cumulative subordinated financial debenture on April 25 2018, December 5, 2017 and December 27, 2017, respectively, which were approved under ruling reference No. 10600229120 issued by the Banking Bureau of the FSC on September 22, 2017. Details of the subordinated financial debenture issuance are summarized as follows:
- 1) Total approved principal: \$5,000,000 thousand.

- 2) Principal issued:
 - a) Debenture IV on 2017: \$1,350,000 thousand.
 - b) Debenture V on 2017: \$2,650,000 thousand.
 - c) Debenture I on 2018: \$1,000,000 thousand.
 - 3) Denomination:
 - a) Debenture IV on 2017: \$10,000 thousand, issued at par.
 - b) Debenture V on 2017: \$10,000 thousand, issued at par.
 - c) Debenture I on 2018: \$10,000 thousand, issued at par.
 - 4) Period: No due date.
 - 5) Nominal interest rate: According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%.
 - 6) Repayment: Execute according to the issuance.
 - 7) The interest will be paid annually from the issuance date.
- f. The Bank issued second no due date non-cumulative subordinated financial debenture on December 18, 2018, which was approved under ruling reference No. 10702156550 issued by the Banking Bureau of the FSC on August 23, 2018. Detail of the subordinated financial debenture issuance is summarized as follows:
- 1) Total approved principal: \$1,500,000 thousand.
 - 2) Principal issued: \$1,500,000 thousand.
 - 3) Denomination: \$10,000 thousand, issued at par.
 - 4) Period: No due date.
 - 5) Nominal interest rate: According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%.
 - 6) Repayment: Execute according to the issuance.
 - 7) The interest will be paid annually from the issuance date.

27. PROVISIONS

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Provision for employee benefits	\$ 1,144,224	\$ 1,120,042
Provision for losses on guarantees	189,848	243,637
Provision for losses on accidental	23,933	26,300
Provision for loan commitments	<u>63,809</u>	<u>-</u>
	<u>\$ 1,421,814</u>	<u>\$ 1,389,979</u>

a. Details of provision for employee benefits were as follows:

	December 31	
	2018	2017
Benefit plans	\$ 1,000,467	\$ 992,816
Preferential interest on employees' deposits	120,769	108,779
Other long-term employee benefit liabilities	<u>22,988</u>	<u>18,447</u>
	<u>\$ 1,144,224</u>	<u>\$ 1,120,042</u>

1) Defined contribution plans

The Bank adopted a pension plan under the Labor Pension Act (the "LPA"), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees' individual pension accounts at 6% of monthly salaries and wages.

The amount paid by the Bank in 2018 and 2017 in accordance with the defined contribution plan had been recognized in the parent company only statements of comprehensive income as total amounts of \$75,505 thousand and \$69,047 thousand, respectively.

2) Defined benefit plans

The defined benefit plan adopted by the Bank in accordance with the Labor Standards Law is operated by the government of the ROC. Pension benefits are calculated on the basis of the length of service and average monthly salaries of the six months before retirement. The Bank contributes amounts equal to 3% of total monthly salaries and wages to a pension fund administered by the pension fund monitoring committee. Pension contributions are deposited in the Bank of Taiwan in the committee's name. Before the end of each year, the Bank assesses the balance in the pension fund. If the amount of the balance in the pension fund is inadequate to pay retirement benefits for employees who conform to retirement requirements in the next year, the Bank is required to fund the difference in one appropriation that should be made before the end of March of the next year. The pension fund is managed by the Bureau of Labor Funds, Ministry of Labor (the "Bureau"); the Bank has no right to influence the investment policy and strategy.

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

	December 31	
	2018	2017
Present value of defined benefit obligation	\$ 1,719,860	\$ 1,693,578
Fair value of plan assets	<u>(719,393)</u>	<u>(700,762)</u>
Deficit	<u>1,000,467</u>	<u>992,816</u>
Net defined benefit liability	<u>\$ 1,000,467</u>	<u>\$ 992,816</u>

Movements in net defined benefit liability were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liability
Balance at January 1, 2017	\$ 1,810,954	\$ (778,937)	\$ 1,032,017
Service cost			
Current service cost	22,119	-	22,119
Net interest expense (income)	18,110	(7,942)	10,168
Recognized in profit or loss	<u>40,229</u>	<u>(7,942)</u>	<u>32,287</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	574	574
Actuarial loss - changes in demographic assumptions	1,422	-	1,422
Actuarial gain - changes in financial assumptions	(51,176)	-	(51,176)
Actuarial loss - experience adjustments	<u>31,330</u>	<u>-</u>	<u>31,330</u>
Recognized in other comprehensive income	<u>(18,424)</u>	<u>574</u>	<u>(17,850)</u>
Contributions from the employer	-	(27,100)	(27,100)
Benefits paid	(112,643)	112,643	-
Company paid	<u>(26,538)</u>	<u>-</u>	<u>(26,538)</u>
Balance at December 31, 2017	<u>1,693,578</u>	<u>(700,762)</u>	<u>992,816</u>
Service cost			
Current service cost	19,029	-	19,029
Net interest expense (income)	21,170	(8,921)	12,249
Recognized in profit or loss	<u>40,199</u>	<u>(8,921)</u>	<u>31,278</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(20,491)	(20,491)
Actuarial loss - changes in financial assumptions	24,335	-	24,335
Actuarial loss - experience adjustments	<u>39,459</u>	<u>-</u>	<u>39,459</u>
Recognized in other comprehensive income	<u>63,794</u>	<u>(20,491)</u>	<u>43,303</u>
Contributions from the employer	-	(56,895)	(56,895)
Benefits paid	(67,676)	67,676	-
Company paid	<u>(10,035)</u>	<u>-</u>	<u>(10,035)</u>
Balance at December 31, 2018	<u>\$ 1,719,860</u>	<u>\$ (719,393)</u>	<u>\$ 1,000,467</u>

An analysis by function of the amounts recognized in profit or loss in respect of the defined benefit plans was as follows:

	For The Year Ended December 31	
	2018	2017
Operating expenses	<u>\$ 31,278</u>	<u>\$ 32,287</u>

Through the defined benefit plans under the Labor Standards Law, the Bank is exposed to the following risks:

- a) Investment risk: The plan assets are invested in domestic and foreign equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.
- b) Interest risk: A decrease in the government or corporate bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- c) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.

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

	<u>December 31</u>	
	2018	2017
Discount rate(s)	1.125%	1.250%
Expected rate(s) of salary increase	1.500%	1.500%

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

	<u>December 31</u>	
	2018	2017
Discount rate(s)		
0.25% increase	<u>\$ (48,217)</u>	<u>\$ (49,203)</u>
0.25% decrease	<u>\$ 50,072</u>	<u>\$ 51,178</u>
Expected rate(s) of salary increase		
0.25% increase	<u>\$ 49,981</u>	<u>\$ 50,105</u>
0.25% decrease	<u>\$ (47,405)</u>	<u>\$ (48,413)</u>

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

	<u>December 31</u>	
	2018	2017
Expected contributions to the plan for the next year	<u>\$ 26,277</u>	<u>\$ 25,887</u>
Average duration of the defined benefit obligation	11.4 years	11.8 years

3) Preferential interest on employees' deposits

The Bank had revised the interest rate of the employees' savings deposit since December 21, 2014, in accordance with the regulations of the Financial Management Law No. 10110000850 and the Regulations Governing the Preparation of Financial Reports by Public Banks, and the preferential interest on employee's deposit liabilities were carried out by qualified actuaries.

The amount included in the balance sheet in respect of the preferential interest on employee's deposit plan were as follows:

	December 31	
	2018	2017
Present value of the preferential interest on deposits	\$ 120,769	\$ 108,779
Fair value of plan assets	<u>-</u>	<u>-</u>
Deficit	<u>120,769</u>	<u>108,779</u>
Provision for preferential interest on deposits	<u>\$ 120,769</u>	<u>\$ 108,779</u>

Movements in preferential interest on employees' deposits obligation were as follows:

	Present Value of the Preferential Interest on Employees' Deposits Obligation	Fair Value of the Plan Assets	Net Preferential Interest on Employees' Deposits Liability
Balance at January 1, 2017	<u>\$ 93,544</u>	<u>\$ -</u>	<u>\$ 93,544</u>
Service cost			
Current service cost	15,231	-	15,231
Net interest expense	<u>3,284</u>	<u>-</u>	<u>3,284</u>
Recognized in profit or loss	<u>18,515</u>	<u>-</u>	<u>18,515</u>
Remeasurement			
Actuarial loss - changes in demographic assumptions	2,727	-	2,727
Actuarial loss - experience adjustments	<u>18,810</u>	<u>-</u>	<u>18,810</u>
Recognized in other comprehensive income	<u>21,537</u>	<u>-</u>	<u>21,537</u>
Company paid	<u>(24,817)</u>	<u>-</u>	<u>(24,817)</u>
Balance at December 31, 2017	<u>108,779</u>	<u>-</u>	<u>108,779</u>
Service cost			
Current service cost	9,112	-	9,112
Net interest expense	<u>3,855</u>	<u>-</u>	<u>3,855</u>
Recognized in profit or loss	<u>12,967</u>	<u>-</u>	<u>12,967</u>
Remeasurement			
Actuarial loss - changes in demographic assumptions	6,076	-	6,076
Actuarial loss - experience adjustments	<u>20,173</u>	<u>-</u>	<u>20,173</u>
Recognized in other comprehensive income	<u>26,249</u>	<u>-</u>	<u>26,249</u>
Company paid	<u>(27,226)</u>	<u>-</u>	<u>(27,226)</u>
Balance at December 31, 2018	<u>\$ 120,769</u>	<u>\$ -</u>	<u>\$ 120,769</u>

An analysis by function of the amounts recognized in profit or loss in respect of the preferential interest on employees' deposits plan was as follows:

	For The Year Ended December 31	
	2018	2017
Operating expenses	<u>\$ 12,967</u>	<u>\$ 18,515</u>

The actuarial valuations of the present value of preferential interest on employees' deposits obligation were carried out by qualified actuaries. The significant assumptions used for the purposes of the actuarial valuations were as follows:

	December 31	
	2018	2017
Discount rate(s)	4.00%	4.00%
Expected return on employees' deposits	2.00%	2.00%
Excess interest rate	2.00%	2.00%
Preferential deposit withdrawal rate	4.00%	4.50%

If possible reasonable change in each of the significant actuarial assumptions will occur and all other assumptions will remain constant, the present value of preferential interest on employees' deposits obligation would increase (decrease) as follows:

	December 31	
	2018	2017
Discount rate(s)		
0.25% increase	<u>\$ (2,858)</u>	<u>\$ (2,502)</u>
0.25% decrease	<u>\$ 2,982</u>	<u>\$ 2,608</u>
Preferential deposit withdrawal rate		
0.25% increase	<u>\$ 3,099</u>	<u>\$ 2,727</u>
0.25% decrease	<u>\$ (3,227)</u>	<u>\$ (2,838)</u>

The sensitivity analysis presented above may not be representative of the actual change in the present value of preferential interest on employees' deposits obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

	December 31	
	2018	2017
Expected contributions to the plan for the next year	<u>\$ -</u>	<u>\$ -</u>
Average duration of preferential interest on employees' deposits obligation	10.1 years	9.8 years

4) Other long-term employee benefit liabilities

Other long-term employee benefits of the Bank are long-term disability benefits. If the employee does not encounter any casualty due to occupational disaster or accidental death, the Bank will pay the pension according to the seniority.

The Bank recognized total expenses (interests) related to the long-term employee benefits in the parent company only statements of comprehensive income in 2018 and 2017 were \$4,542 thousand and \$3,230 thousand, respectively. As of December 31, 2018 and 2017, other long-term employee benefit liabilities were \$22,988 thousand and \$18,447 thousand, respectively.

b. Movements in provision for losses on guarantees were as follows:

Provision for losses on guarantees reconciliation table

2018

	12-month ECL	Lifetime ECL	Credit- impaired Financial Assets	Impairment Loss Accessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2018	\$ 161,287	\$ 78,453	\$ 112	\$ 239,852	\$ 3,785	\$ 243,637
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	(82)	82	-	-	-	-
Transfers to credit-impaired financial instruments	(1,071)	(10)	1,081	-	-	-
Transfers to 12-month ECL	2,682	(2,682)	-	-	-	-
Derecognition of financial instruments in current period	(127,962)	(75,721)	(6)	(203,689)	-	(203,689)
New financial instruments purchased or originated	91,123	592	8,075	99,790	-	99,790
Difference of impairment loss under regulations	-	-	-	-	8,030	8,030
Write-offs	-	-	-	-	-	-
Recovery of written-offs	-	-	-	-	-	-
Change in exchange influence or others	(4,916)	1,037	45,959	42,080	-	42,080
Balance at December 31, 2018	<u>\$ 121,061</u>	<u>\$ 1,751</u>	<u>\$ 55,221</u>	<u>\$ 178,033</u>	<u>\$ 11,815</u>	<u>\$ 189,848</u>

2017

	Amount
Balance, January 1, 2017	\$ 166,760
Provision	77,434
Exchange influence	<u>(557)</u>
Balance, December 31, 2017	<u>\$ 243,637</u>

The provision in 2018 and 2017 are accounted for bad-debt expenses and provision for losses on commitments and guarantees.

c. Movements in provision for losses on accidental were as follows:

Provision for losses on accidental reconciliation table

2018

	12-month ECL	Lifetime ECL	Credit- impaired Financial Assets	Impairment Loss Accessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2018	\$ 11,240	\$ 8,802	\$ 3,086	\$ 23,128	\$ 3,172	\$ 26,300
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	-	-	-	-	-	-
Transfers to credit-impaired financial instruments	-	-	-	-	-	-
Transfers to 12-month ECL	-	-	-	-	-	-
Transfers to lifetime ECL	(11,240)	(8,802)	(3,086)	(23,128)	-	(23,128)
New financial assets purchased or originated	12,108	-	-	12,108	-	12,108
Difference of impairment loss under regulations	-	-	-	-	8,653	8,653
Write-offs	-	-	-	-	-	-
Recovery of written-offs	-	-	-	-	-	-
Change in exchange influence or others	-	-	-	-	-	-
Balance at December 31, 2018	<u>\$ 12,108</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,108</u>	<u>\$ 11,825</u>	<u>\$ 23,933</u>

2017

	Amount
Balance, January 1, 2017	\$ 300
Provision	<u>26,000</u>
Balance, December 31, 2017	<u>\$ 26,300</u>

The provision in 2018 and 2017 are accounted for net income and loss other than interest.

d. Movements in loan commitments were as follows:

Loan commitments reconciliation table

2018

	12-month ECL	Lifetime ECL	Credit- impaired Financial Assets	Impairment Loss Accessed under IFRS 9	Difference of Impairment Loss under Regulations	Total
Balance at January 1, 2018	\$ 45,440	\$ 9,183	\$ 2,150	\$ 56,773	\$ -	\$ 56,773
Reconciliation arising from financial instruments recognized at the beginning of the year:						
Transfers to lifetime ECL	1,703	(1,703)	-	-	-	-
Transfers to credit-impaired financial instruments	(6)	(20)	26	-	-	-
Transfers to 12-month ECL	2,532	(2,532)	-	-	-	-
Transfers to lifetime ECL	(20,131)	(4,757)	(2,150)	(27,038)	-	(27,038)
New financial assets purchased or originated	21,975	1,655	-	23,630	-	23,630
Difference of impairment loss under regulations	-	-	-	-	-	-
Write-offs	-	-	-	-	-	-
Recovery of written-offs	-	-	-	-	-	-
Change in exchange influence or others	10,256	214	(26)	10,444	-	10,444
Balance at December 31, 2018	<u>\$ 61,769</u>	<u>\$ 2,040</u>	<u>\$ -</u>	<u>\$ 63,809</u>	<u>\$ -</u>	<u>\$ 63,809</u>

The provision are accounted for bad-debt expenses and provision for losses on commitments and guarantees.

28. OTHER LIABILITIES

	December 31	
	2018	2017
Guarantee deposit received	\$ 235,618	\$ 129,023
Advance receipts	<u>236,487</u>	<u>206,088</u>
	<u>\$ 472,105</u>	<u>\$ 335,111</u>

29. EQUITY

a. Share capital

Ordinary shares

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
Number of shares authorized (in thousands)	<u>4,320,000</u>	<u>4,320,000</u>
Shares authorized	<u>\$ 43,200,000</u>	<u>\$ 43,200,000</u>
Number of shares issued and fully paid (in thousands)	<u>3,525,508</u>	<u>3,293,179</u>
Shares issued	<u>\$ 35,255,084</u>	<u>\$ 32,931,789</u>

Ordinary shares issued at a \$10 par value per share. Each share has one voting right and the right to receive dividends.

As of January 1, 2017, the Bank had issued ordinary shares totaling \$32,381,307 thousand, divided into 3,238,131 thousand ordinary shares at \$10 par value per share. In September 2017, the Bank transferred unappropriated earnings to ordinary shares of \$550,482 thousand, divided into 55,048 thousand ordinary shares at \$10 par value per share. As of December 31, 2017, the Bank had increased the number of ordinary shares to \$32,931,789 thousand, divided into 3,293,179 thousand ordinary shares at \$10 par value per share.

In August 2018, the Bank transferred unappropriated earnings to ordinary shares of \$823,295 thousand, divided into 82,329 thousand ordinary shares at \$10 par value per share. In October 2018, the board of directors of the Bank resolved to issue 150,000 thousand shares, with a par value of \$10, for a consideration of \$10.2 per share. The above transaction was approved under ruling reference No. 1070334491 issued by the Banking Bureau of the FSC, and the subscription base date was determined as at November 30, 2018. As of December 31, 2018, the Bank had increased ordinary shares to \$35,255,084 thousand, divided into 3,525,508 thousand ordinary shares at \$10 par value per share.

b. Employee share options

On October 2, 2018, the Bank retained 22,500 thousand shares of ordinary shares subscribed by employees when issuance of ordinary shares for cash was approved by the board of directors. Using the Black-Scholes pricing model, the compensation cost of employee share options recognized was \$12,825 thousand in 2018. The inputs to the model are as follows:

Grunt-date share price	\$10.75
Exercise price	\$10.20
Volatility	9.79%
Duration	56 days
Risk-free interest rate	0.11%

The expected volatility is the average annual standard deviation of the rate of the Bank in the last year.

c. Capital surplus

	<u>December 31</u>	
	<u>2018</u>	<u>2017</u>
May be used to offset a deficit, distributed as <u>cash dividends, or transferred to share capital*</u>		
Issuance of ordinary shares	\$ 663,633	\$ 633,633
<u>May be used to offset a deficit only</u>		
Issuance of ordinary shares - employee share options	32,124	19,334
Expired employee share options	6,682	6,647
Share of changes in capital surplus of associates or joint ventures	16,813	16,813
Conversion of bank debentures components	<u>7,729</u>	<u>7,729</u>
	<u>\$ 726,981</u>	<u>\$ 684,156</u>

* Such capital surplus may be used to offset a deficit; in addition, when the Bank has no deficit, such capital surplus may be distributed as cash dividends or transferred to share capital (limited to a certain percentage of the Bank's capital surplus and to once a year).

d. Appropriation of earnings and dividend policy

Under the Bank's dividends policy as set forth in the Articles, where the Bank made a profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside as a legal reserve of 30% of the remaining profit, setting aside or reversing a 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 a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors after the amendment, refer to employees' compensation and remuneration of directors and supervisors in Note 30.

The appropriation of earnings mentioned above shall be retained by the board of directors in accordance with the changing operating environment, operating and investment needs. When dividends are declared, cash dividends must be at least 10% of total dividends declared.

An appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Bank's paid-in capital. The legal reserve may be used to offset deficits. 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.

In addition, the Banking Law limits the appropriation of cash dividends to 15% of the Bank's paid-in capital. But when the legal reserve equals the Bank's paid-in capital, this 15% limit may be waived. If the ratio of own capital to risky assets does not meet the standards set by the business authority, the appropriation of earnings in cash or other properties should be subject to the restrictions or prohibitions of the relevant provisions of the business authority.

Under related regulations, a special reserve is appropriated from the balance of the retained earnings at an amount from the net income and unappropriated earnings that is equal to the debit balance of accounts in the shareholders' equity section. Afterward, if there is any reversal of the decrease in shareholders' equity, the Bank is allowed to appropriating retained earnings from the reversal amount.

According to Order No. 1010012865 issued by the FSC, Order No. 1010047490 issued by the FSC and International Financial Reporting Standards and “following IFRSs, Q&A on the application of the reference to the special reserve”, appropriating and appropriating retained from the special reserve. Afterward, if there is any reversal of the decrease in other shareholders’ equity, the Bank is allowed to appropriating retained earnings from the reversal amount. According to Order No. 10510001510 issued by the FSC, a special reserve should be appropriated between 0.5% and 1% of net income after tax when banks appropriate earnings of 2016 through 2018. Since 2017, the Bank is allowed to reverse the special reserve at the amount of the costs of employee transfer and arrangement in connection with the development of financial technology.

