

Cathay United Bank and Subsidiaries
Consolidated Financial Statements
For the nine-month periods ended
30 September 2018 and 2017
With Independent Auditors' Review Report

The reader is advised that these consolidated financial statements have been prepared originally in Chinese. These consolidated financial statements do not include additional disclosure information that is required for Chinese-language reports under the “Regulations Governing the Preparation of Financial Reports by Public Banks” and IAS 34 “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission. If there is any conflict between these consolidated financial statements and the Chinese version or any difference in the interpretation of the two versions, the Chinese language consolidated financial statements shall prevail.

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Review Report of Independent Auditors

English Translation of a Report Originally Issued in Chinese

The Board of Directors and Shareholders
Cathay United Bank

Introduction

We have reviewed the accompanying consolidated balance sheets of Cathay United Bank (“the Bank”) and its subsidiaries as of 30 September 2018 and 2017, and the related consolidated statements of comprehensive income for the three-month and nine-month periods ended 30 September 2018 and 2017, the consolidated statements of changes in equity and cash flows for the nine-month periods ended 30 September 2018 and 2017, and notes to the consolidated financial statements, including the summary of significant accounting policies (together “the consolidated financial statements”). Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks”, the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the “Regulations Governing the Preparation of Financial Reports by Securities Firms”, and International Accounting Standards 34 “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China. Our responsibility is to express a conclusion on these consolidated financial statements based on our review.

Scope of Review

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

Conclusion

Based on our reviews, nothing has come to our attention that causes us to believe that the accompanying consolidated financial statements do not present fairly, in all material respects, the consolidated financial position of the Bank and its subsidiaries as of 30 September 2018 and 2017, their consolidated financial performance for the three-month and nine-month periods ended 30 September 2018 and 2017, and their consolidated cash flows for the nine-month periods ended 30 September 2018 and 2017 in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks”, the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the “Regulations Governing the Preparation of Financial Reports by Securities Firms”, and International Accounting Standards 34 “Interim Financial Reporting” as endorsed and became effective by Financial Supervisory Commission of the Republic of China.

Review Report of Independent Auditors

English Translation of a Report Originally Issued in Chinese

Emphasis of Matter – Applying for New Accounting Standards

We draw attention to Notes 3 of the consolidated financial statements, which describes the Bank and its subsidiaries applied for the International Financial Reporting Standard 9 “Financial Instruments” and 15 “Revenue from Contracts with Customers” starting from 1 January 2018, and elected not to restate the consolidated financial statements for prior periods. Our conclusion is not modified in respect of this matter.

/s/ Chang, Cheng-Tao

/s/ Huang, Chien-Che

Ernst & Young , Taipei, Taiwan

2 November 2018

Notice to Readers

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Subsidiaries

Consolidated balance sheets

As at 30 September 2018, 31 December 2017 and 30 September 2017

(30 September 2018 and 2017 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

Assets	Notes	2018.9.30	2017.12.31	2017.9.30
Cash and cash equivalents	4, 6, 7	\$78,820,944	\$65,958,532	\$75,392,237
Due from the Central Bank and call loans to banks	6, 7	121,969,884	125,163,780	83,013,476
Financial assets at fair value through profit or loss	4, 5, 6	274,897,442	311,985,059	318,143,058
Financial assets at fair value through other comprehensive income	4, 5, 6	211,727,467	-	-
Debt instrument investment measured at amortized cost	4, 5, 6	325,215,661	-	-
Securities purchased under agreements to resell	4, 6	90,784,688	87,483,656	65,593,899
Receivables - net	4, 5, 6, 7	85,974,660	76,980,817	84,602,809
Discounts and loans - net	4, 5, 6, 7	1,569,443,211	1,434,558,167	1,478,362,863
Available-for-sale financial assets - net	4, 5, 6	-	148,480,669	144,203,086
Held-to-maturity financial assets - net	4, 5, 6	-	34,345,085	37,232,091
Investments accounted for using the equity method - net	4, 6	1,739,439	1,744,047	1,710,695
Other financial assets - net	4, 5	1,044	1,276	3,005
Investments in debt securities with no active market - net	4, 5, 6	-	388,287,593	360,914,563
Property and equipment - net	4, 6, 7	25,498,156	24,873,298	24,947,173
Investment properties - net	4, 5, 6	1,461,472	1,547,372	1,515,170
Intangible assets - net	4, 5, 6	7,839,361	7,785,984	7,818,855
Deferred tax assets	4, 5	2,117,698	2,223,266	1,760,228
Other assets - net	4, 6, 7	32,848,806	24,285,305	26,419,510
Total assets		\$2,830,339,933	\$2,735,703,906	\$2,711,632,718