The appropriations of earnings for 2017 and 2016 were approved in the shareholders’ meetings on June 5, 2018 and June 7, 2017, respectively, as follows:

	Appropriation of Earnings		Dividends Per Share (NT\$)	
	2017	2016	2017	2016
Legal reserve	\$ 1,089,196	\$ 1,014,738	\$ -	\$ -
Special reserve	36,326	35,148	-	-
Cash dividends	1,481,931	1,780,972	0.45	0.55
Share dividends	823,295	550,482	0.25	0.17

The appropriations of earnings for 2018 had been proposed by the Bank’s board of directors on March 14, 2019 were as follows:

	Appropriation of Earnings	Dividends Per Share (NT\$)
Legal reserve	\$ 1,202,511	\$ -
Special reserve	40,084	-
Cash dividends	987,142	0.28
Share dividends	1,833,265	0.52

The appropriations of earnings for 2018 are subject to the resolution of the shareholders’ meeting to be held on June 28, 2019.

e. Others equity items

	Exchange Differences on Translating the Financial Statement of Foreign Operations	Unrealized Gain on Available-for-sale Financial Assets	Unrealized Gain on Financial Assets at FVTOCI	Total
Balance at January 1, 2018 per IAS 39	\$ (38,507)	\$ 223,484	\$ -	\$ 184,977
Adjustment on initial application of IFRS 9	-	(223,484)	623,457	399,973
Balance at January 1, 2018 per IFRS 9	(38,507)	-	623,457	584,950
Effect of change in tax rate	-	-	(3,836)	(3,836)
Recognized for the year				
Unrealized gains/(losses)				
Equity instruments	-	-	50,762	50,762
Debt instruments	-	-	(10,129)	(10,129)

(Continued)

	Exchange Differences on Translating the Financial Statement of Foreign Operations	Unrealized Gain on Available-for-sale Financial Assets	Unrealized Gain on Financial Assets at FVTOCI	Total
Net remeasurement of loss allowance - debt instruments	\$ -	\$ -	\$ (3,820)	\$ (3,820)
Share from associates accounted for using the equity method	(13,638)	-	36,107	22,469
Cumulative unrealized gain of equity instruments transferred to retained earnings due to disposal	-	-	5,350	5,350
Cumulative translation adjustment Exchange differences for current period	13,818	-	-	13,818
Income tax related to other comprehensive income	-	-	(6,994)	(6,994)
Balance at December 31, 2018	<u>\$ (38,327)</u>	<u>\$ -</u>	<u>\$ 690,897</u>	<u>\$ 652,570</u>
Balance at January 1, 2017	\$ (23,183)	\$ 36,817	\$ -	\$ 13,634
Available-for-sale financial assets				
Valuation adjustment	-	224,250	-	224,250
Cumulative loss of available-for-sale financial assets transferred to retained earnings due to disposal	-	(27,608)	-	(27,608)
Cumulative translation adjustment Exchange differences for current period	(2,856)	-	-	(2,856)
Shares of the other comprehensive loss of associates for using the equity method for current period	(12,468)	(2,561)	-	(15,029)
Income tax related to other comprehensive income	-	(7,414)	-	(7,414)
Balance at December 31, 2017	<u>\$ (38,507)</u>	<u>\$ 223,484</u>	<u>\$ -</u>	<u>\$ 184,977</u> (Concluded)

30. NET PROFIT FROM CONTINUING OPERATIONS

Net profit from continuing operations was attributable to:

a. Net interest

	<u>For the Year Ended December 31</u>	
	2018	2017
<u>Interest revenue</u>		
Notes discounted and loans	\$ 10,725,813	\$ 10,148,998
Due from banks and call loans to the other banks	131,709	149,496
Investment in securities	1,517,886	1,222,577
Revolving interests of credit cards	41,377	43,487
Accounts receivable factoring without recourse	5,670	2,453
Securities purchased under resell agreements	29,921	23,824
Others	<u>775</u>	<u>584</u>
	<u>12,453,151</u>	<u>11,591,419</u>

(Continued)

	<u>For the Year Ended December 31</u>	
	2018	2017
<u>Interest expense</u>		
Deposits	\$ (3,629,376)	\$ (3,289,437)
Deposits from the central bank and other banks	(5,552)	(7,460)
Due to the central bank and other banks	(92,509)	(63,777)
Securities sold under repurchase agreements	(150,165)	(30,993)
Financial debentures	(581,800)	(373,299)
Structured instruments	(2,601)	(3,102)
Others	(12)	(10)
	<u>(4,462,015)</u>	<u>(3,768,078)</u>
	<u>\$ 7,991,136</u>	<u>\$ 7,823,341</u>
		(Concluded)

b. Service fee income, net

	<u>For the Year Ended December 31</u>	
	2018	2017
<u>Service fee income</u>		
Loans	\$ 461,478	\$ 312,790
Trust business	809,086	769,960
Guarantee	159,332	121,771
Others	<u>505,561</u>	<u>503,341</u>
	<u>1,935,457</u>	<u>1,707,862</u>
<u>Service fee expense</u>		
Cross-bank transactions	(35,082)	(33,016)
Others	<u>(107,421)</u>	<u>(121,345)</u>
	<u>(142,503)</u>	<u>(154,361)</u>
	<u>\$ 1,792,954</u>	<u>\$ 1,553,501</u>

The Bank provides custody, trust, investment management and consultancy services to third parties, so the Bank's activities involve the planning, management and trading decisions of financial instruments. For the trust funds or investment portfolios that are managed and used on behalf of the trustee, the independent accounting reports and preparation of financial statements for internal management purposes are not included in the Bank's financial statements.

c. Gain on financial assets and liabilities at fair value through profit or loss

	For the Year Ended December 31	
	2018	2017
<u>Realized profit and loss</u>		
Commercial papers	\$ 146,516	\$ 141,078
Shares	(24,126)	3,442
Beneficiary certificates	(77,102)	106,857
Derivative financial instruments	<u>18,344</u>	<u>416,121</u>
	<u>63,632</u>	<u>667,498</u>
<u>Valuation</u>		
Commercial papers	3,046	3,256
Shares	100,112	37,672
Beneficiary certificates	(12,799)	4,516
Derivative financial instruments	(22,096)	(240,044)
PEM Group policy assets	<u>14,456</u>	<u>-</u>
	<u>82,719</u>	<u>(194,600)</u>
	<u>\$ 146,351</u>	<u>\$ 472,898</u>

1) Realized profit and loss of gain on financial assets and liabilities at fair value through profit or loss include disposal (loss) profit in 2018 and 2017 amounted to \$(134,285) thousand and \$496,313 thousand, dividend revenue amounted to \$32,232 and \$17,617 thousand and interest revenue amounted to \$165,684 thousand and \$153,568 thousand, respectively.

2) Net income from exchange rate commodities includes realized and unrealized gains and losses on exchange forward contracts, cross-currency options and cross-currency swap.

d. Realized gain on available-for-sale financial assets, net - 2017

Realized gain on available-for-sale financial assets, net includes disposal of corporate bonds and government bonds amounted to \$27,608 thousand.

e. Realized gains on financial assets at fair value through other comprehensive income

	For the Year Ended December 31, 2018
Dividend income	\$ 27,230
Gain on disposal of bonds	<u>26,787</u>
	<u>\$ 54,017</u>

f. Impairment (losses) gain on reversal

	For the Year Ended December 31	
	2018	2017
Investments in debt instruments at FVTOCI	\$ 3,820	\$ -
Investments in debt instruments at available-for-sale	(21,308)	-
Other financial assets	<u>-</u>	<u>(50,533)</u>
	<u>\$ (17,488)</u>	<u>\$ (50,533)</u>

g. Other non-interest gains, net

	For the Year Ended December 31	
	2018	2017
Net gain on financial assets carried at cost	\$ -	\$ 21,619
Other provisions	2,437	(26,000)
Others	<u>17,668</u>	<u>16,057</u>
	<u>\$ 20,105</u>	<u>\$ 11,676</u>

h. Bad-debt expenses and provision for losses on commitment and guarantees

	For the Year Ended December 31	
	2018	2017
(Reversal of) bad-debt for receivables	\$ (28,953)	\$ 98,719
Bad-debt for notes discounted and loans	487,296	770,744
(Reversal of) provision for losses on guarantees	(54,000)	77,434
Loan commitment	<u>6,604</u>	<u>-</u>
	<u>\$ 410,947</u>	<u>\$ 946,897</u>

i. Employee benefits expense

	For the Year Ended December 31	
	2018	2017
Salaries	\$ 2,778,605	\$ 2,445,480
Labor and health insurance	171,768	169,260
Pension expense	106,783	101,334
Remuneration of directors and supervisors	101,025	101,990
Other employee expenses	<u>185,698</u>	<u>183,146</u>
	<u>\$ 3,343,879</u>	<u>\$ 3,001,210</u>

j. Employees' compensation and remuneration of directors and supervisors

According to the Articles of Incorporation of the Bank, the Bank accrued employees' compensation and remuneration of directors and supervisors at rates of 0.5%-3% and no higher than 1.5%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The employees' compensation and the remuneration of directors and supervisors for the years ended December 31, 2018 and 2017, which were approved by the Bank's board of directors on March 14, 2019 and March 14, 2018, respectively, were as follows:

Accrual rate

	<u>For the Year Ended December 31</u>	
	2018	2017
Employees' compensation	0.70%	0.60%
Remuneration of directors and supervisors	1.50%	1.40%

Amount

	<u>For the Year Ended December 31</u>	
	2018	2017
Employees' compensation	<u>\$ 33,198</u>	<u>\$ 26,141</u>
Remuneration of directors and supervisors	<u>\$ 71,138</u>	<u>\$ 60,995</u>

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

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

Information on the employees' compensation and remuneration of directors and supervisions 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.

k. Depreciation and amortization

	<u>For the Year Ended December 31</u>	
	2018	2017
Properties and equipments	\$ 189,643	\$ 196,885
Investment properties	90	240
Intangible assets	<u>46,191</u>	<u>61,306</u>
	<u>\$ 235,924</u>	<u>\$ 258,431</u>

1. Other selling and administrative expenses

	For the Year Ended December 31	
	2018	2017
Taxes	\$ 671,174	\$ 638,899
Professional service	195,266	179,419
Advertisement	72,505	47,407
Insurance	182,143	174,044
Rental	139,260	130,537
Entertainment	125,925	122,311
Donation	81,532	97,370
Postage	64,211	55,857
Others	<u>514,085</u>	<u>426,059</u>
	<u>\$ 2,046,101</u>	<u>\$ 1,871,903</u>

31. INCOME TAXES RELATING TO CONTINUING OPERATIONS

a. Major components of income tax expense were as follows:

	For the Year Ended December 31	
	2018	2017
Current tax		
In respect of the current period	\$ 676,838	\$ 561,862
Income tax on unappropriated earnings	19,879	-
Adjustments for prior periods	532	66
Land value increment tax	-	57,840
Deferred tax		
In respect of the current period	22,272	17,328
Adjustments to deferred tax attributable to changes in tax rates and laws	<u>(89,718)</u>	<u>-</u>
Income tax expense recognized in profit or loss	<u>\$ 629,803</u>	<u>\$ 637,096</u>

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

	For the Year Ended December 31	
	2018	2017
Profit before tax from continuing operations	<u>\$ 4,638,172</u>	<u>\$ 4,269,638</u>
Income tax expense calculated at the statutory rate	\$ 927,634	\$ 725,838
Non-deductible expenses in determining taxable income	7,597	7,882
Tax-exempt income	(227,945)	(154,530)
Land value increment tax	-	57,840
Unrecognized temporary differences	(8,176)	-
Income tax on unappropriated earnings	19,879	-
Effect of tax rate changes	(89,718)	-
Adjustments for prior years' tax	<u>532</u>	<u>66</u>
Income tax expense recognized in profit or loss	<u>\$ 629,803</u>	<u>\$ 637,096</u>

In 2017, the applicable corporate income tax rate used by the Bank in the ROC was 17%. However, the Income Tax Act in the ROC was amended in 2018, and the corporate income tax rate was adjusted from 17% to 20%, effective in 2018. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings will be reduced from 10% to 5%.

As the status of the 2019 appropriation of earnings is uncertain, the potential income tax consequences of the 2018 unappropriated earnings are not reliably determinable.

b. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2018	2017
<u>Deferred tax</u>		
In respect of the current period		
Fair value changes of financial assets at FVTOCI	\$ 6,994	\$ -
Fair value changes of available-for-sale financial assets	-	7,414
Remeasurement of defined benefit plans	(13,910)	(626)
Effect of change in tax rate	<u>(22,509)</u>	<u>-</u>
Total income tax (benefit) expense recognized in other comprehensive income	<u>\$ (29,425)</u>	<u>\$ 6,788</u>

c. Current tax liabilities

	For the Year Ended December 31	
	2018	2017
<u>Current tax liabilities</u>		
Income tax payable	<u>\$ 296,788</u>	<u>\$ 223,235</u>

d. Deferred tax assets and liabilities

The movements of deferred tax assets and deferred tax liabilities were as follows:

For the year ended December 31, 2018

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Property, plant and equipment	\$ 3,097	\$ 547	\$ -	\$ 3,644
Unrealized losses on structure notes payment	192,655	31,106	-	223,761
Defined benefit obligations	190,407	(1,817)	40,255	228,845
Allowance for doubtful accounts	262,087	24,160	-	286,247
Others	<u>(12,291)</u>	<u>13,450</u>	<u>(10,830)</u>	<u>(9,671)</u>
	<u>\$ 635,955</u>	<u>\$ 67,446</u>	<u>\$ 29,425</u>	<u>\$ 732,826</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Provision for land value increment tax	<u>\$ 111,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,021</u>

For the year ended December 31, 2017

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Closing Balance
<u>Deferred tax assets</u>				
Temporary differences				
Property, plant and equipment	\$ 3,097	\$ -	\$ -	\$ 3,097
Unrealized losses on structure notes payment	184,028	8,627	-	192,655
Defined benefit obligations	193,932	(4,151)	626	190,407
Allowance for doubtful accounts	306,746	(44,659)	-	262,087
Others	<u>(27,732)</u>	<u>22,855</u>	<u>(7,414)</u>	<u>(12,291)</u>
	<u>\$ 660,071</u>	<u>\$ (17,328)</u>	<u>\$ (6,788)</u>	<u>\$ 635,955</u>
<u>Deferred tax liabilities</u>				
Temporary differences				
Provision for land value increment tax	<u>\$ 111,021</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 111,021</u>

e. Income tax assessments

The income tax returns of the Bank through 2016 have been assessed and approved by the tax authority.

32. EARNINGS PER SHARE

Unit: NT\$ Per Share

	<u>For the Year Ended December 31</u>	
	<u>2018</u>	<u>2017</u>
Basic earnings per share	<u>\$ 1.18</u>	<u>\$ 1.08</u>
Diluted earnings per share	<u>\$ 1.18</u>	<u>\$ 1.08</u>

The weighted average number of shares outstanding used for the earnings per share computation was adjusted retroactively for the issuance of bonus shares on August 6, 2018. The basic and diluted earnings per share adjusted retrospectively for the year ended December 31, 2017 are as follows:

Unit: NT\$ Per Share

	Before Retrospective Adjustment	After Retrospective Adjustment
Basic earnings per share	<u>\$ 1.10</u>	<u>\$ 1.08</u>
Diluted earnings per share	<u>\$ 1.10</u>	<u>\$ 1.08</u>

The earnings and weighted average number of ordinary shares outstanding used in the computation of earnings per share were as follows:

Net profit for the year

	For the Year Ended December 31	
	2018	2017
Earnings used in the computation of basic earnings per share	<u>\$ 4,008,369</u>	<u>\$ 3,632,542</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 4,008,369</u>	<u>\$ 3,632,542</u>

The weighted average number of ordinary shares outstanding (in thousands of shares) was as follows:

	For the Year Ended December 31	
	2018	2017
Weighted average number of ordinary shares used in the computation of basic earnings per share	3,388,659	3,375,508
Effect of potentially dilutive ordinary shares		
Employees' compensation or bonuses issued to employees	<u>3,765</u>	<u>3,258</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>3,392,424</u>	<u>3,378,766</u>

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

33. RELATED-PARTY TRANSACTIONS

<u>Related Party</u>	<u>Relationship with the Company</u>
China Man-Made Fiber Corporation	Parent company of the Bank
Chin-Yuan Lai (Legal representative of Hsu Tian Investment Co., Ltd.) (Note 1)	Key management personnel
Kuei-Fong Wang (Legal representative of Hsu Tian Investment Co., Ltd.) (Note 1)	Key management personnel
Hsu Tian Investment Co., Ltd., Pan Asia Investment Co., Ltd. and He Yang Management Consultant Co., Ltd.	Legal entity as director of the Bank
Jin-Yi Lee, Hsin-Chang Tsai, Lim Li Woon	Independent directors of the Bank
Ming-Shan Chuang, Hsin-Ching Chang, Kuei-Fong Wang, Wei-Liang Lin, Chin-Yuan Lai, Chien-Hui Huang, Ming-Hsiung Huang, Te-Wei Chia, Ching-Tai Huang, Lai-Hsing Tsai (Note 2)	Representative of the Bank's legal entity as director
27 persons including the Chairman's spouse	The Chairman and general manager's spouse and second-degree relatives, etc.
49 persons including the director of the Board's spouse	Director of the Board's spouse and children of the Bank

(Continued)

Related Party	Relationship with the Company
6 persons including Cheng-Yuan Chen	Key management personnel
19 persons including associate general manager's spouse	Associate general manager's spouse and children of the Bank
101 persons including Chien-Hung Lin	Manager of the Bank
35 persons including Kuei -Hsien Wang	Representative and general manager of the parent company of the Bank's spouse and children
Reliance Securities Investment Trust Co., Ltd.	associates accounted for using the equity method
China Man-Made Fiber Corporation	Parent company of the Bank
Taichung Bank Insurance Brokers Co., Ltd.	Subsidiary
Taichung Bank Leasing Co., Ltd.	Subsidiary
Taichung Bank Securities Co., Ltd.	Subsidiary
TCCBL Co., Ltd.	Sub-subsubsidiary
Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Sub-subsubsidiary
China Fiber Investment Co., Ltd.	Related parties in substance
Pan Asia Investment Co., Ltd.	Related parties in substance
Taichung Commercial Bank Cultural and Educational Foundation, Taichung Commercial Bank Workers' Welfare Commission	Related parties in substance
Deh Hsing Investment Co., Ltd.	Related parties in substance
Iolite Company Limited	Related parties in substance
Hammock (Hong Kong) Company Limited	Related parties in substance
Hebei Hanoshi Contact Lens Co., Ltd.	Related parties in substance
Chou Chin Industrial Co., Ltd.	Related parties in substance
Chou Chang Co., Ltd.	Related parties in substance
Pan Feng Enterprise Co., Ltd.	Related parties in substance
Greenworld Food Co., Ltd.	Related parties in substance
Nan Chung Petrochemical Corporation	Related parties in substance
Je Mi Fang Corporation	Related parties in substance
Rai Chia Investment Co., Ltd.	Related parties in substance
Xiang Fong Development Co., Ltd.	Related parties in substance
Reliance Securities Co., Ltd. (Note 3)	Related parties in substance
Sheen Ren Knitting Factory Co., Ltd.	Related parties in substance
Ta Fa Investment Co., Ltd.	Related parties in substance
Tai Yi Investment Co., Ltd.	Related parties in substance
Formosa Imperial Wineseller Corp.	Related parties in substance
Tou Ming Industry Limited Company	Related parties in substance
Jin Bang Ge Industrial Company Limited.	Related parties in substance
Ta Yi Development Co., Ltd.	Related parties in substance
Yu Hui Limited	Related parties in substance
Formosawine Vintners Corporation	Related parties in substance
Bomi International Co., Ltd.	Related parties in substance
Shanghai Bomi Food Co., Ltd.	Related parties in substance
Noble House Global Limited	Related parties in substance
Noble House Glory Corporation	Related parties in substance
Wang Wanjin Culture and Education Foundation	Related parties in substance
Chaoqing Investment Co., Ltd.	Related parties in substance

(Concluded)

Note 1: Chairman of board of directors of Taichung Bank, Chin-Yuan Lai, resigned on June 26, 2018. After June 27, 2018, the board of directors elected Ming-Hsiung Huang as the new chairman. Later, Chairman Ming-Hsiung Huang resigned due to physical factors on July 12, 2018. The standing board of directors appointed Kuei-Fong Wang as the new chairman on the same day.