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Subsidiaries

Consolidated balance sheets (continued)

As at 30 September 2018, 31 December 2017 and 30 September 2017

(30 September 2018 and 2017 reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars)

Liabilities and equity	Notes	2018.9.30	2017.12.31	2017.9.30
Liabilities				
Due to the Central Bank and call loans from banks	6, 7	\$87,171,203	\$90,417,859	\$92,450,905
Financial liabilities at fair value through profit or loss	4, 5, 6	109,522,447	87,407,651	80,330,744
Securities sold under agreements to repurchase	4, 6	62,055,662	109,941,425	98,836,774
Payables	6, 7	28,006,806	23,457,177	33,668,164
Current tax liabilities	4, 5	126,857	439,896	48,169
Deposits and remittances	6, 7	2,196,932,894	2,098,367,963	2,087,362,850
Financial debentures payable	4, 6	55,600,000	63,350,000	63,350,000
Other financial liabilities	6	76,491,161	66,057,646	61,916,628
Provisions	4, 5, 6	3,356,939	3,187,664	2,964,498
Deferred tax liabilities	4, 5	1,893,731	1,712,831	1,980,790
Other liabilities	6, 7	8,164,854	9,056,227	8,210,932
Total liabilities		2,629,322,554	2,553,396,339	2,531,120,454
Equity				
Equity attribute to equity holders of parent				
Capital stock	6			
Common stock		91,197,623	78,604,060	78,604,060
Capital surplus	6	33,610,983	33,610,983	33,610,983
Retained earnings	6			
Legal reserves		51,631,140	45,823,601	45,823,601
Special reserves		2,933,808	1,977,363	1,977,363
Undistributed earnings		18,052,554	19,302,403	16,693,700
Other equity	6	(213,801)	(854,932)	(264,512)
Subtotal		197,212,307	178,463,478	176,445,195
Non-controlling interests	6	3,805,072	3,844,089	4,067,069
Total equity		201,017,379	182,307,567	180,512,264
Total liabilities and equity		\$2,830,339,933	\$2,735,703,906	\$2,711,632,718

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Subsidiaries

Consolidated statements of comprehensive income

For the three-month periods and nine-month periods ended 30 September 2018 and 2017
(Reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars, except earnings per share)

Items	Notes	2018.07.01-	2017.07.01-	2018.01.01-	2017.01.01-
		2018.09.30	2017.09.30	2018.09.30	2017.09.30
Interest income	4, 6, 7	\$13,859,504	\$11,904,305	\$39,622,230	\$34,204,684
Interest expense	6, 7	(5,233,752)	(4,252,069)	(15,024,234)	(12,111,971)
Net interest income		8,625,752	7,652,236	24,597,996	22,092,713
Non-interest income					
Net fee income	4, 6, 7	4,750,676	4,200,733	12,872,958	11,619,633
Gains on financial assets and liabilities at fair value through profit or loss	6, 7	1,869,243	2,185,886	4,837,900	4,801,718
Realized gains on available-for-sale financial assets		-	1,038,077	-	2,101,595
Realized gains from financial assets at fair value through other comprehensive income	6	1,600,286	-	2,697,499	-
Realized gains on held-to-maturity financial asset		-	189,932	-	189,930
Gains(losses) on foreign currency exchange	4	483,503	(423,418)	1,297,736	111,159
Losses on impairment of assets	4, 6, 12	(1,208)	-	(113,310)	(5,393)
Share of profit of associates and joint ventures accounted for using the equity method		27,012	34,688	68,949	86,677
Net other non-interest income	4, 6	195,483	444,638	618,321	982,247
Total net non-interest income		8,924,995	7,670,536	22,280,053	19,887,566
Net operating income		17,550,747	15,322,772	46,878,049	41,980,279
Bad debt expense and losses on guarantees	6	(819,883)	(570,981)	(2,311,743)	(1,878,513)
Operating expenses					
Employee benefits expenses	4, 5, 6	(3,695,186)	(3,252,998)	(11,140,573)	(9,560,069)
Depreciation and amortization expenses	6	(385,366)	(319,473)	(1,105,759)	(924,692)
Other general and administrative expenses	4, 6, 7	(4,301,289)	(3,951,905)	(10,860,664)	(10,116,503)
Total operating expenses		(8,381,841)	(7,524,376)	(23,106,996)	(20,601,264)
Profit before income tax from continuing operations		8,349,023	7,227,415	21,459,310	19,500,502
Income tax expense	4, 6	(1,104,997)	(930,918)	(3,056,163)	(2,483,061)
Net income		7,244,026	6,296,497	18,403,147	17,017,441
Other comprehensive income					
Not to be reclassified to profit or loss in subsequent periods					
Valuation gains on equity instrument at fair value through other comprehensive income		718,833	-	267,719	-
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	6	(463,100)	146,231	892,630	(1,119,012)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	6	(472)	-	-	-
Income tax relating to the components not to be reclassified to profit or loss in subsequent periods	6	(74,412)	(24,859)	26,775	190,232
To be reclassified to profit or loss in subsequent periods					
Exchange differences resulting from translating the financial statements of a foreign operation	6	(1,210,273)	151,189	(830,483)	(1,369,361)
Unrealized gains on available-for-sale financial assets	6	-	(294,404)	-	1,443,192
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	6	(209,590)	6,792	(209,106)	22,803
Valuation gains(losses) on debt instrument at fair value through other comprehensive income	6	49,864	-	(3,020,844)	-
Gains on reversal of impairment loss on debt instrument at fair value through other comprehensive income	6	20,206	-	20,206	-
Income tax relating to the components to be reclassified to profit or loss in subsequent periods	6	203,901	(28,211)	242,368	176,005
Other comprehensive income, net of tax		(965,043)	(43,262)	(2,610,735)	(656,141)
Total comprehensive income		\$6,278,983	\$6,253,235	\$15,792,412	\$16,361,300
Net income attributable to:					
Owners of the parent		\$7,069,544	\$6,195,570	\$18,250,254	\$16,693,700
Non-controlling interests		174,482	100,927	152,893	323,741
		\$7,244,026	\$6,296,497	\$18,403,147	\$17,017,441
Total comprehensive income attributable to:					
Owners of the parent		\$6,156,726	\$6,172,735	\$15,549,887	\$16,171,388
Non-controlling interests		122,257	80,500	242,525	189,912
		\$6,278,983	\$6,253,235	\$15,792,412	\$16,361,300
Earnings per share (In dollars)					
Net income from continuing operations	6	\$0.78	\$0.68	\$2.00	\$1.90

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay United Bank and Subsidiaries
Consolidated statements of changes in equity
For the nine-month periods ended 30 September 2018 and 2017
(Reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars)