Note 2: Ching-Tai Huang, the legal representative of the legal director of Hsu Tian Investment Co., Ltd., resigned on April 20, 2018. The legal director of Hsu Tian Investment Co., Ltd. reassigned his representative to Lai-Hsing Tsa on April 27, 2018; the legal director of Hsu Tian Investment Chin-Yuan Lai, who was the legal representative of the company limited by shares, resigned on June 26, 2018, the vacant position of legal director will be appointed by Hsu Tian Investment Co., Ltd.

Note 3: Dexin Securities Co., Ltd. re-elected its directors in September 2017. As of December 31, 2018, the director was not a substantial person of the Bank.

Significant transactions between the Bank and related parties:

a. Receivables

	For the Year Ended December 31	
	2018	2017
Taichung Bank Insurance Brokers Co., Ltd.	<u>\$ 16,663</u>	<u>\$ 16,663</u>

As of December 31, 2018 and 2017, the receivables from Taichung Bank Insurance Brokers Co., Ltd. are receivables on service fee income.

b. Loans

For the year ended December 31, 2018

								Unit: NT\$ in Thousand
	Numbers/ Name	Highest Balance	Balance, End of the Year	Compliance		Interest Revenue	Collaterals	The Difference Between Related and Non-related Party
				Performing Loans	Overdue Loans			
Employees consumption loans	9	\$ 4,317	\$ 2,911	\$ 2,911	\$ -	\$ 44	Credit loans	None
Loans on mortgage	27	109,451	83,660	83,660	-	1,032	Real estate	"
Other loans	Lee OO	2,817	2,685	2,685	-	43	"	"
	Ni OO	1,500	-	-	-	8	"	"
	Zhu OO	4,500	-	-	-	31	"	"
	You OO	4,300	-	-	-	15	"	"
	Chen OO	7,000	4,000	4,000	-	54	"	"
	Liu OO	2,176	2,044	2,044	-	31	"	"
	Yang OO	1,298	846	846	-	16	"	"
	Zhong OO	14,387	12,230	12,230	-	206	"	"
	Lin OO	38,000	19,000	19,000	-	337	"	"
	Liang OO	3,053	1,002	1,002	-	23	"	"
	Chen OO	4,000	-	-	-	54	"	"
	Huang OO	1,830	1,701	1,701	-	30	"	"
	Zhuang OO	1,487	-	-	-	24	"	"
	Zhuang OO	1,769	1,620	1,620	-	22	"	"
	Chiu OO	3,826	3,534	3,534	-	53	"	"
	Cai OO	3,642	1,529	1,529	-	43	"	"
	Huang OO	2,500	-	-	-	26	"	"
	Lee OO	3,600	-	-	-	17	"	"
	Lin OO	1,500	-	-	-	2	"	"

For the year ended December 31, 2017

Unit: NT\$ in Thousand

	Numbers/ Name	Highest Balance	Balance, End of the Year	Compliance		Interest Revenue	Collaterals	The Difference Between Related and Non-related Party
				Performing Loans	Overdue Loans			
Employees consumption loans	10	\$ 4,110	\$ 2,817	\$ 2,817	\$ -	\$ 42	Credit loans	None
Loans on mortgage	21	59,882	52,562	52,562	-	647	Real estate	"
Other loans	Chen OO	5,000	5,000	5,000	-	75	"	"
	Ni OO	3,500	1,500	1,500	-	27	"	"
	Ni OO	1,440	1,440	1,440	-	15	"	"
	You OO	4,300	4,300	4,300	-	63	"	"
	Zhu OO	3,500	3,500	3,500	-	24	"	"
	Meng OO	9,209	-	-	-	150	"	"
	Lee OO	10,947	2,817	2,817	-	48	"	"
	Huang OO	2,500	2,500	2,500	-	2	"	"
	Chiu OO	1,600	1,600	1,600	-	-	"	"
	Liu OO	2,305	2,176	2,176	-	33	"	"
	Yang OO	1,743	1,298	1,298	-	22	"	"
	Chen OO	7,100	3,000	3,000	-	50	"	"
	Chang OO	1,773	-	-	-	12	"	"
	Chen OO	4,000	4,000	4,000	-	20	"	"
	Liang OO	4,970	3,053	3,053	-	45	"	"
	Chen OO	3,000	3,000	3,000	-	-	"	"
	Zhuang OO	1,917	1,769	1,769	-	24	"	"
	Cai OO	3,831	3,642	3,642	-	76	"	"
	Ceng OO	500	-	-	-	6	"	"
	Chiu OO	4,114	3,826	3,826	-	58	"	"
	Zhong OO	15,211	14,387	14,387	-	234	"	"
	Lin OO	2,600	1,600	1,600	-	30	"	"
	Lee OO	1,500	1,500	1,500	-	17	"	"

According to Articles 32 and 33 of the Banking Law, credit loans cannot be made to related parties except loans to government and consumers; secured loans to related parties shall be provided with adequate collateral.

c. Deposits

<u>For the Year Ended December 31, 2018</u>			
	Ending Balance	Interest Ratio	Interest Expense
Taichung Bank Insurance Brokers Co., Ltd.	\$ 1,124,787	0.01-1.07	\$ 2,174
Reliance Securities Investment Trust Co., Ltd.	166,258	0.00-1.05	1,128
Taichung Commercial Bank Workers' Welfare Commission	141,566	0.01-5.09	7,367
Taichung Bank Leasing Co., Ltd.	139,351	0.00-0.43	158
China Man-Made Fiber Corporation	47,135	0.01-0.43	71
Taichung Commercial Bank Cultural and Educational Foundation	8,232	0.01-1.09	88
Formosa Imperial Wineseller Corp.	2,393	0.08	-
Greenworld Food Co., Ltd.	474	0.08	1
Pan Asia Chemical Corporation	22,189	0.01-0.08	11

(Continued)

For the Year Ended December 31, 2018			
	Ending Balance	Interest Ratio	Interest Expense
Chou Chin Industrial Co., Ltd.	\$ 20,778	0.01-0.08	\$ 2
Chou Chang Co., Ltd.	479	0.01	-
Taichung Bank Securities Co., Ltd.	10,231	0.01-0.23	32
TCCBL Co., Ltd.	863	0.33-0.43	3
Je Mi Fang Corporation	14,190	0.08	9
Yu Hui Limited	4	0.01	-
Hsu Tian Investment Co., Ltd.	11,888	0.01-0.43	86
Pan Feng Enterprise Co., Ltd.	291	0.08	-
He Yang Management Consultant Co., Ltd.	34,828	0.01	1
Others	<u>242,116</u>	0.00-5.09	<u>3,847</u>
	<u>\$ 1,988,053</u>		<u>\$ 14,978</u> (Concluded)

For the Year Ended December 31, 2017			
	Ending Balance	Interest Ratio	Interest Expense
Taichung Bank Insurance Brokers Co., Ltd.	\$ 1,059,701	0.01-1.07	\$ 1,906
Reliance Securities Investment Trust Co., Ltd.	178,625	0.00-1.05	1,093
Taichung Commercial Bank Workers' Welfare Commission	141,943	0.01-5.09	7,232
Taichung Bank Leasing Co., Ltd.	75,888	0.00-0.25	244
China Man-Made Fiber Corporation	61,454	0.01-0.18	24
Reliance Securities Co., Ltd.	14,323	0.08-0.80	106
Taichung Commercial Bank Cultural and Educational Foundation	8,220	0.01-1.09	88
Formosa Imperial Wineseller Corp.	270	0.08	-
Greenworld Food Co., Ltd.	554	0.08	1
Pan Asia Chemical Corporation	8,148	0.01-0.08	9
Chou Chin Industrial Co., Ltd.	3,944	0.01-0.08	1
Chou Chang Co., Ltd.	3,034	0.01	-
Taichung Bank Securities Co., Ltd.	24,389	0.00-0.23	49
TCCBL Co., Ltd.	833	0.18	1
Je Mi Fang Corporation	9,843	0.08	8
WK Taipei Co., Ltd.	72	0.08	-
Hsu Tian Investment Co., Ltd.	37,263	0.01-0.08	33
Others	<u>234,093</u>	0.00-5.09	<u>3,839</u>
	<u>\$ 1,862,597</u>		<u>\$ 14,634</u>

The transaction terms with related parties do not significantly differ from those with ordinary customers except for the 5.09% interest rate on the Bank's employee deposits for both years of 2018 and 2017.

d. Financial debenture

The Bank issued second no due date non-cumulative subordinated financial debenture on 2013, first no due date non-cumulative subordinated financial debenture on 2015, first no due date non-cumulative subordinated financial debenture on 2016, first no due date non-cumulative subordinated financial debenture, second no due date non-cumulative subordinated financial debenture, third no due date non-cumulative subordinated financial debenture, fourth no due date non-cumulative subordinated financial debenture and fifth no due date non-cumulative subordinated financial debenture on 2017, first no due date non-cumulative subordinated financial debenture and second no due date non-cumulative subordinated financial debenture on 2018, respectively, and entrusted KGI Securities Co., Ltd. as a financial advisor for the issuance and collection of bonds.

As of December 31, 2018, the related parties subscribed for the financial debenture issued by the Bank through underwriting brokers were as follows:

Counterparty	Subscription	Period
Hsu Tian Investment Co., Ltd.	\$ 4,000,000	First no due date non-cumulative subordinated financial debenture on 2015, first no due date non-cumulative subordinated financial debenture on 2016, first no due date non-cumulative subordinated financial debenture and fifth no due date non-cumulative subordinated financial debenture on 2017, first no due date non-cumulative subordinated financial debenture, second no due date non-cumulative subordinated financial debenture on 2018
Others	2,551,000	Second no due date non-cumulative subordinated financial debenture on 2013, first no due date non-cumulative subordinated financial debenture on 2015, first no due date non-cumulative subordinated financial debenture on 2016, first no due date non-cumulative subordinated financial debenture, second no due date non-cumulative subordinated financial debenture, third no due date non-cumulative subordinated financial debenture, fourth no due date non-cumulative subordinated financial debenture, fifth no due date non-cumulative subordinated financial debenture on 2017, first no due date non-cumulative subordinated financial debenture and second no due date non-cumulative subordinated financial debenture on 2018

The interest payables on the financial debenture of the above-mentioned related parties were \$44,653 thousand and \$24,467 thousand, respectively, on December 31, 2018 and 2017. The interest expenses were \$212,158 thousand and \$116,147 thousand in 2018 and 2017.

e. Guarantee deposit received

	For the Year Ended December 31	
	2018	2017
Taichung Bank Insurance Brokers Co., Ltd.	\$ 200	\$ 200
Taichung Bank Leasing Co., Ltd.	230	120
Taichung Bank Securities Co., Ltd.	<u>435</u>	<u>435</u>
	<u>\$ 865</u>	<u>\$ 755</u>

f. Rental income

	For the Year Ended December 31	
	2018	2017
Taichung Bank Insurance Brokers Co., Ltd.	\$ 1,200	\$ 1,200
Taichung Bank Leasing Co., Ltd.	885	720
Taichung Bank Securities Co., Ltd.	<u>2,609</u>	<u>2,736</u>
	<u>\$ 4,694</u>	<u>\$ 4,656</u>

g. Service fee income, net

	For the Year Ended December 31	
	2018	2017
Service fee income		
Taichung Bank Insurance Brokers Co., Ltd.	\$ 200,000	\$ 200,000
Reliance Securities Investment Trust Co., Ltd.	<u>1,236</u>	<u>1,291</u>
	201,236	201,291
Service fee expense		
Taichung Bank Securities Co., Ltd.	<u>(5,416)</u>	<u>(2,455)</u>
	<u>\$ 195,820</u>	<u>\$ 198,836</u>

The above amounts are for the promotion and channel revenue, etc. Taichung Bank Insurance Brokers Co., Ltd. pay the toll fee on a monthly basis; the service fee expense from Taichung Bank Securities Co., Ltd. are brokerage fee. The price of transactions with its related parties is similar to those of the non-related parties.

h. Other non-interest gains, net

	For the Year Ended December 31	
	2018	2017
Taichung Bank Securities Co., Ltd.	<u>\$ 958</u>	<u>\$ 661</u>

The above amount is other non-interest gains. The price of transactions with its related parties is similar to those of the non-related parties.

i. Other expenses

	For the Year Ended December 31	
	2018	2017
Taichung Bank Securities Co., Ltd.	\$ 24,084	\$ 25,520
Greenworld Food Co., Ltd.	1,010	595
Je Mi Fang Corporation	4,313	2,612
Pan Feng Enterprise Co., Ltd.	<u>640</u>	<u>628</u>
	<u>\$ 30,047</u>	<u>\$ 29,355</u>

The above amounts are other business expenses. The price of transactions with its related parties is similar to those of the non-related parties.

j. Compensation of directors, supervisors and key management personnel

Compensation of directors, supervisors and key management personnel were as follows:

	December 31	
	2018	2017
Short-term benefits	\$ 156,103	\$ 178,124
Post-employee benefits	1,045	791
Other long-term benefits	<u>25</u>	<u>60</u>
	<u>\$ 157,173</u>	<u>\$ 178,975</u>

34. PLEDGED ASSETS

	December 31	
	2018	2017
Held-to-maturity financial assets - government bonds	\$ -	\$ 1,067,800
Investments in debt instrument at amortized cost - government bonds	<u>845,000</u>	<u>-</u>
	<u>\$ 845,000</u>	<u>\$ 1,067,800</u>

Government bonds were pledged to district courts for litigation, the collateral for the overdraft of the clearing account and the compensation reserve for the securities firm and the trust business. The details were as follows:

	December 31	
	2018	2017
Guarantee to district courts for litigation	\$ 285,000	\$ 517,800
Reserve of trust compensation	60,000	50,000
Collateral for overdraft of clearing account	<u>500,000</u>	<u>500,000</u>
	<u>\$ 845,000</u>	<u>\$ 1,067,800</u>

35. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

In addition to those disclosed in Notes 8, 11 and 23, significant commitments and contingencies of the Bank as of December 31, 2018 and 2017 were as follows:

a. Significant commitments

	<u>December 31</u>	
	2018	2017
Loan commitments (excluding credit card)	\$ 152,638,816	\$ 158,951,848
Loan commitments - credit card	10,507,270	17,317,987
Guarantee receivable	18,335,961	18,693,022
Trust liability	65,770,665	62,673,911
Letters of credit	4,140,679	3,900,545

b. According to Article 17 of the Implementation Rules of Trust Law, the Bank should disclose its balance sheet of trust account and its asset items, which were as follows:

Trust Account Balance Sheet December 31, 2018

Trust Asset	Amount	Trust Liability	Amount
Cash in banks	\$ 1,945,793	Securities under custody	
Short-term investments	52,565,072	payable	\$ 7,021,865
Structured finance instruments	2,369,583	Trust capital	58,748,800
Real estate		Net income	2,001,849
Land	1,745,119	Deferred carry-over amounts	<u>(2,001,849)</u>
Buildings	123,233		
Securities under custody	<u>7,021,865</u>		
Trust asset	<u>\$ 65,770,665</u>	Trust liability	<u>\$ 65,770,665</u>

Trust Account Asset Items December 31, 2018

Item	Amount
Cash in banks	\$ 1,945,793
Short-term investments	52,565,072
Structured finance instruments	2,369,583
Real estate	
Land	1,745,119
Buildings	123,233
Securities under custody	<u>7,021,865</u>
	<u>\$ 65,770,665</u>

**Trust Account Income Statement
Year Ended December 31, 2018**

	Amount
Trust income	
Interest revenue	\$ 2,777,593
Dividend income	33,056
Trust expense	
Management fee	(808,648)
Tax	<u>(152)</u>
Income before income tax	2,001,849
Income tax expense	<u>-</u>
Net income	<u>\$ 2,001,849</u>

**Trust Account Balance Sheet
December 31, 2017**

Trust Asset	Amount	Trust Liability	Amount
Cash in banks	\$ 1,575,084	Securities under custody	
Short-term investments	50,348,720	payable	\$ 7,174,325
Structured finance instruments	1,894,932	Trust capital	
Real estate		Funds and investment	53,818,736
Land	1,564,319	Real estate trust	1,680,850
Buildings	116,531	Net income	1,795,915
Securities under custody	<u>7,174,325</u>	Deferred carry-over amounts	<u>(1,795,915)</u>
Trust asset	<u>\$ 62,673,911</u>	Trust liability	<u>\$ 62,673,911</u>

**Trust Account Asset Items
December 31, 2017**

Item	Amount
Cash in banks	\$ 1,575,084
Short-term investments	50,348,720
Structured finance instruments	1,894,932
Real estate	
Land	1,564,319
Buildings	116,531
Securities under custody	<u>7,174,325</u>
	<u>\$ 62,673,911</u>

Trust Account Income Statement
Year Ended December 31, 2017

	Amount
Trust income	
Interest revenue	\$ 2,541,642
Dividend income	27,644
Trust expense	
Management fee	(769,410)
Tax	<u>(3,961)</u>
Income before income tax	1,795,915
Income tax expense	<u>-</u>
Net income	<u>\$ 1,795,915</u>

c. Maturity analysis of lease commitments and capital expenditures

The lease contract commitments of the Bank are operating leases.

Operating lease commitment is the minimum lease payment when the Bank is lessee or lessor with non-cancelling condition.

Capital expenditure commitments represent contractual commitments for the acquisition of capital expenditures on construction and equipment.

Maturity analysis of lease commitments and capital expenditures were summarized as follows:

December 31, 2018

	Not Later Than 1 Year	Later Than 1 Year and Not Later Than 5 Years	Later Than 5 Years	Total
Operating lease expense (lessee)	\$ 128,095	\$ 229,589	\$ 540	\$ 358,224
Operating lease income (lessor)	6,053	13,844	-	19,897
Capital expenditure commitment	<u>117,104</u>	<u>104,725</u>	<u>-</u>	<u>221,829</u>
	<u>\$ 251,252</u>	<u>\$ 348,158</u>	<u>\$ 540</u>	<u>\$ 599,950</u>

December 31, 2017

	Not Later Than 1 Year	Later Than 1 Year and Not Later Than 5 Years	Later Than 5 Years	Total
Operating lease expense (lessee)	\$ 110,576	\$ 155,182	\$ 1,620	\$ 267,378
Operating lease income (lessor)	5,532	17,635	-	23,167
Capital expenditure commitment	<u>195,376</u>	<u>108,657</u>	<u>-</u>	<u>304,033</u>
	<u>\$ 311,484</u>	<u>\$ 281,474</u>	<u>\$ 1,620</u>	<u>\$ 594,578</u>

36. FINANCIAL INSTRUMENTS

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

Except as detailed in the following table, management believes the carrying amounts of financial assets and financial liabilities recognized in the financial statements approximate their fair values.