Items	Equity attributable to owners of the parent						Equity adjustment					Total	Non-controlling interests	Total Equity
	Capital stock	Capital surplus	Legal reserves	Special reserves	Undistributed earnings	Exchange differences resulting from translating the financial statements of a foreign operation	Unrealized gains (losses) on financial assets at fair value through other comprehensive income	Unrealized gains (losses) on available-for-sale financial assets	Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	Remeasurements of defined benefit plans	Revaluation surplus			
Balance, 1 January 2017	\$72,099,815	\$23,969,412	\$40,659,384	\$1,892,668	\$17,211,700	\$524,198	\$-	\$468,952	\$120,322	\$(1,079,139)	\$223,467	\$156,090,779	\$3,877,157	\$159,967,936
Appropriation and distribution for 2016														
Legal Reserves	-	-	5,164,217	-	(5,164,217)	-	-	-	-	-	-	-	-	-
Special Reserves	-	-	-	86,060	(86,060)	-	-	-	-	-	-	-	-	-
Cash Dividends	-	-	-	-	(10,814,972)	-	-	-	-	-	-	(10,814,972)	-	(10,814,972)
Stock Dividends	1,147,816	-	-	-	(1,147,816)	-	-	-	-	-	-	-	-	-
Reversal of special reserves	-	-	-	(1,365)	1,365	-	-	-	-	-	-	-	-	-
Net income for the nine-month period ended 30 September 2017	-	-	-	-	16,693,700	-	-	-	-	-	-	16,693,700	323,741	17,017,441
Other comprehensive income for the nine-month period ended 30 September 2017	-	-	-	-	-	(938,901)	-	1,345,369	(928,780)	-	-	(522,312)	(133,829)	(656,141)
Total comprehensive income for the nine-month period ended 30 September 2017	-	-	-	-	16,693,700	(938,901)	-	1,345,369	(928,780)	-	-	16,171,388	189,912	16,361,300
Issuance of common stock for cash	5,356,429	9,641,571	-	-	-	-	-	-	-	-	-	14,998,000	-	14,998,000
Balance, 30 September 2017	\$78,604,060	\$33,610,983	\$45,823,601	\$1,977,363	\$16,693,700	\$(414,703)	\$-	\$1,814,321	\$(808,458)	\$(1,079,139)	\$223,467	\$176,445,195	\$4,067,069	\$180,512,264
Balance, 1 January 2018	\$78,604,060	\$33,610,983	\$45,823,601	1,977,363	\$19,302,403	\$(532,567)	\$-	\$1,906,796	\$(1,191,026)	\$(1,340,811)	\$302,676	\$178,463,478	\$3,844,089	\$182,307,567
Effect on retrospective application and restatement	-	-	-	-	(492,615)	-	5,598,353	(1,906,796)	-	-	-	3,198,942	-	3,198,942
Restate balance, 1 January 2018	78,604,060	33,610,983	45,823,601	1,977,363	18,809,788	(532,567)	5,598,353	-	(1,191,026)	(1,340,811)	302,676	\$181,662,420	3,844,089	185,506,509
Appropriation and distribution for 2017														
Legal Reserves	-	-	5,807,539	-	(5,807,539)	-	-	-	-	-	-	-	-	-
Special Reserves	-	-	-	951,443	(951,443)	-	-	-	-	-	-	-	-	-
Stock Dividends	12,593,563	-	-	-	(12,593,563)	-	-	-	-	-	-	-	-	-
Net income for the nine-month period ended 30 September 2018	-	-	-	-	18,250,254	-	-	-	-	-	-	18,250,254	152,893	18,403,147
Other comprehensive income for the nine-month period ended 30 September 2018	-	-	-	-	-	(714,338)	(2,793,813)	-	757,153	48,344	2,287	(2,700,367)	89,632	(2,610,735)
Total comprehensive income for the nine-month period ended 30 September 2018	-	-	-	-	18,250,254	(714,338)	(2,793,813)	-	757,153	48,344	2,287	15,549,887	242,525	15,792,412
Non-controlling interests	-	-	-	-	-	-	-	-	-	-	-	-	(281,542)	(281,542)
Disposal of equity instrument at fair value through other comprehensive income	-	-	-	-	294,915	-	(294,915)	-	-	-	-	-	-	-
Others	-	-	-	5,002	50,142	-	-	-	-	-	(55,144)	-	-	-
Balance, 30 September 2018	\$91,197,623	\$33,610,983	\$51,631,140	\$2,933,808	\$18,052,554	\$(1,246,905)	\$2,509,625	\$-	\$(433,873)	\$(1,292,467)	\$249,819	\$197,212,307	\$3,805,072	\$201,017,379

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

English Translation of Financial Statements Originally Issued in Chinese
Cathay United Bank and Subsidiaries
Consolidated statements of cash flows
For the nine-month periods ended 30 September 2018 and 2017
(Reviewed only, not audited in accordance with the generally accepted auditing standards)
(Expressed in thousands of New Taiwan Dollars)

Items	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Cash flows from operating activities		
Profit before income tax from continuing operations	\$21,459,310	\$19,500,502
Adjustment items:		
Income and expense adjustments		
Depreciation expenses	864,985	725,495
Amortization expenses	240,774	199,197
Provision for bad debt expense	2,311,743	1,878,513
Interest expense	15,024,234	12,111,971
Interest income	(39,622,230)	(34,204,684)
Dividends income	(1,580,855)	(565,127)
Share of profit of associates and joint ventures accounted for using the equity method	(68,949)	(86,677)
Losses on disposal of property and equipment	11,268	17,866
Gains on disposal of investment properties	(14,100)	(10)
Losses on impairment of financial assets	113,310	5,393
Losses on valuation of investment properties	-	37,870
Foreign currency translation adjustment	25,590	(88,472)
Change in operating assets and liabilities		
Increase in due from the Central Bank and call loans to banks	(4,184,910)	(1,511,741)
Decrease (increase) in financial assets at fair value through profit or loss	58,117,275	(119,017,285)
Increase in receivables	(21,235,916)	(3,739,876)
Increase in discounts and loans	(136,254,501)	(44,778,831)
Increase in financial assets at fair value through other comprehensive income	(37,000,657)	-
Decrease in debt instrument investment at amortized cost	50,860,140	-
Decrease in available-for-sale financial assets	-	13,287,609
Decrease in held-to-maturity financial assets	-	10,398,830
Decrease in other financial assets	232	368
Decrease in investments in debt securities with no active market	-	36,560,445
Decrease in other assets	669,392	3,719,255
(Decrease) increase in due to the Central Bank and call loans from banks	(3,204,341)	15,925,383
Increase (decrease) in financial liabilities at fair value through profit or loss	23,009,615	(8,918,180)
(Decrease) increase in securities sold under agreements to repurchase	(47,885,763)	42,084,023
Increase in payables	15,009,607	9,887,063
Increase in deposits and remittances	97,358,665	56,149,687
Increase in other financial liabilities	10,708,184	349,819
Increase (decrease) in provisions	32,968	(89,466)
Increase (decrease) in other liabilities	211,518	(1,414,320)
Cash provided by operations	4,976,588	8,424,620
Interest received	39,269,183	32,923,627
Cash dividends received	1,547,323	565,127
Interest paid	(14,186,422)	(11,582,535)
Income tax paid	(1,982,052)	(2,125,357)
Net cash provided by operating activities	29,624,620	28,205,482
Cash flows from investing activities		
Disposal of investment under the equity method	-	46,659
Acquisition of property and equipment	(1,587,772)	(877,424)
Disposal of property and equipment	1,345	65
Acquisition of intangible assets	(175,708)	(154,403)
Disposal of investment properties	100,000	1,570
(Increase) decrease in other assets	(9,230,372)	7,564,630
Cash dividends received	73,557	60,475
Net cash (used in) provided by investing activities	(10,818,950)	6,641,572
Cash flows from financing activities		
(Decrease) increase in financial debentures payable	(7,750,000)	11,450,000
(Decrease) increase in other liabilities	(1,055,854)	381,482
Distribution of cash dividends	(291,840)	(10,814,972)
Issuance of common stock for cash	-	14,998,000
Net cash (used in) provided by financing activities	(9,097,694)	16,014,510
Effects of foreign exchange rate changes	(956,335)	(1,603,643)
Net increase in cash and cash equivalents	8,751,641	49,257,921
Cash and cash equivalents at the beginning of the period	223,601,859	119,948,410
Cash and cash equivalents at the end of the period	<u>\$232,353,500</u>	<u>\$169,206,331</u>
The components of cash and cash equivalents		
Cash and cash equivalents in consolidated balance sheets	\$78,820,944	\$75,392,237
Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS 7	62,747,868	28,220,195
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS 7	90,784,688	65,593,899
Cash and cash equivalents at the end of the periods	<u>\$232,353,500</u>	<u>\$169,206,331</u>