December 31, 2018

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Investments in debt instrument at amortized cost	\$ 101,247,761	\$ 65,891,744	\$ 32,453,053	\$ -	\$ 98,344,797
<u>Financial liabilities</u>					
Financial liabilities at amortized cost					
Bank debentures	20,000,000	-	20,098,746	-	20,098,746

December 31, 2017

	Carrying Amount	Fair Value			Total
		Level 1	Level 2	Level 3	
<u>Financial assets</u>					
Held-to-maturity investments	\$ 86,559,895	\$ 67,132,470	\$ 19,472,844	\$ -	\$ 86,605,314
<u>Financial liabilities</u>					
Financial liabilities at amortized cost					
Bank debentures	17,500,000	-	17,662,353	-	17,662,353

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

1) Fair value hierarchy

	December 31, 2018			
	Total	Level 1	Level 2	Level 3
<u>Financial assets at FVTPL</u>				
Derivative financial assets	\$ 2,068,732	\$ -	\$ 2,068,732	\$ -
Commercial papers	22,044,240	22,044,240	-	-
Domestic listed shares and emerging market shares	852,977	852,977	-	-
Beneficiary certificates	172,843	172,843	-	-
Others	998,147	-	998,147	-
	<u>\$ 26,136,939</u>	<u>\$ 23,070,060</u>	<u>\$ 3,066,879</u>	<u>\$ -</u>
<u>Financial assets at FVTOCI</u>				
Investments in equity instruments				
Domestic unlisted shares	\$ 510,523	\$ -	\$ -	\$ 510,523
Foreign listed shares	194,778	194,778	-	-
Investments in debt instruments				
Domestic corporate bonds	20,730,435	20,730,435	-	-
Domestic government bonds	5,976,359	5,976,359	-	-
Foreign bonds	785,400	-	785,400	-
	<u>\$ 28,197,495</u>	<u>\$ 26,901,572</u>	<u>\$ 785,400</u>	<u>\$ 510,523</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities	<u>\$ 162,127</u>	<u>\$ -</u>	<u>\$ 162,127</u>	<u>\$ -</u>

Reconciliation of Level 3 fair value measurements of financial instruments:

Item	Beginning Balance	Valuation Gains (Losses)	Increase		Decrease		Ending Balance
			Buy or Issue	Transfer in	Sell, Disposal	Transfer Out	
Financial assets at FVTOCI Unlisted shares	\$ 493,910	\$ 16,613	\$ -	\$ -	\$ -	\$ -	\$ 510,523

	December 31, 2017			
	Total	Level 1	Level 2	Level 3
<u>Financial assets at FVTPL</u>				
Derivative financial assets	\$ 1,866,337	\$ -	\$ 1,866,337	\$ -
Commercial papers	27,935,360	27,935,360	-	-
Domestic listed shares and emerging market shares	802,483	802,483	-	-
Beneficiary certificates	361,332	361,332	-	-
Others	-	-	-	-
	<u>\$ 30,965,512</u>	<u>\$ 29,099,175</u>	<u>\$ 1,866,337</u>	<u>\$ -</u>
<u>Available-for-sale financial assets</u>				
Equity securities				
Domestic listed shares	\$ 158,825	\$ 158,825	\$ -	\$ -
Debt securities				
Domestic corporate bonds	24,536,414	24,536,414	-	-
Domestic government bonds	<u>6,497,632</u>	<u>6,497,632</u>	<u>-</u>	<u>-</u>
	<u>\$ 31,192,871</u>	<u>\$ 31,192,871</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Financial liabilities at FVTPL</u>				
Derivative financial liabilities	<u>\$ 207,225</u>	<u>\$ -</u>	<u>\$ 207,225</u>	<u>\$ -</u>

Reconciliation of Level 3 fair value measurements of financial instruments: None

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

2) Valuation techniques and inputs applied for Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Non-derivatives	The market transaction price in the non-active market is taken as the fair value.
Derivatives	
Option contracts	Model evaluation: The execution price, the maturity date, and the market volatility, interest rate and exchange rate set by the contract are used as evaluation parameters. The model with closed solution is then used for evaluation.
Cross-currency swap contracts, Foreign exchange forward contracts	Discounted cash flow: Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

(Continued)

Financial Instruments	Valuation Techniques and Inputs
Asset swap contract	Convertible corporate bond closing price on the day minus bond value. The pure bond value is discounted by the cash flow provided by the convertible corporate bonds in accordance with Taiwan Bills Index Rate (TAIBIR).
Structured Finance Instruments	
Interest structured instruments	The counterparty quotes.

(Concluded)

3) Valuation techniques and inputs applied for Level 3 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Unlisted shares	Market multiple: Considering the comparable transaction price of the share in active market, the corresponding net value multiplier and the liquidity discount ratio to evaluate the fair value.

4) Sensitivity analysis of fair value regarding reasonable and possible alternative assumptions within Level 3

The Bank evaluates the fair value of financial instruments reasonably. Nevertheless, the outcome of the evaluation may vary because of the adoption of different valuation models and parameters. The sensitivity analysis based on assets category are as follow:

Risk Factor	Number of Changes	Number of Influences
Liquidity discount ratio	10%	\$ (35,813)

c. Categories of financial instruments

	December 31	
	2018	2017
<u>Financial assets</u>		
Financial assets at FVTPL	\$ 26,136,939	\$ 30,965,512
Available-for-sale financial assets (Note 1)	-	31,338,555
Held-to-maturity investments	-	85,542,095
Loans and receivables (Note 2)	-	492,868,762
Financial assets at amortized cost (Note 3)	614,257,405	-
Financial assets at FVTOCI	28,197,495	-
<u>Financial liabilities</u>		
Financial liabilities at FVTPL	162,127	207,225
Financial liabilities at amortized cost (Note 4)	634,106,717	610,950,472

Note 1: The balances include the carrying amount of available-for-sale financial assets measured at cost.

Note 2: The balances include loans and receivables measured at amortized cost, which comprise cash and cash equivalents, due from the central bank and call loans to other banks, securities purchased under resell agreements, receivables, notes discounted and loans, refundable deposits, and other delinquent receivables. Those reclassified to held-for-sale disposal groups are also included.

Note 3: The balances include financial assets at amortized cost, which comprise cash and cash equivalents, due from the central bank and call loans to other banks, debt investments, securities purchased under resell agreements, receivable, notes discounted and loans, refundable deposits, and other delinquent receivables. Those reclassified to held-for-sale disposal groups are also included.

Note 4: The balances include financial liabilities at amortized cost, which comprise due to the central bank and other banks, funds borrowed from central bank and other banks, securities sold under repurchase agreements, payables, deposits and remittances, bank debentures, other financial liabilities, and guarantee deposit received. Those reclassified to held-for-sale disposal groups are also included.

37. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Overview

The financial risk management objectives of the Bank is to achieve the goal of balancing risk tolerance, business objectives and external legal restrictions. These risks include market risks (including interest rate, exchange rate, equity securities, product price and the product price risks) and liquidity risks of on-and-off balance sheet business.

The Bank has formulated a relevant risk management policy, which has been approved by the board of directors to effectively identify, measure, monitor and control credit risk, market risk and liquidity risk.

Risk Management Organizational Structure

The board of directors is the highest decision-making unit for the Bank's corporate risk management and assumes the ultimate responsibility for risk management. The Bank has a risk management committee and a risk management department, which grants risk authority and confers responsibilities on the relevant departments to ensure the smooth operation of risk management. The responsibilities of the committee are as follows:

- a. Consideration of the risk management programme.
- b. Consideration and review of risk limits.
- c. Consideration of the bill on institutionalization of risk management.
- d. Report to the board of directors regularly.

Members of the risk management committee set up various risk management measurement indicators according to the nature of their business and the scope of their duties, and the risk management department should report to the risk management committee to provide a reference for senior decision-making.

1) Market risk

a) The source and definition of market risk

Market risks refer to the loss due to the changes in market price, such as the changes of the market interest rate, the exchange rate, the share price and the product price.

b) Market risk management policy

The objective of the Group market risk management is to develop a sound and effective market risk management mechanism that is consistent with the size, nature and complexity of the Bank's business to ensure that the risks borne by the Bank can be properly managed and market risks are effectively identified, measured, monitored and controlled, and strike a balance between the level of risk tolerance and the expected level of compensation.

c) Market risk management process

i. Identification and measurement

The relevant market risks should be assessed through appropriate procedures to consider whether the risk is within an acceptable risk range before new products, business activities, processes and systems are rolled out or operated. The relevant units should use the methods of business analysis or product analysis to identify the sources of market risks, define the market risk factors of each financial commodity and make appropriate specifications.

Market risk measurement can use a variety of effective measures to properly measure risk, including but not limited to the following methods: Statistical basis measures, sensitivity analysis and situational analysis. The risk management department should measure the risk of the site on a daily basis and conduct regular stress tests to measure the amount of abnormal losses that may occur in the current extremes or historical extremes.

ii. Monitoring and reporting

The risk management department should report to the risk management committee and the board of directors regularly on the implementation of the Bank's market risk management, including the Bank's market risk location, risk level, profit and loss status, quota usage and compliance with relevant market risk management regulations and suggestions. The authorities also set up relevant limit management, stop loss mechanism, overrun treatment and exception management methods to effectively monitor market risks. In the event of an overrun or exception, it should be notified immediately to facilitate the immediate response.

d) Interest rate risk

i. Definition of interest rate risk

Interest rate risk refers to the change in interest rate, which causes the Bank to bear the risk of changes in the fair value of the interest rate risk or the loss of the surplus. The main sources of risk include deposits and interest-related securities.

ii. Measurement methods and management procedures

The Bank monitors the interest rate risk system, sets the scope of the indicators to regularly monitor and report the results to the asset and liability management committee, the risk management committee and the board of directors, and adjusts according to the overall operating conditions of the Bank. In addition, the Bank measures the interest rate risk by DV01, assuming that the interest rate curve moves 100BP in parallel, the degree of impact on earnings and equity controls the interest rate risk.

e) Exchange rate risk

i. Definition of exchange rate risk

Exchange rate risk is the gain or loss resulting from the conversion of two different currencies at different times. The Bank's exchange rate risk is mainly due to the spot and forward foreign exchange of the business. Since the foreign exchange transactions are mostly based on the principle of flattening the customer's position for the day, the exchange rate risk is relatively small.

ii. Measurement methods and management procedures

The Bank adopts the quota management mechanism for the exchange rate risk system, sets the business quota and overnight limit for each currency, controls the maximum net foreign exchange position that can be held by all levels of personnel, and sets the maximum transaction amount according to the counterparty, and monitors it regularly. The results will be reported to the risk management committee and the board of directors for discussion.

In addition, the Bank assumes that the exchange rate of USD/NTD, CNY/NTD, and AUD/NTD is relatively revaluated/depreciated by 3%, and the degree of impact on earnings and equity controls the exchange rate risk.

f) Equity securities price risk

i. Definition of equity securities price risk

The market risk of the Bank's equity securities is the individual risk arising from changes in the market price of individual equity securities and the general market risk arising from changes in the overall market price. The main risks include listing counter shares and beneficiary certificates.

ii. Measurement methods and management procedures

The Bank adopts a quota management mechanism for the equity securities price risk, ensuring that all levels are traded within the authorized amount, and sets up relevant mechanisms for stop loss control, and regularly reports the monitoring results to the risk management committee and the board of directors for discussion.

In addition, the Bank assumes that when the price of equity securities rises/falls by 15%, the degree of impact on earnings and equity controls the risk of equity securities.

g) Market risk sensitivity analysis

Interest risk

The Bank assumed that when other change factors remain unchanged, if the yield curve increased/decreased by 100 basis points, the income before income tax of the Bank as of December 31, 2018 and 2017 would have increased/decreased by \$743,763 thousand and \$801,048 thousand, respectively. The equity would have decreased/increased by \$2,246,616 thousand and \$1,905,509 thousand, respectively.

Exchange rate risk

The Bank assumed that when other change factors remain unchanged, if the exchange rate of USD/NTD, CNY/NTD, and AUD/NTD appreciated/depreciated by 3%, the income before income tax as of December 31, 2018 and 2017 would have decreased/increased \$35,790 thousand and \$69,017 thousand, respectively. The equity would have increased/decreased by \$26,011 thousand and \$20,104 thousand, respectively.

Equity securities price risk

The Bank assumed that when other change factors remain unchanged, if the price of equity securities increased/decreased by 15%, the income before income tax as of December 31, 2018 and 2017 would have increased/decreased by \$153,873 thousand and \$174,572 thousand, respectively. The equity would have increased/decreased by \$29,217 thousand and \$23,824 thousand, respectively.

The summary of sensitivity analysis was as follows:

December 31, 2018			
Main Risk	Range of Change	Influence Amount	
		Equity	Income
Interest risk	Interest rate curve rises 100BPS	\$ (2,246,616)	\$ 743,763
	Interest rate curve falls 100BPS	2,246,616	(743,763)
Exchange rate risk	USD/NTD, CNY/NTD, AUD/NTD increase by 3% respectively	26,011	(35,790)
	USD/NTD, CNY/NTD, AUD/NTD decrease by 3% respectively	(26,011)	35,790
Equity securities price risk	Equity securities prices rises 15%	29,217	153,873
	Equity securities prices falls 15%	(29,217)	(153,873)

December 31, 2017			
Main Risk	Range of Change	Influence Amount	
		Equity	Income
Interest risk	Interest rate curve rises 100BPS	\$ (1,905,509)	\$ 801,048
	Interest rate curve falls 100BPS	1,905,509	(801,048)
Exchange rate risk	USD/NTD, CNY/NTD, AUD/NTD increase by 3% respectively	20,104	(69,017)
	USD/NTD, CNY/NTD, AUD/NTD decrease by 3% respectively	(20,104)	69,017
Equity securities price risk	Equity securities prices rises 15%	23,824	174,572
	Equity securities prices falls 15%	(23,824)	(174,572)

2) Credit risk

a) The source and definition of credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Bank. Credit risk exists in both on and off balance sheet items. The on balance sheet exposures to credit risks are mainly from discounts and loans, the credit card business, due from other banks, call loans to other banks, acceptance, investment in debt instrument and derivatives. The off-balance sheet exposures to credit risks are mainly from financial guarantees, letter of credits and loan commitments.

b) Credit risk management policy

Before launching new products or businesses, the Bank ensures compliance with all applicable rules and regulations and identifies relevant credit risks. On December 31, 2018, the ratio of loans with collateral to the total amount of loans was approximately 79%. The ratio of financing guarantees to commercial letters of collateral holdings was approximately 41%, and the collateral required for loans, loan commitments or guarantees is usually in the forms of cash, inventories, liquid securities or other property in circulation.

c) Credit risk management program

The measurement and management of credit risks from the Bank's main businesses were as follows:

i. Loans business (including loan commitment and guarantees)

2018

i) Determination that credit risk has increased significantly since the initial recognition.

The Bank assesses the change in the probability of default of loans during the lifetime on each reporting date to determine if the credit risk has increased significantly since the initial recognition. In order to make this assessment, the Bank considers the reasonable and supportable information that the credit risk has increased significantly since the initial recognition (including forward-looking information). The main considerations include:

Quantitative indicators

- Changes in external credit ratings of Taiwan Corporate Credit Rating Index (TCRI)

The TCRI rating of the listed cabinet company corresponding to the external rating has been reduced from the investment grade to the non-investment grade, that is, the credit risk has been significantly increased since the initial recognition.

- Information on overdue status

When the contract amount is overdue for more than one month, it is determined that the credit risk of the financial asset has increased significantly since the initial recognition.

Qualitative indicators

- Unfavorable changes in the current or projected operating, financial or economic conditions that are expected to result in significant changes in the ability of the debtor to perform debt obligations.
- Significant changes in actual or expected results of the debtor's operations.
- The credit risk of other financial instruments from the same debtor has increased significantly.

ii) Definition of default and credit impairment financial assets

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

Quantitative indicators

- Changes in external TCRI credit ratings

The TCRI rating of the listed cabinet company is default grade, which means that the credit has been deducted since the initial recognition.

- Information on overdue status

When the contract amount is overdue for more than three months, it is determined that the credit of the financial asset has been impaired since the initial recognition.

Qualitative indicators

If there is evidence that the borrower will not be able to pay the contract, or that the borrower has significant financial difficulties, such as:

- The debtor has gone bankrupt or may have called for bankruptcy or financial restructuring.
- Other debt instrument contracts of the debtor have defaulted.
- Due to the economic or contractual reasons associated with the debtor's financial difficulties, the debtor's creditors give the borrower an unconfirmed concession and report the overdue loan.

The aforementioned default and credit impairment definitions are used to consolidate all financial assets held by the company and are consistent with the definitions used for the internal credit risk management purposes of the financial assets, and are also applied to the relevant impairment assessment model.

iii) Measurement of expected credit losses

In order to assess the expected credit losses, the combined company divides the credit assets into the following combinations according to the credit risk characteristics such as the use of borrowing, industrial nature, collateral type and borrowing status.

Product Portfolio	
Corporation loans	Corporation loans - secured
	Corporation loans - unsecured
Consumer loans	House mortgage
	Consumer loans - secured
	Consumer loans - unsecured
	Credit loans
	Debit card
	Credit card

The Bank evaluates loss allowance of financial assets, which credit risk does not significantly increase after initial recognition based on 12 months expected credit losses. The Bank evaluates loss allowance of financial assets, which credit risk significantly increases after initial recognition based on lifetime expected credit losses.

In order to evaluate expected credit losses, the Bank takes into consideration the debtor's probability of default ("PD") within the next 12 months, which includes the loss given default ("LGD"), the results are then multiplied by the exposure at default ("EAD"), while also considering the effect of time value of money to calculate the expected credit losses during the duration of 12 months.

PD is the default percentage of a borrower. LGD is the loss ratio once a borrower default. The Bank applied PD and LGD to evaluate loan business impairment based on each portfolio's historical information calculated internally (i.e. credit loss experience), and adjusted historical data based on current observable information and forward-looking macroeconomic information calculated by using packet direct estimation method.

The Bank evaluates the loan default risk by packet direct estimation method. The Bank calculates 12 months and lifetime ECLs of financing commitment based on packet direct estimation method. The Bank uses credit conversion factor to calculate the portion of financing commitment expected to be used in 12 months after record date and the credit duration to calculate the default exposure amount of ECLs.

Consideration of forward - looking estimation

In considering the expected credit losses, the Bank uses forward looking economic factors that affect credit risk and expected credit losses to consider forward looking information. Forward looking information is based on the Taiwan National Development Council's regular promulgation of the "Benefit Strategy Signal" of Taiwan's overall prosperity as indicators, which are divided into boom expansion period, contraction period and flat period. The Bank evaluates the economic situation to adjust the default probability every quarter, and then incorporates it into the overall expected credit loss assessment.

ii. Debt instrument investment

The Bank considers the historical default loss rate provided by the external rating agencies and the current financial status of the debtor to calculate 12-month and lifetime ECLs of financing commitment in debt instrument investment.

The securities held by the Bank recognize the expected credit losses according to the expected credit losses during the lifetime ECLs of financing commitment. The credit quality of the Bank's judgment securities was as follows:

2018

- i) The determination since the initial recognition of the credit risk has increased significantly.

The Bank assesses the change in the probability of default of debt instrument investment during the lifetime on each reporting date to determine if the credit risk has increased significantly since the initial recognition. In order to make this assessment, the Bank considerations show the reasonable and supportable information that the credit risk has increased significantly since the initial recognition. The main considerations include:

Quantitative indicators

- At the time of initial recognition, the issuer's credit rating is above the investment grade, but at the financial reporting date, the issuer's credit rating is reduced to a non-investment grade.
- For debt instrument investments on the initial recognition date, the issuer's credit rating is below the non-investment grade and the credit rating on the reporting day has not changed.
- When the issuer's credit rating is a non-investment grade, the reported daily credit rating is reduced to a certain extent.

Qualitative indicators

- The credit rating of the issuer indicates that its credit risk has increased significantly.
- The fair value of the debt instrument investment is significantly and adversely changed on the reporting date.

- ii) Definition of default and credit impairment financial assets

If the debt instrument investment meets one or more of the following conditions, it determines that the financial asset has defaulted and the credit is impaired.

Quantitative indicators

- Debt instrument investment is the credit impairment bond when it is purchased.
- The default rate for credit rating of the issuer or debt instrument investment will be adjusted on the reporting day.

Qualitative indicators

- The issuer modifies the issue conditions of the debt instrument investment due to financial difficulties or fails to pay the principal or interest according to the conditions of the issue.
- The issuer or the guarantee institution has ceased operations or has applied for reorganization, bankruptcy, dissolution, and sale of major assets that have a significant impact on the company's continued operations.

Measurement of expected credit losses

- In order to evaluate expected credit losses, the Bank takes into consideration the debtor's probability of default ("PD") within the next 12 months, which includes the loss given default ("LGD"), the results are then multiplied by the exposure at default ("EAD"), while also considering the effect of time value of money to calculate the expected credit losses during the duration of 12 months.
- Comparing the risk of default on the dated debt instrument with the default risk at the time of initial recognition, and considering the reasonable and corroborative information for a significant increase in credit risk since the initial recognition, to determine whether the financial instrument's credit risk has increased significantly since the initial recognition.
 - Those who meet the normal credit risk status will estimate the expected loss amount based on the one-year probability of default (PD).
 - Those who meet the significant increase in credit risk status must consider the duration of the asset project and calculate the probability of default (PD) for each duration. If the cash flow of the contract in the future period (i.e., the default exposure amount of each period) can be assessed, the cash flow method is used to assess the expected amount of credit loss, and if the cash flow of each period cannot be assessed, and the current risk calculation method is used it.
 - Those who meet the abnormal credit risk status are considered to be 100%, and will not consider the probability of default in each duration. Only consider the relevant recoverable amount and evaluate the overall expected credit loss amount.
 - Debt instrument investment probability of default is the value released by external credit rating agencies, which implies the possibility of future market fluctuations.

d) Credit risk hedging or mitigation policies

i. Collaterals

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

The Bank closely observed the value of pledged financial assets and evaluated which financial assets' credit had been impaired in order to recognize allowance impairment. Credit impaired financial assets and its pledged values which eliminate potential loss, are as follows:

	Total Book Value	Allowance Impairment	Exposure	Collateral Fair Value
Financial assets that were impaired				
Notes discounted and loans	\$ 7,916,421	\$ (2,035,208)	\$ 5,881,213	\$ 5,881,213
Receivables	122,335	(82,827)	39,508	38,012
Guarantees and letters of credit	418,070	(55,221)	362,849	301,416
Debt instrument	<u>74,444</u>	<u>(74,444)</u>	<u>-</u>	<u>-</u>
Total financial assets that were impaired	<u>\$ 8,531,270</u>	<u>\$ (2,247,700)</u>	<u>\$ 6,283,570</u>	<u>\$ 6,220,641</u>

ii. Credit risk concentration limits and control

To avoid the concentration of credit risks, the Bank has included credit limits for the same person (entity) and for the same related-party corporation (group) based on the credit risk arising from loans, securities investment and derivatives transactions.

Meanwhile, for trading and banking book investments, the Bank has set a ratio, which is the credit limit of a single issuer in relation to the total security position. The Bank has also included credit limits for a single counterparty and a single group.

In addition, to manage the concentration risk of the financial assets, the Bank has set credit limits by industry, conglomerate, country and transactions collateralized by shares, and integrated within one system to supervise the concentration of credit risk in these categories. The Bank monitors concentration of each asset and controls various types of credit risk concentration in a single transaction involving counterparties, groups, related-party corporations, industries and nations.

iii. Other credit enhancements

To reduce its credit risks, the Bank stipulates in its credit contracts the term for offsetting which clearly stated that the Bank reserves the right to offset the borrowers' debt against their deposits in the Bank.

e) The maximum credit exposure of the financial instruments of the Bank

The maximum exposures of assets on the balance sheets to credit risks without consideration of guarantees or other credit enforcement instruments approximate the assets' carrying amounts. The maximum exposures of off-balance sheet items to credit risks without consideration of guarantees or other credit enforcement instrument are stated as follows:

	December 31	
	2018	2017
Irrevocable loan commitments	\$ 5,810,795	\$ 5,930,487
Credit card commitments	273,680	400,251
Guarantee receivables	18,335,961	18,693,022
Letters of credit	4,140,679	3,900,545

The management of the Bank believes their abilities to minimize the credit risk exposures of the off-balance sheet items are mainly attributed to their rigorous evaluation of extended credit and the periodic reviews of these credits.

f) Credit risk concentration of the Bank

When the other parties to the financial instruments consist of a single individual, or a concentration of entities with similar commercial activities, they may have similar abilities to fulfill their credit obligations. The Bank does not have such situation. The Bank's credit exposure related to loans on December 31, 2018 was classified as follows:

Object	December 31	
	2018	2017
Private enterprise	\$ 253,732,767	\$ 247,102,590
Natural person	222,610,870	207,424,168
Others	<u>1,931,734</u>	<u>3,481,286</u>
	<u>\$ 478,275,371</u>	<u>\$ 458,008,044</u>

Credit Risk Profile by Group or Industry	December 31	
	2018	2017
Natural person	\$ 222,610,870	\$ 207,424,168
Manufacturing	87,737,033	89,619,888
Commercial	60,069,759	60,728,699
Real estate and leasing	53,376,739	48,252,176
Construction industry	17,727,688	17,631,979
Servicing	12,247,924	10,515,764
Finance and insurance	11,855,826	10,534,525
Transportation warehousing and information communication	7,924,653	6,797,100
Others	<u>4,724,879</u>	<u>6,503,745</u>
	<u>\$ 478,275,371</u>	<u>\$ 458,008,044</u>

Credit Risk Profile by Regions	December 31	
	2018	2017
Domestic	\$ 448,688,187	\$ 430,297,340
Asia	12,873,067	10,209,665
North America	11,766,992	11,639,378
Others	<u>4,947,125</u>	<u>5,861,661</u>
	<u>\$ 478,275,371</u>	<u>\$ 458,008,044</u>

Credit Risk Profile by Collaterals	December 31	
	2018	2017
Unsecured	\$ 78,106,128	\$ 81,937,168
Secured		
Real estate	360,800,311	338,767,868
Letter of bank guarantee	17,201,082	17,531,354
Chattel	12,411,927	8,587,494
debenture	3,233,420	3,198,684
Notes receivable	1,850,147	2,425,869
Bonds	2,523,887	2,768,040
Others	<u>2,148,469</u>	<u>2,791,567</u>
	<u>\$ 478,275,371</u>	<u>\$ 458,008,044</u>

g) Information of credit quality

December 31, 2018

i. Notes discounted, loans and receivables

	Notes Discounted and Loans				Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Difference of Impairment Loss under Regulations	
Product category					
Corporation loans	\$ 227,761,917	\$ 3,019,498	\$ 5,573,360	\$ -	\$ 236,354,775
Consumer loans	207,199,220	12,318,911	2,343,305	-	221,861,436
Others	<u>40,992</u>	<u>3,322</u>	<u>(244)</u>	-	<u>44,070</u>
Total book value	435,002,129	15,341,731	7,916,421	-	458,260,281
Allowance for doubtful accounts	(1,767,936)	(661,840)	(2,035,208)	-	(4,464,984)
Difference of impairment loss under regulations	-	-	-	(2,066,719)	(2,066,719)
	<u>\$ 433,234,193</u>	<u>\$ 14,679,891</u>	<u>\$ 5,881,213</u>	<u>\$ (2,066,719)</u>	<u>\$ 451,728,578</u>

Receivables					
	Stage 1	Stage 2	Stage 3	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Corporation loans	\$ 1,339,194	\$ 8,896	\$ 29,686	\$ -	\$ 1,377,776
Consumer loans	911,973	32,364	36,866	-	981,203
Others	<u>47,851,068</u>	<u>1</u>	<u>55,783</u>	-	<u>47,906,852</u>
Total book value	50,102,235	41,261	122,335	-	50,265,831
Allowance for doubtful accounts	(19,743)	(3,905)	(82,827)	-	(106,475)
Difference of impairment loss under regulations	-	-	-	(49,142)	(49,142)
	<u>\$ 50,082,492</u>	<u>\$ 37,356</u>	<u>\$ 39,508</u>	<u>\$ (49,142)</u>	<u>\$ 50,110,214</u>

Irrevocable Loan Commitments					
	Stage 1	Stage 2	Stage 3	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Corporation loans	\$ 5,545,278	\$ 17,067	\$ -	\$ -	\$ 5,562,345
Consumer loans	<u>248,450</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>248,450</u>
Total book value	5,793,728	17,067	-	-	5,810,795
Allowance for doubtful accounts	(53,686)	(741)	-	-	(54,427)
Difference of impairment loss under regulations	-	-	-	-	-
	<u>\$ 5,740,042</u>	<u>\$ 16,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,756,368</u>

Credit Card Commitments					
	Stage 1	Stage 2	Stage 3	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Consumer loans	\$ 10,458,065	\$ 49,205	\$ -	\$ -	\$ 10,507,270
Total book value	10,458,065	49,205	-	-	10,507,270
Allowance for doubtful accounts	(8,083)	(1,299)	-	-	(9,382)
Difference of impairment loss under regulations	-	-	-	-	-
	<u>\$ 10,449,982</u>	<u>\$ 47,906</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,497,888</u>

Guarantee Receivables					
	Stage 1	Stage 2	Stage 3	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Consumer loans	\$ 17,878,645	\$ 39,246	\$ 418,070	\$ -	\$ 18,335,961
Total book value	17,878,645	39,246	418,070	-	18,335,961
Allowance for doubtful accounts	(121,061)	(1,751)	(55,221)	-	(178,033)
Difference of impairment loss under regulations	-	-	-	(11,815)	(11,815)
	<u>\$ 17,757,584</u>	<u>\$ 37,495</u>	<u>\$ 362,849</u>	<u>\$ (11,815)</u>	<u>\$ 18,146,113</u>

Letters of Credit					
	Stage 1	Stage 2	Stage 3	Difference of	
	12-month ECL	Lifetime ECL	Lifetime ECL	Impairment Loss	Total
				under	
				Regulations	
Product category					
Consumer loans	\$ 4,140,679	\$ -	\$ -	\$ -	\$ 4,140,679
Total book value	4,140,679	-	-	-	4,140,679
Allowance for doubtful accounts	(12,108)	-	-	-	(12,108)
Difference of impairment Loss under regulations	-	-	-	(11,825)	(11,825)
	<u>\$ 4,128,571</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,825)</u>	<u>\$ 4,116,746</u>

ii. Debt instrument investments

Financial Assets at FVTOCI				
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Product category (Note)				
Investment grade bond	\$ 27,507,719	\$ -	\$ -	\$ 27,507,719
Non-investment grade bond	-	-	-	-
Total book value	27,507,719	-	-	27,507,719
Allowance for impairment	(15,525)	-	-	(15,525)
Difference of impairment loss under regulations	-	-	-	-
	<u>\$ 27,492,194</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 27,492,194</u>

Investments in Debt Instruments at Amortized Cost				
	Stage 1	Stage 2	Stage 3	
	12-month ECL	Lifetime ECL	Lifetime ECL	Total
Product category (Note)				
Investment grade bond	\$ 45,838,446	\$ -	\$ -	\$ 45,838,446
Non-investment grade bond	-	-	74,444	74,444
Others (NCDs issued by the CBC)	55,500,000	-	-	55,500,000
Total book value	101,338,446	-	74,444	101,412,890
Allowance for impairment	(30,685)	-	(74,444)	(105,129)
Difference of impairment loss under regulations	-	-	-	-
	<u>\$ 101,307,761</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 101,307,761</u>

Note: The bond rating is based on the original credit rating of Moody's, Fitch (Fitch), Standard & Poor's (S&P) and China Credit Rating.

The breakdown below shows the debt instruments classified as FVOCI and financial assets at amortized cost:

December 31, 2018

	Financial Asset	Amortized Cost
	at FVOCI	Financial Asset
Total book value	\$ 27,368,778	\$ 101,352,890
Allowance loss	(15,525)	(105,129)
Amortized cost	27,353,253	101,247,761
Fair value adjustment	123,416	-
	<u>\$ 27,476,669</u>	<u>\$ 101,247,761</u>

The total book value of the current credit risk rating mechanism of the Bank and the investments in debt instruments of each credit rating are as follows:

Credit Rating	Definition	Recognition Basis	Expected Credit Loss	Total Book Value At December 31, 2018	
				Financial Asset at FVOCI	Amortized Cost Financial Asset
Normal (Stage 1)	The debtor has a low credit risk and is fully capable of paying off contractual cash flows	12-month expected credit losses	0.00%-0.46%	\$ 27,368,778	\$ 101,352,890
Abnormal (Stage 2)	Credit risk has increased significantly since the initial recognition	Lifetime expected credit losses (no credit impaired)			
Default (Stage 3)	There is evidence that the credit is impaired.	Lifetime expected credit (credit impaired)			
write offs	There is evidence that the debtor is facing serious financial difficulties and the Bank cannot reasonably expect to recover, such as overdue for more than Z days.	Write-off			

With respect to the debt instrument investments at FVTOCI and at amortized cost invested by the Bank, the information of changes in allowance is summarized as follows:

	Credit Rating		
	Normal (12-Month Expected credit Losses)	Abnormal (Lifetime ECL Without Credit Impaired)	Default (Lifetime ECL with Credit Impaired)
<u>Financial asset at FVOCI</u>			
Balance, January 1, 2018 (IAS 39)	\$ -	\$ -	\$ -
Effect of retrospective application (IFRS 9)	19,336	-	-
Balance, January 1, 2018 (IFRS 9)	19,336	-	-
Change credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to write off	-	-	-
Purchase new debt instruments	-	-	-
Dispose	(2,799)	-	-
Model/risk parameter change	-	-	-
Exchange rate and other changes	(1,012)	-	-
Allowance loss, December 31, 2018	<u>\$ 15,525</u>	<u>\$ -</u>	<u>\$ -</u>

	Credit Rating		
	Normal (12-Month Expected credit Losses)	Abnormal (Lifetime ECL Without Credit Impaired)	Default (Lifetime ECL with Credit Impaired)
<u>Amortized cost financial asset</u>			
Balance, January 1, 2018 (IAS 39)	\$ -	\$ -	\$ -
Effect of retrospective application (IFRS 9)	<u>9,177</u>	<u>-</u>	<u>74,444</u>
Balance, January 1, 2018 (IFRS 9)	9,177	-	74,444
Change credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to write off	-	-	-
Purchase new debt instruments	22,732	-	-
Dispose	(994)	-	-
Model/risk parameter change	-	-	-
Exchange rate and other changes	<u>(230)</u>	<u>-</u>	<u>-</u>
Allowance loss, December 31, 2018	<u>\$ 30,685</u>	<u>\$ -</u>	<u>\$ 74,444</u>

December 31, 2017

i. Notes discounted, loans and receivables

December 31, 2017	Neither Past Due Nor Impaired					Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)		Net (A)+(B)+(C)-(D)
	Level 1	Level 2	Level 3	Level 4	Subtotal (A)				With Objective Evidence of Impairment	Without Objective Evidence of Impairment	
<u>Balance sheet items</u>											
Receivables											
Credit cards	\$ 189,771	\$ 160,008	\$ 142,874	\$ 229,601	\$ 722,254	\$ 55,562	\$ 21,842	\$ 799,658	\$ 13,108	\$ 7,129	\$ 779,421
Others	48,083,199	417,538	190,056	2,002,088	50,692,881	62,130	150,131	50,905,142	80,138	37,037	50,787,967
Notes discounted and loans	190,047,376	129,319,121	59,509,230	15,906,542	394,782,269	28,736,364	12,434,703	435,953,336	2,673,681	1,847,300	431,432,355

ii. Notes discounted and loans neither past due nor impaired (based on credit ratings of clients)

December 31, 2017	Neither Past Due Nor Impaired				
	Level 1	Level 2	Level 3	Level 4	Total
<u>Consumer loans</u>					
Residential mortgage	\$ 17,452,411	\$ 18,015,723	\$ 11,394,153	\$ 3,638,300	\$ 50,500,587
Credit card	-	-	9	53	62
Petit credit	95,952	195,876	240,162	148,764	680,754
Others-secured	72,032,518	36,863,301	13,928,751	3,079,407	125,903,977
Others-unsecured	<u>4,551,581</u>	<u>3,328,866</u>	<u>1,155,305</u>	<u>219,866</u>	<u>9,255,618</u>
	<u>94,132,462</u>	<u>58,403,766</u>	<u>26,718,380</u>	<u>7,086,390</u>	<u>186,340,998</u>
<u>Corporate loans</u>					
Secured	63,256,970	44,524,672	19,962,146	4,883,537	132,627,325
Unsecured	<u>32,657,944</u>	<u>26,390,683</u>	<u>12,828,704</u>	<u>3,936,615</u>	<u>75,813,946</u>
	<u>95,914,914</u>	<u>70,915,355</u>	<u>32,790,850</u>	<u>8,820,152</u>	<u>208,441,271</u>
	<u>\$ 190,047,376</u>	<u>\$ 129,319,121</u>	<u>\$ 59,509,230</u>	<u>\$ 15,906,542</u>	<u>\$ 394,782,269</u>

iii. Marketable securities

December 31, 2017	Neither Past Due Nor Impaired				Past Due But Not Impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Provision for Impairment Losses (D)	Net (A)+(B)+(C)-(D)
	Level 1	Level 2	Level 3	Subtotal (A)					
Available-for-sale financial assets									
Bonds	\$ 31,034,046	\$ -	\$ -	\$ 31,034,046	\$ -	\$ 62,945	\$ 31,096,991	\$ 62,945	\$ 31,034,046
Equities	158,825	-	-	158,825	-	-	158,825	-	158,825
Others	-	-	-	-	-	14,416	14,416	14,416	-
Held-to-maturity financial assets									
Bonds	27,813,845	228,250	-	28,042,095	-	-	28,042,095	-	28,042,095
Others	57,500,000	-	-	57,500,000	-	-	57,500,000	-	57,500,000
Other financial assets									
Equities	-	-	145,684	145,684	-	-	145,684	-	145,684
Others	-	-	-	-	-	2,000,308	2,000,308	1,099,973	900,335

iv. Aging analysis of financial assets that are past due but not impaired

Delayed processing procedures by borrowers and other administrative reasons could result in financial assets overdue but not yet impaired. According to the Bank' internal risk management policies, financial assets overdue within 90 days are not considered impairment loss unless other evidences are provided.

Aging analysis of financial assets past due but not impaired was as follows:

Items	December 31, 2017		
	Past Due Up to One Month	Past Due One to Three Months	Total
Receivables			
Credit cards	\$ 41,207	\$ 14,355	\$ 55,562
Others	<u>61,916</u>	<u>214</u>	<u>62,130</u>
	<u>\$ 103,123</u>	<u>\$ 14,569</u>	<u>\$ 117,692</u>
Notes discounted and loans			
Consumer loans			
Mortgage	\$ 3,810,453	\$ 3,065	\$ 3,813,518
Cash card	16	-	16
Micro credit	69,369	-	69,369
Others-secured	10,864,150	46,508	10,910,658
Others-unsecured	<u>1,037,303</u>	<u>3,630</u>	<u>1,040,933</u>
	<u>15,781,291</u>	<u>53,203</u>	<u>15,834,494</u>
Corporation loans			
Secured	8,932,285	360	8,932,645
Unsecured	<u>3,969,105</u>	<u>120</u>	<u>3,969,225</u>
	<u>12,901,390</u>	<u>480</u>	<u>12,901,870</u>
	<u>\$ 28,682,681</u>	<u>\$ 53,683</u>	<u>\$ 28,736,364</u>

3) Liquidity risk

Ratios of liquidity reserves of the Bank were 23% and 26% on December 31, 2018 and 2017, respectively. Since the capital and working capital are sufficient to perform all the contracted obligations, there will be no liquidity risk in this regard. Since derivatives have very little probabilities of failing to be sold at reasonable prices in the market, there will be very low liquidity risks.

The basic business management policy of the Bank is to match the maturity dates and interest rates on assets and liabilities, and to control the uncoordinated gaps. Due to the uncertainties and types of trading conditions, the maturity dates and interest rates of assets and liabilities are often not fully matched. Such gaps may have potential benefits or losses.

Maturity analysis of non-derivative financial liabilities

The Bank assesses the maturity dates of contracts to understand the basic elements of all derivative financial instruments shown in the balance sheets. The amounts used in the maturity analyses of derivative financial liabilities are based on contractual cash flows, so some of these amounts may not correspond to the amounts shown in the balance sheets. The maturity analysis of non-derivative financial liabilities was as follows:

December 31, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Due to central bank of China and other banks	\$ 2,934,764	\$ 99,224	\$ 730	\$ 344,034	\$ -	\$ 3,378,752
Securities sold under repurchase agreements	4,752,462	5,216,637	-	-	-	9,969,099
Payables	9,546,243	687,992	261,933	485,753	360,943	11,342,864
Deposits and remittances	53,270,521	74,878,276	80,926,314	145,086,824	235,080,954	589,242,889
Bank debentures	-	-	-	6,000,000	14,000,000	20,000,000
Other maturity items	155,432	18,377	2,132	4,584	57,220	237,745

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Due to central bank of China and other banks	\$ 6,833,937	\$ 2,332,875	\$ 730	\$ 351,330	\$ -	\$ 9,518,872
Securities sold under repurchase agreements	3,269,968	1,048,062	-	-	-	4,318,030
Payables	10,172,844	1,196,049	220,722	328,451	277,676	12,195,742
Deposits and remittances	56,999,275	78,961,344	82,990,624	136,252,947	212,051,401	567,255,591
Bank debentures	-	-	-	-	17,500,000	17,500,000
Other maturity items	54,623	14,131	1,550	8,532	93,621	172,457

Maturity analysis of derivative financial liabilities

a) Derivative instruments that settled on a net basis

The derivative instruments that settled on a net basis include:

Foreign exchange derivative: Foreign exchange forward contracts

The Bank evaluates the expiry days of derivative instruments which are shown in the balance sheet. The amount in the balance sheet are based on cash flow. Therefore, some amounts do not correspond to the balance sheet. The maturity analysis of derivative financial liabilities was as follows:

December 31, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL						
Foreign currency derivative	\$ 4,976	\$ 19,442	\$ 19,717	\$ 8,754	\$ -	\$ 52,889
Total	\$ 4,976	\$ 19,442	\$ 19,717	\$ 8,754	\$ -	\$ 52,889

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL						
Foreign currency derivative	\$ 7,329	\$ 15,383	\$ 11,840	\$ 10,541	\$ -	\$ 45,093
Total	\$ 7,329	\$ 15,383	\$ 11,840	\$ 10,541	\$ -	\$ 45,093

b) Derivative instruments that settled on a gross basis

The derivative instruments that settled on a net basis include:

Foreign exchange derivatives: Foreign exchange forward contracts and cross-currency swap contracts

The Bank evaluates the expiry days of derivative instruments which are shown in the balance sheet. The amount in the balance sheet are based on cash flow. Therefore, some amounts do not correspond to the balance sheet. The maturity analysis of derivate financial liabilities was as follows:

December 31, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL						
Foreign currency derivative						
Outflows	\$ 3,489,472	\$ 1,284,922	\$ 672,246	\$ 373,458	\$ -	\$ 5,820,098
Inflows	3,441,202	1,267,212	662,755	365,797	-	5,736,966
Total outflows	3,489,472	1,284,922	672,246	373,458	-	5,820,098
Total inflows	3,441,202	1,267,212	662,755	365,797	-	8,736,966
Net flows	\$ (48,270)	\$ (17,710)	\$ (9,491)	\$ (7,661)	\$ -	\$ (83,132)

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at FVTPL						
Foreign currency derivative						
Outflows	\$ 2,128,439	\$ 1,688,533	\$ 821,104	\$ 1,610,312	\$ -	\$ 6,248,388
Inflows	2,114,153	1,673,724	792,260	1,544,154	-	6,124,291
Total outflows	2,128,439	1,688,533	821,104	1,610,312	-	6,248,388
Total inflows	2,114,153	1,673,724	792,260	1,544,154	-	6,124,291
Net flows	\$ (14,286)	\$ (14,809)	\$ (28,844)	\$ (66,158)	\$ -	\$ (124,097)

4) Maturity analysis of off-balance-sheet items

The following table shows the Bank's maturity analysis of off-balance sheet items based on the residual maturities from the balance sheet. For the financial guarantee contract issued, the maximum amount of guarantee is included in the earliest period that may be required to perform the guarantee. The amounts in the table below were prepared on contractual cash flow basis; therefore, some disclosed amounts would not match with the balance sheet.