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

English Translation of Financial Statements Originally Issued in Chinese

Cathay United Bank and Subsidiaries

Notes to consolidated financial statements

For the nine-month periods ended 30 September 2018 and 2017

(Reviewed only, not audited in accordance with the generally accepted auditing standards)

(Expressed in thousands of New Taiwan Dollars unless otherwise specified)

1. Business

Cathay United Bank (“the Bank”), originally named United World Chinese Commercial Bank (“UWCCB”), was enfranchised by the government of the Republic of China (“ROC”) in January 1975. The Bank started its operations on 20 May 1975 and is engaged in the following operations: (1) all commercial banking operations authorized by the ROC Banking Act (“Banking Act”); (2) international banking business and related operations; (3) trust business; (4) off-shore banking business; and (5) other financial operations related to the promotion of investments by overseas Chinese. The Bank’s registered office and the main business location is at No.7, Songren Rd., Xinyi District, Taipei City, Republic of China (R.O.C.).

The Bank’s stock was traded on the Taiwan Stock Exchange (the “TWSE”) until 18 December 2002. On 18 December 2002, the Bank became a wholly-owned subsidiary of Cathay Financial Holding Co., Ltd. (“Cathay Financial Holdings”) through a conversion transaction and delisted from TWSE. Under the Financial Institutions Merger Act, the Bank engaged in a merger with the former Cathay United Bank, a wholly-owned subsidiary of Cathay Financial Holdings. The record date for such merger was 27 October 2003 and UWCCB survived and was renamed Cathay United Bank.

The Bank merged with Lucky Bank on 1 January 2007. The Bank was the surviving entity after this merger and Lucky Bank was the extinguished entity. In addition, the Bank acquired specific assets, liabilities, and business of China United Trust & Investment Corporation (“CUTIC”) on 29 December 2007.

Cathay Financial Holding Co., Ltd. is the Bank’s parent company and ultimate parent company.

2. Date and procedures of authorization of financial statements for issue

The consolidated financial statements of the Bank and subsidiaries (“the Group”) were authorized for issue in accordance with the Board of Directors’ resolution on 2 November 2018.

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3. Newly issued or revised standards and interpretations

(1) Changes in accounting policies resulting from applying for the first time certain standards and amendments

The Group applied for the first time International Financial Reporting Standards, International Accounting Standards, and Interpretations issued, revised or amended which are recognized by Financial Supervisory Commission (“FSC”) and became effective for annual periods beginning on or after 1 January 2018. The nature and the impact of each new standard and amendment that has a material effect on the Group is described below:

A. IFRS 15 “*Revenue from Contracts with Customers*” (including Amendments to IFRS 15 “Clarifications to IFRS 15 Revenue from Contracts with Customers”)

IFRS 15 replaces IAS 11 “*Construction Contracts*”, IAS 18 “*Revenue*” and related Interpretations. In accordance with the transition provision in IFRS 15, the Group elected to recognize the cumulative effect of initially applying IFRS 15 at the date of initial application (1 January 2018). The Group also elected to apply this standard retrospectively only to contracts that are not completed contracts at the date of initial application.

The Group’s principal activities consist of the service fee income. The impacts arising from the adoption of IFRS 15 on the Group are summarized as follows:

For award credits, part of the consideration was received from customers upon using the credit card, then the Group has the obligation to provide the services subsequently. Before 1 January 2018, the Group recognized the consideration received in advance from customers under other current liabilities (deferred income). Starting from 1 January 2018, in accordance with IFRS 15, it should be recognized as contract liabilities. The amount reclassified from deferred income to contracts liabilities of the Group as at the date of initial application was \$1,487,838 thousand. In addition, compared with the requirements of IAS 18, deferred income decreased by \$1,304,422 thousand and the contract liabilities increased by \$1,304,422 thousand as at 30 September 2018.