December 31, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Loan commitment	\$ 12,176,189	\$ 24,525,708	\$ 30,931,999	\$ 65,838,590	\$ 29,673,900	\$ 163,146,086
Letters of credit	1,557,248	2,428,724	143,161	11,546	-	4,140,679
Guarantee receivables	6,264,671	3,749,910	858,950	1,659,683	5,802,747	18,335,961
Total	\$ 19,998,108	\$ 30,704,342	\$ 31,934,110	\$ 67,509,819	\$ 35,476,347	\$ 185,622,726

December 31, 2017	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Loan commitment	\$ 10,996,343	\$ 23,429,412	\$ 31,811,704	\$ 70,695,877	\$ 39,336,499	\$ 176,269,835
Letters of credit	1,130,285	2,565,045	187,700	17,515	-	3,900,545
Guarantee receivables	7,714,616	3,948,429	677,445	1,778,351	4,574,181	18,693,022
Total	\$ 19,841,244	\$ 29,942,886	\$ 32,676,849	\$ 72,491,743	\$ 43,910,680	\$ 198,863,402

5) Cash flow and fair value risk of interest rate fluctuation

The floating-rate assets/liabilities held by the Bank may be exposed to risks of future cash inflow/outflow. Since the risk is considered substantial, it is therefore hedged by the Bank.

38. TRANSFERS OF FINANCIAL ASSETS

The transferred financial assets that do not qualify for derecognition

Most of the transferred financial assets of the Bank that are not derecognized in their entirety are securities sold under repurchase agreements. According to these transactions, the right on cash flow of the transferred financial assets would be transferred to other entities and the associated liabilities of the Bank's obligation to repurchase the transferred financial assets at a fixed price in the future would be recognized. As the Bank is restricted to use, sell or pledge the transferred financial assets throughout the term of transaction, and is still exposed to interest rate risks and credit risks on these instruments, the transferred financial assets are not derecognized in their entirety. The details of financial assets that were not derecognized in their entirety and the associated financial liabilities were as follows:

December 31, 2018					
Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Associated Financial Liabilities	Fair Value of Net Position
Investments in debt instruments at amortized cost Securities sold under repurchase agreements	\$ 10,895,694	\$ 9,904,467	\$ 10,708,019	\$ 9,904,467	\$ 803,552

December 31, 2017					
Category of Financial Assets	Carrying Amount of Transferred Financial Assets	Carrying Amount of Associated Financial Liabilities	Fair Value of Transferred Financial Assets	Fair Value of Associated Financial Liabilities	Fair Value of Net Position
Held-to-maturity financial assets Securities sold under repurchase agreements	\$ 4,658,926	\$ 4,307,810	\$ 4,674,084	\$ 4,307,810	\$ 366,274

39. OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Bank did not hold financial instruments covered by Section 42 of the IAS 32 "Financial Instruments: Presentation" endorsed by the Financial Supervisory Commission; thus, it made an offset of financial assets and liabilities and reported the net amount in the balance sheet.

The Bank engages in transactions on the following financial assets and liabilities that are not subject to balance sheet offsetting based on IAS 32 but are under master netting arrangements or similar agreements. These agreements allow both the Bank and its counterparties to opt for the net settlement of financial assets and financial liabilities. If one party defaults, the other party may choose net settlement.

December 31, 2018

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheets	Net Amounts of Financial Assets Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	
Derivatives	\$ 2,068,732	\$ -	\$ 2,068,732	\$ -	\$ -	\$ 2,068,732
Securities purchased under resell agreements	9,094,151	-	9,094,151	9,094,151	-	-
	<u>\$ 11,162,883</u>	<u>\$ -</u>	<u>\$ 11,162,883</u>	<u>\$ 9,094,151</u>	<u>\$ -</u>	<u>\$ 2,068,732</u>

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheets	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Pledged	
				Derivatives	\$ 162,127	
Securities sold under repurchase agreements	<u>9,904,467</u>	<u>-</u>	<u>9,904,467</u>	<u>9,904,467</u>	<u>-</u>	<u>-</u>
	<u>\$ 10,066,594</u>	<u>\$ -</u>	<u>\$ 10,066,594</u>	<u>\$ 9,904,467</u>	<u>\$ -</u>	<u>\$ 162,127</u>

December 31, 2017

Financial Assets	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Offset in the Balance Sheets	Net Amounts of Financial Assets Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Received	
				Derivatives	\$ 1,866,337	
Securities purchased under resell agreements	<u>11,283,082</u>	<u>-</u>	<u>11,283,082</u>	<u>11,283,082</u>	<u>-</u>	<u>-</u>
	<u>\$ 13,149,419</u>	<u>\$ -</u>	<u>\$ 13,149,419</u>	<u>\$ 11,283,082</u>	<u>\$ -</u>	<u>\$ 1,866,337</u>

Financial Liabilities	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Offset in the Balance Sheets	Net Amounts of Financial Liabilities Presented in the Balance Sheet	Related Amounts Not Offset in the Balance Sheets		Net Amount
				Financial Instruments	Cash Collateral Pledged	
				Derivatives	\$ 207,225	
Securities sold under repurchase agreements	<u>4,307,810</u>	<u>-</u>	<u>4,307,810</u>	<u>4,307,810</u>	<u>-</u>	<u>-</u>
	<u>\$ 4,515,035</u>	<u>\$ -</u>	<u>\$ 4,515,035</u>	<u>\$ 4,307,810</u>	<u>\$ -</u>	<u>\$ 207,225</u>

40. INFORMATION ABOUT THE BANK

a. Asset quality

Items		December 31, 2018					December 31, 2017					
		Nonperforming Loan (Note 1)	Total Loan	NPL Ratio (Note 2)	Loan Loss Reserve	Coverage Ratio (Note 3)	Nonperforming Loan (Note 1)	Total Loan	NPL Ratio (Note 2)	Loan Loss Reserve	Coverage Ratio (Note 3)	
Corporate loans	Secured	\$ 980,023	\$ 152,938,946	0.64%	\$ 1,471,243	150.12%	\$ 910,179	\$ 147,076,012	0.62%	\$ 1,533,082	168.44%	
	Unsecured	350,210	83,415,828	0.42%	3,126,240	892.68%	307,442	82,250,188	0.37%	2,642,552	859.53%	
Consumer loans	Mortgage (Note 4)	277,102	57,027,677	0.49%	915,184	330.27%	267,038	56,022,201	0.48%	969,098	362.91%	
	Cash card	-	40	-	5	-	32	3,157	1.01%	2,120	6,625.00%	
	Microcredit (Note 5)	5,417	872,621	0.62%	90,357	1,668.03%	8,312	782,564	1.06%	39,158	471.10%	
	Other (Note 6)	Secured	395,286	150,125,230	0.26%	577,436	146.08%	301,228	139,104,500	0.22%	965,759	320.61%
		Unsecured	46,306	13,835,868	0.33%	351,238	758.52%	50,887	10,714,714	0.47%	193,041	379.35%
Loans		2,054,344	458,216,210	0.45%	6,531,703	317.95%	1,845,118	435,953,336	0.42%	6,344,810	343.87%	

Items		December 31, 2018					December 31, 2017				
		Overdue Receivable	Account Receivable	Delinquency Ratio	Allow for Credit Losses	Coverage Ratio	Overdue Receivable	Account Receivable	Delinquency Ratio	Allow for Credit Losses	Coverage Ratio
Credit card		\$ 4,710	\$ 749,434	0.63%	\$ 27,453	582.87%	\$ 8,507	\$ 797,032	1.07%	\$ 32,560	382.74%
Account receivable without recourse (Note 7)		-	133,277	-	12,165	-	-	1,656,114	-	28,350	-

Non-reportable overdue loans and receivable

	December 31, 2018		December 31, 2017	
	Non-Reportable NPL Balance	Non-reportable Overdue Receivable Balance	Non-Reportable NPL Balance	Non-reportable Overdue Receivable Balance
Non-reportable amount upon performance of debt negotiation program (Note 8)	\$ 2,896	\$ 1,376	\$ 6,940	1,780
Amount received from performance of debt negotiation program (Note 9)	9,103	17,680	7,481	16,613
Total	11,999	19,056	14,421	18,393

Note 1: The amount recognized as non-performing loans (NPL) is in compliance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. Non-performing credit loans represent the amounts of non-performing loans reported to the FSC, as required by the FSC in its letter dated July 6, 2005 (Ref. No. 0944000378).

Note 2: Non-performing loan ratio = Non-performing loans ÷ Outstanding loan balance;
Non-performing credit loan ratio = Non-performing loans ÷ Accounts receivable balance.

Note 3: Allowance for doubtful accounts ratio = Allowance for doubtful accounts in loans ÷ Overdue loans;
Allowance for doubtful accounts ratio of credit card = Allowance for doubtful accounts in credit cards ÷ Overdue loans.

Note 4: Home mortgage refers to financing obtained to buy, build, or fix houses owned by the borrowers’ spouse or children, with the house used as loan collateral.

Note 5: Micro credit is covered by the FSC pronouncement dated December 19, 2005 (Ref No. 09440010950) and is excluded from credit card and cash card loans.

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

Note 7: As required by the FSC in its letter dated July 19, 2005 (Ref No. 094000494), provision for bad-debt is recognized once no compensation is made by a factor or insurance company for accounts receivable factored without recourse.

Note 8: Accounts under “loans not required to be classified as NPL upon performance of a debt negotiation program” and “accounts receivable not required to be classified as overdue receivable upon debt negotiation program” were processed according the FSC pronouncement dated April 25, 2006 (Ref No. 09510001270).

Note 9: Accounts under “loans not required to be classified as NPL upon performance of a debt discharge program and rehabilitation program” and “accounts receivable not required to be classified as overdue receivable upon debt discharge program and rehabilitation program” were processed according the FSC pronouncement dated September 15, 2008 (Ref No. 09700318940).

b. Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

Year	December 31, 2018		
Top 10 Rank (Note 1)	Group (Note 2)	Total Credit (Note 3)	Percentage of Net Worth (%)
1	Group A 016811 real estate activities for sale and rental with own or leased property	\$ 2,460,000	5.14
2	Group B 010892 manufacture of macaroni, noodles, couscous and similar farinaceous products	2,321,274	4.85
3	Group C 016700 real estate development activities	2,286,478	4.78
4	Group D 015500 accommodation	2,151,855	4.50
5	Group E 012411 smelting and refining of iron and steel	1,937,578	4.05
6	Group F 016700 real estate development activities	1,333,917	2.79
7	Group G 014612 wholesale of brick, sand, cement and products	1,258,337	2.63
8	Group H 016700 real estate development activities	1,099,800	2.30
9	Group I 016700 real estate development activities	1,095,680	2.29
10	Group J 012203 manufacture of industrial plastic products	1,073,192	2.24

(In Thousands of New Taiwan Dollars, %)

Year	December 31, 2017		
Top 10 Rank (Note 1)	Group (Note 2)	Total Credit (Note 3)	Percentage of Net Worth (%)
1	Group C 016700 real estate development activities	\$ 3,148,737	7.25
2	Group B 010892 manufacture of macaroni, noodles, couscous and similar farinaceous products	2,625,197	6.05
3	Group E 012411 smelting and refining of iron and steel	1,796,162	4.14
4	Group K 012699 manufacture of other electronic parts and components not elsewhere classified	1,776,807	4.09
5	Group D 015500 accommodation	1,704,281	3.93
6	Group L 016700 real estate development activities	1,577,529	3.63
7	Group F 016700 real estate development activities	1,428,583	3.29
8	Group G 014612 wholesale of brick, sand, cement and products	1,327,851	3.06
9	Group H 016700 real estate development activities	1,171,800	2.70
10	Group M 016700 real estate development activities	1,141,157	2.63

Note 1: The ranking is arranged in descending order of the outstanding loan balance, excluding all the government entities and nation-owned enterprises. If the borrower is a member company of a group, then the disclosed amount will be the total granted loan amount for that entire group. (i.e. Group A real estate activities for sale and rental with own or leased property).

Note 2: According to Article 6 of the “Supplementary Provisions to the Stock Exchange Corporation Criteria for the Review of Securities Listings”, “Group” refers to the entity that has a controlling or subordinate relationship with the counterparty that obtained loans from the Bank.

Note 3: Credit balance means the sum of all the loans (including import bill negotiated, discounted export bills negotiated, overdrafts, short-term secured and unsecured loans, marginal receivables, medium-term secured and unsecured loans, long-term secured and unsecured loans and delinquent receivables), exchange bills negotiated, accounts receivable factored without recourse, acceptances receivable, and guarantees issued.

c. Interest rate sensitivity information

**Interest Rate Sensitivity
December 31, 2018**

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest-sensitive assets	\$ 473,227,441	\$ 6,893,149	\$ 11,984,930	\$ 83,634,023	\$ 575,739,543
Interest-sensitive liabilities	160,487,053	284,562,819	97,600,888	7,323,668	549,974,428
Interest sensitivity gap	312,740,388	(277,669,670)	(85,615,958)	76,310,355	25,765,115
Net equity					47,823,653
Ratio of interest-sensitive assets to liabilities					104.68%
Ratio of interest sensitivity gap to net equity					53.87%

**Interest Rate Sensitivity
December 31, 2017**

(In Thousands of New Taiwan Dollars, %)

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest-sensitive assets	\$ 462,435,741	\$ 6,503,542	\$ 8,109,517	\$ 77,217,728	\$ 554,266,528
Interest-sensitive liabilities	151,989,766	276,148,497	90,493,177	13,711,029	532,342,469
Interest sensitivity gap	310,445,975	(269,644,955)	(82,383,660)	63,506,699	21,924,059
Net equity					43,401,940
Ratio of interest-sensitive assets to liabilities					104.12%
Ratio of interest sensitivity gap to net equity					50.51%

Note 1: The above amounts included only the New Taiwan dollar amounts held by the head office and branches of the Bank (i.e., excluding foreign currency).

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities affected by interest rate changes.

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

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

**Interest Rate Sensitivity
December 31, 2018**

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest-sensitive assets	\$ 1,063,068	\$ 256,810	\$ 20,502	\$ 457,260	\$ 1,797,640
Interest-sensitive liabilities	831,067	738,109	192,424	-	1,761,600
Interest sensitivity gap	232,001	(481,299)	(171,922)	457,260	36,040
Net equity					1,557,266
Ratio of interest-sensitive assets to liabilities					102.05%
Ratio of interest sensitivity gap to net equity					2.31%

Interest Rate Sensitivity
December 31, 2017

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

Items	1 to 90 Days	91 to 180 Days	181 Days to One Year	Over One Year	Total
Interest-sensitive assets	\$ 902,199	\$ 339,282	\$ 39,210	\$ 404,801	\$ 1,685,492
Interest-sensitive liabilities	525,683	954,563	142,981	-	1,623,227
Interest sensitivity gap	376,516	(615,281)	(103,771)	404,801	62,265
Net equity					1,457,909
Ratio of interest-sensitive assets to liabilities					103.84%
Ratio of interest sensitivity gap to net equity					4.27%

Note 1: The above amounts included only the U.S. dollar amounts held by the head office, domestic branches, OBU and overseas branches of the Bank and excluded contingent assets and contingent liabilities.

Note 2: Interest rate-sensitive assets and liabilities mean the revenues or costs of interest-earning assets and interest-bearing liabilities affected by interest rate changes.

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

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

d. Profitability

Unit: %

Items	December 31, 2018	December 31, 2017
Return on total assets	Pretax	0.69
	After tax	0.60
Return on net equity	Pretax	10.17
	After tax	8.79
Profit margin	37.55	35.10

Note 1: Return on total assets = Income before (after) income tax ÷ Average total assets

Note 2: Return on equity = Income before (after) income tax ÷ Average equity

Note 3: Net income ratio = Income after income tax ÷ Total net revenues

Note 4: Income before (after) income tax represents income for the years ended December 31, 2018 and 2017.

e. Maturity analysis

**Maturity Analysis of Assets and Liabilities
December 31, 2018**

(In Thousands of New Taiwan Dollars)

	Total	Period Remaining until Due Date and Amount Due					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 619,398,838	\$ 97,398,772	\$ 34,941,879	\$ 31,135,311	\$ 55,245,416	\$ 98,133,621	\$ 302,543,839
Main capital outflow on maturity	742,326,833	29,605,923	35,688,786	81,243,268	105,947,813	196,715,151	293,125,892
Gap	(122,927,995)	67,792,849	(746,907)	(50,107,957)	(50,702,397)	(98,581,530)	9,417,947

December 31, 2017

(In Thousands of New Taiwan Dollars)

	Total	Period Remaining until Due Date and Amount Due					
		0-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 598,141,237	\$ 109,914,586	\$ 30,498,374	\$ 29,468,061	\$ 51,262,425	\$ 88,329,183	\$ 288,668,608
Main capital outflow on maturity	710,537,090	36,411,396	37,325,982	88,778,387	108,514,499	171,244,522	268,262,304
Gap	(112,395,853)	73,503,190	(6,827,608)	(59,310,326)	(57,252,074)	(82,915,339)	20,406,304

Note: The above amounts included only the New Taiwan dollar amounts held by the head office and domestic branches of the Bank (excluding foreign currency).

**Maturity Analysis of Assets and Liabilities
December 31, 2018**

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 2,035,175	\$ 272,430	\$ 298,059	\$ 257,196	\$ 77,992	\$ 1,129,498
Main capital outflow on maturity	2,857,122	602,245	811,276	484,962	812,641	145,998
Gap	(821,947)	(329,815)	(513,217)	(227,766)	(734,649)	983,500

December 31, 2017

(In Thousands of U.S. Dollars)

	Total	Remaining Period to Maturity				
		0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year
Main capital inflow on maturity	\$ 2,057,206	\$ 472,931	\$ 288,565	\$ 317,306	\$ 100,961	\$ 877,443
Main capital outflow on maturity	2,875,529	557,042	748,449	554,700	839,630	175,708
Gap	(818,323)	(84,111)	(459,884)	(237,394)	(738,669)	701,735

Note 1: The above amounts included only the U.S. dollar amounts held by the head office, domestic branches, OBU and overseas branches of the Bank and excluded contingent assets and contingent liabilities.

Note 2: When the OBU's assets account for 10% of total assets of the Bank, the Bank should provide complimentary disclosed information.

41. CAPITAL MANAGEMENT

- a. The purpose of capital management is to reach the criteria set by administration which is the basic goal of the Bank's capital management. The calculation method of the relevant qualified eligible capital and legal capital should be handled in accordance with the provisions of the competent authority.

To maintain the ratio of eligible capital to risk-weighted assets above the target level, the capital management structure of the Bank should be properly planned depending on the conditions of capital market, the characteristics of various capital instruments, the efficiency of capital utilization and the impact of operational performance.

- b. The Bank follows the relevant regulations of the competent authority and the internal operating procedures of the Bank, to regularly disclose relevant information on capital adequacy and report to the competent authority on a quarterly basis.

Self-owned capital of the Bank is divided into Tier 1 capital and Tier 2 capital according to principles of capital adequacy management.

- 1) The term "Net Tier 1 Capital" shall mean the aggregate amount of net common Equity Tier 1 and net additional Tier 1 Capital.

- a) The common equity Tier 1 capital consists of the common shares and additional paid-in capital in excess of par - common shares, the capital collected in advance, the capital reserves, the statutory surplus reserves, the special reserves, the accumulated profit or loss, the non-controlling interests and the other items of interest.

- b) Additional Tier 1 capital consists of non-cumulative perpetual preferred shares and its capital share premium, the non-cumulative perpetual subordinated debts, the non-cumulative perpetual preferred shares and its capital share premium, and the non-cumulative perpetual subordinated debts which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.

- 2) Tier 2 capital

The Tier 2 capital consists of cumulative perpetual preferred shares and its capital share premium, the cumulative perpetual subordinated debts, the convertible subordinated debts, the long-term subordinated debts, the non-perpetual preferred shares and its capital share premium, when applying International Financial Reporting Standards in real estate and using the fair value method or the re-estimated value method as the deemed cost for the first time, the difference in amount between the deemed cost and the book value recognized in retained earnings, the 45% of unrealized gains on changes in the fair value of investment properties using the fair value method, as well as the 45% of unrealized gains on available-for-sale financial assets, the operational reserves and loan-loss provisions and the cumulative perpetual preferred shares and its capital share premium, the cumulative perpetual subordinated debts, the convertible subordinated debts, the long-term subordinated debts, and the non-perpetual preferred shares and its capital share premiums, which are issued by banks' subsidiaries, and are not directly or indirectly held by banks.

c. Capital adequacy ratio (CAR)

(Unit: In Thousands of New Taiwan Dollars, %)

Items		Year	December 31, 2018	December 31, 2017	
Eligible capital	Common equity		\$ 45,861,436	\$ 41,576,965	
	Other Tier 1 capital		10,157,025	7,787,052	
	Tier 2 capital		3,391,593	4,629,062	
	Eligible capital		59,410,054	53,993,079	
Risk-weighted assets	Credit risk	Standardized approach	454,751,838	425,267,057	
		Internal ratings-based approach	-	-	
		Securitization	-	-	
	Operational risk	Basic indicator approach	18,893,313	17,893,063	
		Standardized approach/alternative standardized approach	-	-	
		Advanced measurement approach	-	-	
	Market risk	Standardized approach	7,272,988	6,369,638	
		Internal model approach	-	-	
	Risk-weighted assets			480,918,139	449,529,758
	Capital adequacy ratio (%)			12.35%	12.01%
Ratio of common equity to risk-weighted assets (%)			9.54%	9.25%	
Ratio of Tier 1 capital to risk-weighted assets (%)			11.65%	10.98%	
Leverage ratio (%)			7.80%	7.13%	

Note 1: Eligible capital and risk-weighted assets are calculated under the “Regulations Governing the Capital Adequacy Ratio of Banks” and “Explanation of Methods for Calculating the Eligible Capital and Risk-Weighted Assets of Banks”.

Note 2: Annual financial statements should include capital adequacy ratio of the current and prior year. Semi-annual financial statements in addition to exposing the current and prior year’s financial status, should also include the capital adequacy ratio at the end of prior year.

Note 3: Formulas used were as follows:

- 1) Eligible capital = Common equity + Other Tier 1 capital + Tier 2 capital.
- 2) Risk-weighted assets = Risk-weighted asset for credit risk + Capital requirements for operational risk and market risk x 12.5.
- 3) Capital adequacy ratio = Eligible capital ÷ Risk-weighted assets.
- 4) Ratio of the common equity to risk-weighted assets = Common equity ÷ Risk-weighted assets.
- 5) Ratio of Tier 1 capital to risk-weighted assets = (Common equity + Other Tier 1 capital) ÷ Risk-weighted assets.
- 6) Leverage ratio = Tier 1 capital ÷ Exposure measurement.

Note 4: Exempt from disclosure in the preparation of the first and third quarters of the financial reports.

42. SIGNIFICANT ASSETS AND LIABILITIES DENOMINATED IN FOREIGN CURRENCIES

Details of significant assets and liabilities denominated in foreign currencies were as follows:

	December 31, 2018						Total
	USD	RMB	JPY	AUD	EUR	Others	
<u>Financial assets in foreign currencies</u>							
Cash and cash equivalents	\$ 1,753,626	\$ 320,117	\$ 491,643	\$ 465,958	\$ 1,277,676	\$ 807,161	\$ 5,116,181
Due from the central bank and call loans to other banks	61,420	223,600	-	-	-	-	285,020
Financial assets at fair value through profit or loss	1,079,159	-	-	-	-	11	1,079,170
Financial assets at fair value through other comprehensive income	980,178	-	-	-	-	-	980,178
Notes discounted and loans	34,421,321	1,266,246	351,738	216,969	470,514	655,638	37,382,426
Receivables	2,205,979	118,401	251,121	11,470	150,493	85,759	2,823,223
Financial assets at amortized cost	17,538,248	2,280,163	-	1,322,022	-	148,932	21,289,365
Other assets	131,592	-	-	-	-	-	131,592
<u>Financial liabilities in foreign currencies</u>							
Due to the central bank and other banks	1,074,850	-	-	-	-	-	1,074,850
Deposits and remittances	44,332,288	3,556,606	664,068	2,336,307	506,670	1,610,387	53,006,326
Financial liabilities at fair value through other comprehensive income	71,504	-	-	-	-	10	71,514
Payables	973,662	110,904	91,995	6,612	1,208,062	116,473	2,507,708
Securities sold under repurchased agreements	8,704,431	-	-	-	-	-	8,704,431
Provisions	29,944	-	-	-	-	-	29,944
Other liabilities	172,294	-	-	-	1,360	2,127	175,781
New Taiwan dollars exchange rate	30.71	4.47	0.28	21.67	35.21		
	December 31, 2017						Total
	USD	RMB	JPY	AUD	EUR	Others	
<u>Financial assets in foreign currencies</u>							
Cash and cash equivalents	\$ 2,091,909	\$ 398,920	\$ 631,027	\$ 110,926	\$ 186,417	\$ 340,995	\$ 3,760,194
Due from the central bank and call loans to other banks	53,586	91,300	-	-	-	337,821	482,707
Financial assets at fair value through profit or loss	119,251	-	-	-	-	290	119,541
Financial assets at fair value through other comprehensive income	158,825	-	-	-	-	-	158,825
Notes discounted and loans	32,528,042	1,260,225	295,904	406,267	491,123	867,454	35,849,015
Receivables	3,510,147	153,270	117,420	19,623	511,021	76,434	4,387,915
Financial assets at amortized cost	14,520,384	3,424,197	-	1,416,042	-	169,010	19,529,633
Other assets	900,335	-	-	-	-	-	900,335
	163,288	-	-	-	-	-	163,288
<u>Financial liabilities in foreign currencies</u>							
Due to the central bank and other banks	2,828,150	-	-	-	178,000	-	3,006,150
Deposits and remittances	43,393,558	3,263,127	788,466	2,159,266	472,269	1,355,064	51,431,750
Financial liabilities at fair value through other comprehensive income	71,728	-	-	-	-	290	72,018
Payables	2,706,501	47,389	70,684	7,683	448,365	302,000	3,582,622
Securities sold under repurchased agreements	2,105,229	-	-	-	-	-	2,105,229
Provisions	6,674	-	-	-	-	-	6,674
Other liabilities	72,489	-	113	-	4,112	44,528	121,242
New Taiwan dollars exchange rate	29.77	4.57	0.26	23.20	35.60		

43. ADDITIONAL DISCLOSURES

a. Information about significant transactions and investees:

Disclosure of relevant information in accordance with Article 18 of Regulations Governing the Preparation of Financial Reports by Public Banks are as follows:

No.	Item	Note
1	Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 10% of the paid-in capital.	None
2	Acquisition of individual real estate at costs of at least NT\$300 million or 10% of the paid-in capital.	None
3	Disposal of individual real estate at prices of at least NT\$300 million or 10% of the paid-in capital.	None
4	Allowance of service fees to related parties amounting to at least NT\$5 million.	None
5	Receivables from related parties amounting to at least NT\$300 million or 10% of the paid-in capital.	None
6	Sale of nonperforming loans.	None
7	Financial asset securitization and real estate securitization.	None
8	Other significant transactions which may affect the decisions of users of financial reports.	None

b. The related information of the Bank's investees:

No.	Item	Note
1	Related information and proportionate share in investees.	Table 1
2	Financing provided.	Table 2
3	Endorsement/guarantee provided.	Table 3
4	Marketable securities held.	Table 4
5	Marketable securities acquired and disposed of at costs or prices of at least NT\$300 million or 10% of the paid-in capital.	None
6	Other significant transactions which may affect the decisions of users of financial reports.	None

Note: The financial, insurance and securities industries of the invested companies are exempt from disclosure.

c. Investment in mainland China: Table 5 (attached).

TAICHUNG COMMERCIAL BANK CO., LTD.

THE RELATED INFORMATION AND PROPORTIONATE SHARE IN INVESTEEES
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Investor Company	Investee Company (Note 1)	Location	Main Businesses and Products	Percentage of Ownership	Carrying Value	Investment Gain (Loss)	Proportionate Share of the Bank and its Affiliates in Investees (Note 1)				Note
							Shares (In Thousands)	Pro Forma Shares (Note 2)	Total		
									Shares (In Thousands)	Percentage of Ownership	
Taichung Commercial Bank Co., Ltd.	Taichung Bank Insurance Brokers Co.	Taichung City	Insurance broker industry	100.00	\$ 1,828,479	\$ 360,419	128,600	-	128,600	100.00	
	Reliance Securities Investment Trust Co., Ltd.	Taipei City	Securities investment trust industry	38.46	153,423	(6,716)	18,643	-	18,643	59.75	
	Taichung Commercial Bank Securities Co., Ltd.	Taichung City	Securities industry	100.00	1,383,843	219	150,000	-	150,000	100.00	
	Taichung Bank Leasing Corporation Limited	Taipei City	Leasing business	100.00	1,858,956	81,821	185,000	-	185,000	100.00	
Taichung Bank Leasing Corporation Limited	TCCBL Co., Ltd. (B.V.I.)	British Virgin Islands	Financial leasing and investment business	100.00	782,226	21,246	30,000	-	30,000	100.00	
TCCBL Co., Ltd. (B.V.I.)	Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Suzhou	Financial leasing business	100.00	728,040	8,660	-	-	-	100.00	

Note 1: Shares or pro forma shares held by the Bank, directors, supervisors, president, vice president and affiliates have all been included in accordance with the Company Act.

Note 2: a. Pro forma shares are shares assumed to be obtained through buying equity-based securities or entering into equity-linked derivative contracts for purposes defined in Article 74 of the Banking Law.
b. Equity-based securities, such as convertible bonds and warrants, are covered by Article 11 of "Securities and Exchange Law Enforcement Rules."
c. Derivative contracts, such as share options, are those conforming to the definition of derivatives in International Financial Reporting Standard 9.

Note 3: This table of "information of investees' names, locations, etc." can only be seen in the second and fourth quarter's financial statements.

TAICHUNG COMMERCIAL BANK CO., LTD.

FINANCING PROVIDED TO OTHERS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No. (Note 1)	Lender	Borrower	Financial Statement Account (Note 2)	Related Party	Highest Balance for the Period (Note 3)	Ending Balance (Note 8)	Actual Borrowing Amount	Interest Rate (%)	Nature of Financing (Note 4)	Business Transaction Amount (Note 5)	Reasons for Short-term Financing (Note 6)	Allowance for Impairment Loss	Collateral		Financing Limit for Each Borrower (Note 7)	Aggregate Financing Limit (Note 7)	Note
													Item	Value			
1	Taichung Bank Leasing Corporation Limited	Mi Qi Ji, Ltd.	Other receivables	Not related	\$ 170,000	\$ -	\$ -	6.50	Necessary for short-term financing	\$ -	Business turnover	\$ -	Real estate	\$ 171,396	\$ 185,896	\$ 743,582	Note 9
2	Taichung Bank Leasing Corporation Limited	Chang Hong International Development Co., Ltd.	"	"	50,000	21,989	21,989	4-10	"	-	"	226	Real estate	29,079	185,896	743,582	"
3	Taichung Bank Leasing Corporation Limited	Yuan Mao Construction Co., Ltd.	"	"	100,000	-	-	4-10	"	-	"	-	Share	63,180	185,896	743,582	"
4	Taichung Bank Leasing Corporation Limited	Yan Xin Construction Co., Ltd.	"	"	95,654	64,170	64,170	4-10	"	-	"	661	Real estate	58,613	185,896	743,582	"
5	Taichung Bank Leasing Corporation Limited	General Energy Solutions Inc.	"	"	50,000	23,476	23,476	4-10	"	-	"	190	Margin	5,000	185,896	743,582	"
6	Taichung Bank Leasing Corporation Limited	Yi Le Construction Co., Ltd.	"	"	65,000	63,050	63,050	4-10	"	-	"	649	Real estate	65,161	185,896	743,582	"
7	Taichung Bank Leasing Corporation Limited	Huang Chao Golden Hall Inc.	"	"	30,000	16,696	16,696	4-10	"	-	"	110	Margin	6,000	185,896	743,582	"
8	Taichung Bank Leasing Corporation Limited	Yuan Li Engineering Co., Ltd.	"	"	50,000	35,678	35,678	4-10	"	-	"	367	None	-	185,896	743,582	"
9	Taichung Bank Leasing Corporation Limited	Kuang Ming Shipping Corp.	"	"	100,000	100,000	-	4-10	"	-	"	-	Margin	20,000	185,896	743,582	"
10	TCCBL Co., Ltd. (B.V.I.)	Ever Merit Trading Limited	"	"	73,704	18,426	18,426	5.25	"	-	"	184	Share	61,911	78,223	312,890	Note 10
11	TCCBL Co., Ltd. (B.V.I.)	League International Limited	"	"	30,710	7,678	7,678	4-10	"	-	"	46	Margin	3,071	78,223	312,890	"
12	TCCBL Co., Ltd. (B.V.I.)	TCT Capital Co., Ltd.	"	"	49,136	-	-	4-10	"	-	"	-	Margin	4,914	78,223	312,890	"
13	TCCBL Co., Ltd. (B.V.I.)	Cross Border Profits Limited	"	"	42,994	28,867	28,867	4-10	"	-	"	258	Margin	3,071	78,223	312,890	"
14	TCCBL Co., Ltd. (B.V.I.)	TCT Capital Co., Ltd.	"	"	49,136	49,136	49,136	4-10	"	-	"	442	Margin	4,914	78,223	312,890	"
15	Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Sanyuan Construction (Qingdao) Development Co., Ltd.	Entrusted loan	"	169,936	-	-	10	"	-	Capital investment plan expenditure	-	Real estate	1,783,693	291,216	291,216	Note 11
16	Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Zhangjiajie Zhongjun Real Estate Co., Ltd.	"	"	26,832	26,832	26,832	9.6	"	-	"	402	Real estate	241,086	291,216	291,216	"

Note 1: The description of the number column is as follows:

- a. Issuer: 0.
- b. The invested company is numbered sequentially by the Arabic number 1 according to the company.

Note 2: Items such as accounts receivable, corporate receivables, shareholder transactions, prepayments, provisional payments, etc., which are provided by financing are required to be filled in this field.

Note 3: The annual fund is provided to others to the highest balance.

Note 4: Nature of financing should be filled with business contacts or those who have short-term financing.

Note 5: Nature of the loan of the business contacts should be filled with the amount of business transactions. The amount of business transactions refers to the amount of business transactions between the company that lends the funds and the target of last year's loan.

(Continued)

Note 6: Nature of the loan required for short-term financing should specify the reasons for the loans and the use of funds for the loan, such as repayment of loans, purchase of equipment, business turnover, etc.

Note 7: The company shall fill in the borrowing limit and total limit for individual objects according to the operating procedures and explains the calculation method of the total limit in the column Note.

Note 8: If the board of directors of the public offering company according to Article 14 (1) of the Public Offering Company's Financing and Endorsement Guarantee Processing Guidelines will make a resolution, the amount of the resolution of the board of directors shall be included in the announcement balance to disclose its risk; however, if the funds are repaid, the balance after repayment should be disclosed to reflect the adjustment of risk. If the public offering company authorizes the chairman of the board to allocate or repay the loan in a certain amount and within one year according to the resolution of the board of directors in accordance with Article 14(2) of the handling criteria, the fund's loan and the amount approved by the board of directors shall be the declared balance. Although the funds will be repaid afterwards, the consideration may still be re-loaned. Therefore, the fund loan and the amount approved by the board of directors should still be used as the announced balance.

Note 9: Taichung Bank Leasing Corporation Limited should not exceed 10% of its own net value for a single enterprise. The total amount of financing provide to others is limited to 40% of the net value of Taichung Bank Leasing Corporation Limited.

Note 10: TCCBL Co., Ltd. (B.V.I.) should not exceed 10% of its own net value for a single enterprise. The total amount of financing provide to others is limited to 40% of the net value of TCCBL Co., Ltd. (B.V.I.).

Note 11: Taichung Bank Financial Leasing (Suzhou) Co., Ltd. should not exceed 40% of its own net value for a single enterprise. The total amount of financing provide to others is limited to 40% of the net value of Taichung Bank Financial Leasing (Suzhou) Co., Ltd.

(Concluded)

TAICHUNG COMMERCIAL BANK CO., LTD.

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

No.	Endorser/Guarantor	Endorsee/Guarantee		Limit on Endorsement/ Guarantee Given on Behalf of Each Party (Note 1)	Maximum Amount Endorsed/ Guaranteed During the Period (Note 2)	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount Endorsed/ Guaranteed by Collateral	Ratio of Accumulated Endorsement/ Guarantee to Net Equity in Latest Financial Statements (%)	Aggregate Endorsement/ Guarantee Limit (Note 1)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries (Note 3)	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent (Note 3)	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China (Note 3)
		Name	Relationship										
1	Taichung Bank Leasing Corporation Limited	TCCBL Co., Ltd. (B.V.I.)	Direct shareholding of 100% of subsidiary	\$ 11,153,738	\$ 2,510,000	\$ 1,221,512	\$ 377,733	\$ -	66.99	\$ 18,589,563	-	-	-
2	Taichung Bank Leasing Corporation Limited	Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Indirect shareholding of 100% of subsidiary	11,153,738	2,083,830	2,083,830	1,282,320	-	114.28	18,589,563	-	-	Y

Note 1: According to Taichung Bank Leasing Corporation Limited's "Operating Procedures to Fund Endorsement and Guarantee", the endorsement limit to single company cannot surpass six times of Taichung Bank Leasing Corporation Limited's audited net worth. The endorsement limits to all subsidiaries cannot surpass 10 times of Taichung Bank Leasing Corporation Limited's audited net worth.

Note 2: The maximum balance guaranteed for endorsement of others during the year.

Note 3: It is a guarantor of the listed parent company to the endorsement of the subsidiary, the subsidiary company's endorsement to the listed parent company and the endorsement of the mainland area must be filled with Y.

TAICHUNG COMMERCIAL BANK CO., LTD.

MARKETABLE SECURITIES HELD
FOR THE YEAR ENDED DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars or Shares)

Name of Holding Company	Type and Name of Marketable Securities	Relationship	Financial Statements Account	December 31, 2018				Note
				Shares/Units/ Face Amount	Carrying Amount (Note)	Percentage of Ownership	Market Value or Net Asset Value (Note)	
Taichung Commercial Bank Co., Ltd.	<u>Domestic non-listed (cabinet) shares</u> Taichung Bank Leasing Corporation Limited	Subsidiary	Investment accounted for using the equity method	185,000	\$ 1,858,956	100	\$ 1,858,956	
	Taichung Bank Insurance Brokers Co., Ltd.	"	"	128,600	1,828,479	100	1,828,479	
	Taichung Bank Securities Co., Ltd.	"	"	150,000	1,383,843	100	1,383,843	
	Reliance Securities Investment Trust Co., Ltd.	Associated	"	12,000	153,423	38	153,423	
Taichung Bank Leasing Corporation Limited	<u>Foreign unlisted (cabinet) shares</u> TCCBL Co., Ltd. (B.V.I.)	Sub-subsidiary	Investment accounted for using the equity method	30,000	782,226	100	782,226	
TCCBL Co., Ltd. (B.V.I.)	<u>Foreign unlisted (cabinet) shares</u> Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Sub-subsidiary	Investment accounted for using the equity method	-	728,040	100	728,040	

Note: The financial industry, the insurance industry and the securities industry are exempt from disclosure.

TAICHUNG COMMERCIAL BANK CO., LTD.

INVESTMENT IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

Investee Company Name	Main Businesses and Products	Total Amount of Paid-in Capital	Investment Type	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	% Ownership of Direct or Indirect Investment	Investment Gain	Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018
					Outflow	Inflow					
Taichung Bank Financial Leasing (Suzhou) Co., Ltd.	Financial leasing business	\$ 893,373 (CNY 186,329 thousand)	Investment in mainland China companies through an existing company established in a third region.	\$ 893,373 (CNY 186,329 thousand)	\$ -	\$ -	\$ 893,373 (CNY 186,329 thousand)	100	\$ 8,660 (CNY 1,900 thousand)	\$ 728,040 (CNY 162,780 thousand)	\$ -

Accumulated Investment in Mainland China as of December 31, 2018	Investment Amount Approved by the Investment Commission, MOEA	Maximum Investment Allowable (Note 2)
\$893,373	\$893,373	\$1,115,374

Note 1: Recognition of investment gains and losses based on the financial statements audited by the parent company accountant.

Note 2: Based on the Investment Commission's "Regulation on the Examination of Investment or Technical Cooperation in Mainland China", investments are limited to the regulation of Taichung Bank Leasing Corporation Limited calculation.

Note 3: Foreign currency involved translation into the New Taiwan dollar at the spot rate and average exchange rate on the date of the financial statements. (CNY1=NT\$4.47, CNY1=NT\$4.56)

TAICHUNG COMMERCIAL BANK CO., LTD.

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TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF CASH AND CASH EQUIVALENTS

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Item	Amount
Cash on hand	\$ 3,360,012
Cash on hand - foreign currencies (Note)	970,437
Checks for clearing	5,715,927
Due from banks	<u>4,924,678</u>
	<u>\$ 14,971,054</u>

Note: The cash on hand - foreign currencies include: US\$12,317 thousand, US\$1=NT\$30.71; EUR1,407 thousand; EUR1=NT\$35.21; JPY1,064,351 thousand, JPY1=NT\$0.28; HK\$20,845 thousand, HK\$1=NT\$3.92; AUD725 thousand, AUD1=NT\$21.67; CAD314 thousand, CAD1=NT\$22.57; CNY31,755 thousand, CNY1=NT\$4.47.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Name	Description	Shares	Amount	Total Amount	Cost	Fair Value		
						Unit Price (NT\$)	Total Amount	
Financial assets at FVTPL								
1. Domestic listed shares and emerging market shares								
Taiwan Fire & Marine Insurance Co., Ltd.		10,662	10	\$ 106,620	\$ 295,771	19.55	\$ 208,442	
Taiwan Business Bank, Ltd.		51,452	10	514,520	331,285	10.35	532,528	
Others (Note)		1,349	10	13,490	117,956		112,007	
				<u>634,630</u>	<u>745,012</u>		<u>852,977</u>	
2. Cross-currency swap contracts								
	Note 8	-		-	-		29,105	
3. Beneficiary certificate								
UPAMC Small And Medium Cap		1,300		30,000	30,000	21.92	28,505	
FUH-HWA SMALL CAPITAL FUND		465		30,000	30,000	60.00	27,881	
Yuanta/P-shares Taiwan Top 50 ETF		400		33,305	33,305	75.50	30,199	
Yuanta/P-shares Taiwan Dividend Plus ETF		600		14,910	14,910	23.94	14,364	
UPAMC Global Innovative Tech		2,304		30,000	30,000	11.83	27,258	
Jih Sun Upstream Fund		1,033		30,000	30,000	28.24	29,184	
Yuanta S&P GSCI Crude Oil ER Futures ETF		1,054		15,567	15,567	14.66	15,452	
				<u>183,782</u>	<u>183,782</u>		<u>172,843</u>	
4. Commercial paper								
Dragon Steel		-		1,400,000	1,399,245		1,399,515	
Formosa Plastics		-		1,850,000	1,847,807		1,849,519	
Taiwan Cooperative Financial Holding		-		1,500,000	1,498,103		1,498,882	
NAN YA		-		1,300,000	1,298,636		1,299,186	
Cathay Financial		-		7,459,000	7,450,835		7,456,365	
Waterland Securities		-		1,150,000	1,149,430		1,149,743	
Others (Note)		-		7,395,000	7,387,752		7,391,030	
				<u>22,054,000</u>	<u>22,031,808</u>		<u>22,044,240</u>	
5. Foreign exchange forward contracts								
	Note 8	-		-	-		49,726	

(Continued)

	Name	Amount	Cost	Fair Value			
				Unit Price (NT\$)	Total Amount		
6. Asset swap contract							
	Highwealth 5	4,208	100	\$ 420,800	\$ 420,800	105.80	\$ 420,963
	Taiwan Mobile 3	1,012	100	101,200	101,200	103.05	101,372
	Shanyuan 2	1,532	100	153,200	153,200	103.50	152,297
	Shin Kong Financial Holding 5	1,345	100	134,500	134,500	100.95	134,505
	China Airlines 6	4,725	100	472,500	472,500	101.60	472,768
	Yang Ming Marine Transport 5	2,140	100	214,000	214,000	101.55	214,144
	Others (Note)	4,152	100	<u>415,200</u>	<u>415,200</u>		<u>415,624</u>
				<u>1,911,400</u>	<u>1,911,400</u>		<u>1,911,673</u>
7. Cross-currency option contracts			Note 8	-	42,393		78,217
8. Interest structured instrument contracts				-	-		11
9. PEM group policy assets				-	998,147		998,147
				<u>\$ 25,781,959</u>	<u>\$ 25,912,542</u>		<u>\$ 26,136,939</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

(Concluded)

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF SECURITIES PURCHASED UNDER RESELL AGREEMENTS

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Type	Period	Carrying Value	Amount	Interest
Commercial paper	2018.12.10-2019.01.14	<u>\$ 9,105,000</u>	<u>\$ 9,094,151</u>	0.54%-0.65%

TAICHUNG COMMERCIAL BANK CO., LTD.**STATEMENT OF RECEIVABLE, NET****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Item	Amount
Accounts receivable factored without recourse	\$ 133,277
Receivables on credit cards	748,384
Acceptances	836,196
Interest receivables	1,294,953
Receivables on foreign currency settlement	1,909,476
Receivables on attorney fees of advances	32,027
Receivables on sale of securities	119,576
Others receivables	<u>105,637</u>
	5,179,526
Less: Allowance for doubtful accounts	<u>(151,385)</u>
	<u>\$ 5,028,141</u>

TAICHUNG COMMERCIAL BANK CO., LTD.**STATEMENT OF NOTES DISCOUNTED AND LOANS, NET****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars)**

Item	Amount
Bills negotiated	\$ 475,822
Overdrafts	1,061
Secured overdrafts	10,031
Account receivable financing	80,862
Short-term unsecured loans	43,046,052
Short-term secured loans	103,198,900
Medium-term unsecured loans	49,659,266
Medium-term secured loans	109,958,945
Long-term unsecured loans	4,499,987
Long-term secured loans	145,623,202
Delinquent loans	<u>1,662,082</u>
	458,216,210
Add: Adjustment of premium or discount	44,071
Less: Allowance for doubtful accounts	<u>(6,531,703)</u>
	<u>\$ 451,728,578</u>

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME
DECEMBER 31, 2018
(In Thousands of New Taiwan Dollars)

Name	Description	Interest Payment Date	Due Date	Units/Shares (In Thousands)	Amount	Interest %	Carrying Value	Accumulated Impairment Loss	Allowance for Doubtful Accounts	Fair Value
Domestic unlisted shares										
Taiwan Stock Exchange Corporation				1,593	\$ -		\$ 111,770	\$ -	\$ -	\$ 111,770
Financial Information Service Co., Ltd				5,938	-		192,775	-	-	192,775
Taiwan Incubator SME Development Co				3,417	-		42,246	-	-	42,246
Taiwan Futures Exchange				1,503	-		115,465	-	-	115,465
Taiwan Depository & Clearing Corporation				581	-		43,519	-	-	43,519
Others (Note)				5,011	-		4,748	-	-	4,748
				-	-		510,523	-	-	510,523
Corporate bonds										
P05 YFH 1C	Par Value 5,000,000	2019/05/27	2023/05/27	5,000	5,000,000	1.00	5,000,000	-	12,156	5,012,156
P05 CST 1	Par Value 1,500,000	2019/09/26	2020/09/26	1,500	1,500,000	0.71	1,500,000	-	(4,946)	1,495,054
Others (Note)					14,025,000		14,110,243	-	112,982	14,223,225
					\$ 20,525,000		20,610,243	-	120,192	20,730,435
Government bonds										
101 Central government bond A7	Par Value 700,000	2018/08/10	2032/08/10	700	700,000	1.50	723,583	-	19,340	742,923
103 Central government A11	Par Value 800,000	2018/07/31	2034/07/31	800	800,000	2.13	898,492	-	7,341	905,833
Central government bond 95-7	Par Value 2,300,000	2018/11/10	2026/11/10	2,300	2,300,000	2.13	2,510,339	-	(28,286)	2,482,053
99 Central government bond A7	Par Value 500,000	2018/08/12	2030/08/12	500	500,000	1.75	536,362	-	3,411	539,773
Central government bond 97-5	Par Value 300,000	2018/08/14	2028/08/14	300	300,000	2.63	345,725	-	872	346,597
105 Central government A13	Par Value 500,000	2018/10/25	2021/10/25	500	500,000	0.63	498,346	-	2,001	500,347
Others (Note)					450,000		457,689	-	1,144	458,833
					\$ 5,550,000		5,970,536	-	5,823	5,976,359
Foreign listed shares										
Visa International				29			19,003	-	96,910	115,913
Master Card International				14			12,944	-	65,921	78,865
							31,947	-	162,831	194,778
Foreign bonds										
HSBC HOLDINGS PLC				-	245,680		253,820	-	(6,047)	247,773
HSBC HOLDINGS PLC				-	122,840		121,569	-	(2,595)	118,974
WELLS FARGO & COMPANY				-	122,840		121,071	-	(2,505)	118,566
JPMORGAN CHASE & CO				-	92,130		92,871	-	(1,667)	91,204
JPMORGAN CHASE & CO				-	214,970		214,192	-	(5,309)	208,883
				-	798,460		803,523	-	(18,123)	785,400
							\$ 27,926,772	\$ -	\$ 270,723	\$ 28,197,495

Note: The amount of each item in others does not exceed 5% of the account balance.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF INVESTMENT IN DEBT INSTRUMENTS AT AMORTIZED COST
DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Type	Description	Interest Payment Date	Maturity Date	Carrying Value (NT\$)	Interest %	Allowance For Doubtful Accounts	Unamortized Price	Fair Value
1. Government bonds								
101 Central government bond A5	Guaranteed par value \$24,500 Thousand	2019/03/07	2022/03/07	\$ 700,000	1.250	\$ (201)	\$ 3,340	\$ 703,139
90 Central government bond B1	Guaranteed par value \$500,000 Thousand	2019/09/11	2021/09/11	1,000,000	4.000	(308)	74,886	1,074,578
89 Central government bond A7		2019/01/18	2020/01/18	1,000,000	6.250	(303)	56,408	1,056,105
103 Central government bond A6		2019/03/03	2024/03/03	1,000,000	1.500	(293)	21,584	1,021,291
106 Central government bond A4		2019/03/01	2027/03/01	1,200,000	1.125	(346)	8,458	1,208,112
99 Central government bond A4		2019/02/22	2030/02/22	1,050,000	1.875	(326)	87,788	1,137,462
106 Central government bond A9		2019/09/20	2027/09/20	1,650,000	1.000	(472)	(3,570)	1,645,958
Others (Note)				5,020,000	0.625-5.875	(1,511)	254,709	5,273,198
Less: Deposit reserves for trust compensation				(60,000)		-	-	(60,000)
Refundable deposits				(785,000)		-	-	(785,000)
				<u>11,775,000</u>		<u>(3,760)</u>	<u>503,603</u>	<u>12,274,843</u>
2. Foreign bonds (Note)				<u>21,305,890</u>	2.000-8.375	<u>(71,928)</u>	<u>55,403</u>	<u>21,289,365</u>
3. Credit certificate				<u>9,511</u>		<u>(9,511)</u>	<u>-</u>	<u>-</u>
4. Commercial paper								
NCDs				<u>55,500,000</u>	0.200-0.700	<u>-</u>	<u>-</u>	<u>55,500,000</u>
5. Corporate bonds								
P07 FENC 1				800,000		(842)	-	799,158
P07 Pegatron 1B				600,000		(478)	-	599,522
P06 YL 1A				600,000		(930)	29	599,099
P07 DSC 2				600,000		(631)	-	599,369
Others (Note)				8,800,000		(17,049)	18,454	8,801,405
				<u>11,400,000</u>		<u>(19,930)</u>	<u>18,483</u>	<u>11,398,553</u>
				<u>\$ 99,990,401</u>		<u>\$ (105,129)</u>	<u>\$ 577,489</u>	<u>\$ 100,462,761</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF CHANGES IN INVESTMENTS ACCOUNTED FOR USING EQUITY METHOD
FOR THE YEAR ENDED DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investees	Balance, January 1, 2018		Additions in Investment		Decrease in Investment		Balance, December 31, 2018			Market Value or Net Assets Value
	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	Amount	Shares (In Thousands)	%	Amount	
Taichung Bank Insurance Brokers Co. (Note 1)	105,600	\$ 1,432,236	23,000	\$ 397,109	-	\$ (866)	128,600	100.00	\$ 1,828,479	\$ 1,828,479
Reliance Securities Investment Trust Co., Ltd. (Note 2)	12,000	128,113	-	32,609	-	(7,299)	12,000	38.46	153,423	153,423
Taichung Bank Leasing Corporation Limited (Note 3)	185,000	1,790,773	-	81,821	-	(13,638)	185,000	100.00	1,858,956	1,858,956
Taichung Bank Securities Co., Ltd. (Note 4)	150,000	<u>1,383,985</u>	-	<u>219</u>	-	<u>(361)</u>	150,000	100.00	<u>1,383,843</u>	<u>1,383,843</u>
		<u>\$ 4,735,107</u>		<u>\$ 511,758</u>		<u>\$ (22,164)</u>			<u>\$ 5,224,701</u>	<u>\$ 5,224,701</u>

Note 1: The increase in the current year is based on investment income recognized under equity method of \$360,419 thousand, the shares of dividends in the current year are 23,000 shares and the recognition of unrealized gains on financial instruments amounted to \$36,690 thousand. The current decrease is reduced by \$866 thousand of cash dividends. The net assets value was calculated based on financial statements which have been audited.

Note 2: The increase in the current year is based on the adjustment under IFRS 9 of \$32,430 thousand and the defined benefit plans recognized under equity method of \$179 thousand. The current decrease is recognized as investment loss of \$6,716 thousand and the recognition of unrealized loss on financial instruments amounted to \$583 thousand. The net assets value was calculated based on financial statements which have been audited.

Note 3: The increase in the current year is based on investment income recognized under equity method of \$81,821 thousand, the current decrease is reduced by \$13,638 thousand of cumulative translation adjustment. The net assets value was calculated based on financial statements which have been audited.

Note 4: The increase in the current year is based on investment income recognized under equity method of \$219 thousand, the current decrease is reduced by \$361 thousand of the adjustment under IFRS 9. The net assets value was calculated based on financial statements which have been audited.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF OTHER FINANCIAL ASSETS

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount
Other delinquent receivables, net	
Delinquent receivables not arising from loans	\$ 5,343
Less: Allowance for doubtful accounts	<u>(4,232)</u>
	<u>\$ 1,111</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Description (Note)	Shares	Carrying Value	Total Amount	Rate	Cost	Fair Value	
							Unit Price (NT\$)	Total Amount
Financial liability held for trading								
Cross-currency swap contracts	Note 8	-	-	\$ -	-	\$ -	\$ -	\$ 55,386
Foreign exchange forward contracts	Note 8	-	-	-	-	-	-	27,744
Cross-currency option contracts	Note 8	-	-	-	-	52,888	-	78,986
Interest structured instrument contracts		-	-	-	-	-	-	11
						<u>\$ 52,888</u>		<u>\$ 162,127</u>

Note: The amount of each item in others does not exceed 5% of the account balance.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF SECURITIES SOLD UNDER REPURCHASE AGREEMENTS

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Trading Product Name	Trading Period	Carrying Value	Amount	Rate
Government bonds				
A06109	2018.12.10-2019.01.09	\$ 500,000	\$ 500,036	0.52%
Others (Note)		700,000	<u>700,000</u>	0.42%-0.45%
			<u>1,200,036</u>	
Foreign bonds				
UBO TPE	2018.10.19-2019.01.08	US\$ 19,000	532,143	2.69%
UBO TPE	2018.10.17-2019.01.17	US\$ 19,000	555,979	2.69%
UBO TPE	2018.10.23-2019.02.22	US\$ 21,000	593,059	2.81%
J.P. Morgan HK	2018.11.09-2019.02.11	US\$ 30,000	775,882	2.85%
Others (Note)		US\$ 225,000	<u>6,247,368</u>	2.69%-2.90%
			<u>8,704,431</u>	
			<u>\$ 9,904,467</u>	

Note: The amount of each item in others does not exceed 5% of the account balance.

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF ACCOUNTS PAYABLES

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Amount
Notes and checks in clearing	\$ 5,715,928
Foreign currency settlement payable	1,912,669
Acceptances	845,279
Interest payable	532,536
Accrued expenses	1,361,270
Factored accounts payable	33,552
Collections payable	25,981
Securities settlement payable	438,763
Other payables	<u>476,886</u>
	<u>\$ 11,342,864</u>

Note: The amount of individual client included in others does not exceed 5% of the account balance.

TAICHUNG COMMERCIAL BANK CO., LTD.**STATEMENT OF DEPOSITS AND REMITTANCES****DECEMBER 31, 2018****(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)**

Item	Amount
Checking deposits	
Checking	\$ 7,969,294
Bank checking	1,688,430
Certified check	<u>108,349</u>
	<u>9,766,073</u>
Demand deposits	
Demand	110,000,512
Public treasury	308,922
Foreign exchange demand	<u>19,816,299</u>
	<u>130,125,733</u>
Demand savings deposits	
Demand savings	123,693,127
Staff demand savings	<u>2,496,616</u>
	<u>126,189,743</u>
Time deposits	
Time	132,116,187
Foreign exchange time	<u>33,161,902</u>
	<u>165,278,089</u>
Time savings deposits	
Withdrawals of interest savings	145,479,884
Round - amount savings	12,196,776
Regular deposits	<u>178,466</u>
	<u>157,855,126</u>
Remittances	<u>28,125</u>
	<u>\$ 589,242,889</u>

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF BANK DEBENTURES

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Bonds Name	Detail of the Subordinated Financial Debenture Issuance			Bonds		Book Value
	Issuance Date	Maturity Date	Interest Rate	Category	Carrying Value	
First subordinated financial debenture on 2012	2012.11.13	2019.11.13	Fixed interest rate, 2.1%	Subordinated	1,000	\$ 3,000,000
First subordinated financial debenture on 2013	2013.06.25	2020.06.25	Fixed interest rate, 2.1%	Subordinated	500	2,500,000
Second subordinated financial debenture on 2013	2013.12.16	2019.12.16	Fixed interest rate, 2.1%	Subordinated	500	3,000,000
First no due date non-cumulative subordinated financial debenture on 2015	2015.12.28	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	1,500,000
First no due date non-cumulative subordinated financial debenture on 2016	2016.12.28	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	1,500,000
First no due date non-cumulative subordinated financial debenture on 2017	2017.03.28	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	1,000,000
Second no due date non-cumulative subordinated financial debenture on 2017	2017.05.18	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	500,000
Third no due date non-cumulative subordinated financial debenture on 2017	2017.08.28	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	500,000
Fourth no due date non-cumulative subordinated financial debenture on 2017	2017.12.05	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	1,350,000
Fifth no due date non-cumulative subordinated financial debenture on 2017	2017.12.27	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	2,650,000
First no due date non-cumulative subordinated financial debenture on 2018	2018.04.25	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	1,000,000
Second no due date non-cumulative subordinated financial debenture on 2018	2018.12.18	No due date	According to the one-year time savings deposit interest rate of Chunghwa Post Co., Ltd., plus 3.08%	Subordinated	10,000	1,500,000
						<u>\$ 20,000,000</u>

TAICHUNG COMMERCIAL BANK CO., LTD.

STATEMENT OF EMPLOYEE BENEFITS EXPENSE

DECEMBER 31, 2018

(In Thousands of New Taiwan Dollars)

Item	Employee Benefit Expense	Non-interest Gains	Other Selling and Administrative Expenses	Total	Remark
Employee benefits expense					
Salaries	\$ 2,778,605	\$ -	\$ -	\$ 2,778,605	
Labor and health insurance	171,768	-	-	171,768	
Pension expense	106,783	-	-	106,783	
Remuneration of directors and supervisors	101,025	-	-	101,025	
Other employee expenses	<u>185,698</u>	<u>-</u>	<u>-</u>	<u>185,698</u>	
	<u>\$ 3,343,879</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,343,879</u>	

Note 1: As of December 31, 2018 and 2017, the Bank had 2,358 and 2,240 employees, respectively. And there were 10 and 11 non-employee directors, respectively.

Note 2: The average employee benefits expense amounted to \$1,381 thousand in current year.

Note 3: The average employee salaries amounted to \$1,183 thousand in current year.