Please refer to Note 4, Note 5 and Note 6 for additional disclosure note required by IFRS 15.

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B. IFRS 9 “Financial Instruments”

IFRS 9 replaces IAS 39 “*Financial Instruments: Recognition and Measurement*”. In accordance with the transition provision in IFRS 9, the Group elected not to restate prior periods at the date of initial application (1 January 2018). The adoption of IFRS 9 has the following impacts on the Group:

(A) The Group adopted IFRS 9 since 1 January 2018 and it adopted IAS 39 before 1 January 2018. Please refer to Note 4 for more details on accounting policies.

(B) In accordance with the transition provision in IFRS 9, the assessment of the business model and classification of financial assets into the appropriate categories are based on the facts and circumstances that existed as at 1 January 2018. The classifications of financial assets and its carrying amounts as at 1 January 2018 are as follow:

IAS 39		IFRS 9	
Measurement categories	Carrying amounts	Measurement categories	Carrying amounts
Fair value through profit or loss	\$311,985,059	Fair value through profit or loss	\$332,975,371
Fair value through other comprehensive income		Fair value through other comprehensive income	177,551,593
Available-for-sale financial assets-net	148,480,669		
At amortized cost		At amortized cost	
Cash and cash equivalents	47,851,927	Cash and cash equivalents	47,849,426
Due from the Central Bank and call loans to banks	125,163,780	Due from the Central Bank and call loans to banks	125,154,825
Securities purchased under agreements to resell	87,483,656	Debt instrument investment measured at amortized cost	376,053,207
Receivables-net	76,980,817	Securities purchased under agreements to resell	87,477,381
Discounts and loans-net	1,434,558,167	Receivables-net	77,148,805
Held-to-maturity financial assets-net	34,345,085	Discounts and loans-net	1,434,558,167
Other financial assets-net	1,276	Other financial assets	1,276
Investments in debt securities with no active market-net	388,287,593	Other assets-net	18,353,308
Other assets-net	18,354,601		
Subtotal	<u>2,673,492,630</u>	Subtotal	<u>2,677,123,359</u>
Allowance for impairment of off Balance Sheet Items		Allowance for impairment of off Balance Sheet Items	
Reserve for losses on guarantees	(72,897)	Reserve for losses on guarantees	(72,897)
The letters of credit receivables	(5,993)	The letters of credit receivables	(5,993)
Reserve for financing commitments	-	Reserve for financing commitments	(116,847)
Total	<u>\$2,673,413,740</u>	Total	<u>\$2,676,927,622</u>

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(C) The transition adjustments from IAS 39 to IFRS 9 for the classifications of financial assets and financial liabilities as at 1 January 2018 are as follow:

IAS 39		IFRS 9		Difference	Retained	Other
Items	Carrying amounts	Items	Carrying amounts		Adjustment	components of equity
Financial assets at fair value through profit or loss						
Held-for-trading-net	\$311,667,971	Measured at fair value through profit or loss	\$311,667,830	\$(141)	\$(141)	\$-
		Debt instruments measured at fair value				
	317,088	through other comprehensive income	317,087	(1)	(212)	211
Subtotal	311,985,059					
Available-for-sale financial assets-net						
	11,491,530	Measured at fair value through profit or loss	11,491,765	235	(334,673)	334,908
		Equity instruments measured at fair value				
	14,721,496	through other comprehensive income	16,452,595	1,731,099	40,446	1,690,653
		Debt instruments measured at fair value				
	122,267,643	through other comprehensive income	122,267,643	-	(18,126)	18,126
Subtotal	148,480,669					
Held-to-maturity financial assets-net	9,843,981	Measured at fair value through profit or loss	9,642,970	(201,011)	(201,011)	-
		Debt instruments measured at fair value				
	14,036,543	through other comprehensive income	14,968,529	931,986	(3,295)	935,281
		Debt instrument investment measured at				
	10,464,561	amortized cost	10,463,454	(1,107)	(1,107)	-
Subtotal	34,345,085					
Investments in debt securities with no active market-net	162,817	Measured at fair value through profit or loss	172,806	9,989	9,989	-
		Debt instruments measured at fair value				
	22,522,413	through other comprehensive income	23,545,739	1,023,326	(2,724)	1,026,050
		Debt instrument investment measured at				
	365,602,363	amortized cost	365,589,753	(12,610)	(12,610)	-
Subtotal	388,287,593					
Cash and cash equivalents	47,851,927	Cash and cash equivalents	47,849,426	(2,501)	(2,501)	-
Due from the Central Bank and call loans to banks	125,163,780	Due from the Central Bank and call loans to banks	125,154,825	(8,955)	(8,955)	-
Securities purchased under agreements to resell	87,483,656	Securities purchased under agreements to resell	87,477,381	(6,275)	(6,275)	-
Receivables-net	76,980,817	Receivables-net	77,148,805	167,988	167,988	-
Discounts and loans-net	1,434,558,167	Discounts and loans-net	1,434,558,167	-	-	-
Other financial assets-net	1,276	Other financial assets-net	1,276	-	-	-
Other assets-net	18,354,601	Other assets-net	18,353,308	(1,293)	(1,293)	-
Total financial assets	2,673,492,630	Total financial assets	2,677,123,359	3,630,729	(374,500)	4,005,229
Allowance for impairment of off Balance Sheet Items						
Reserve for losses on guarantees the letters of credit receivables	(72,897)	Reserve for losses on guarantees the letters of credit receivables	(72,897)	-	-	-
Reserve for financing commitments	(5,993)	Reserve for financing commitments	(5,993)	-	-	-
Reserve for financing commitments	-	Reserve for financing commitments	(116,847)	(116,847)	(116,847)	-
Total financial liabilities	(78,890)	Total financial liabilities	(195,737)	(116,847)	(116,847)	-
Total	\$2,673,413,740	Total	\$2,676,927,622	\$3,513,882	\$(491,347)	\$4,005,229

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In addition to the effects of changes on financial assets and liabilities in the above table due to the transition from IAS 39 to IFRS 9 as at 1 January 2018, the effects of changes in deferred tax assets, deferred tax liabilities and income taxes are represented by the increase of deferred tax assets by \$4,694 thousand, the increase of deferred tax liabilities by \$319,634 thousand, the decrease of retained earnings by \$1,268 thousand and the decrease of other equity by \$313,672 thousand.

(D) Effects on the date of initial application

In accordance with classification and measurement of financial assets and impairment assessment in IFRS 9, the consolidated companies expect to increase assets by \$3,635,423 thousand, increase liabilities by \$436,481 thousand, decrease retained earnings by \$492,615 thousand and increase other equity by \$3,691,557 thousand on the date of initial application (1 January 2018). The related descriptions are as follows:

a. Classification and measurement of financial assets

Parts of held-to-maturity financial assets and Investments in debt securities with no active market are reclassified to financial assets at fair value through other comprehensive income and parts of available-for-sale financial assets are reclassified to financial assets at fair value through other comprehensive income, thus reflect the impact from adjustments of unrealized gains. The assets increased by \$3,496,801 thousand, the liabilities increased by \$314,205 thousand, retained earnings decreased by \$484,779 thousand and other equity increased by \$3,667,375 thousand.

Financial assets at fair value through profit or loss

Financial assets which are classified as held-for-trading in financial assets at fair value through profit or loss (including stocks, short-term bills, beneficiary certificates, bonds and derivative instruments) in accordance with IAS 39, are classified as financial assets at fair value through profit or loss under IFRS 9.

Available-for-sale financial assets

In accordance with of IAS 39, the Group's available-for-sale financial assets included investments in beneficiary certificates, stocks and bonds. Adjustment details are described as follow:

(a) Beneficiary certificates

As the cash flow characteristics for beneficiary certificates are not solely payments of principal and interest on the principal amount outstanding, so beneficiary certificates are classified as financial assets mandatorily measured at fair value through profit or loss in accordance with IFRS 9. As at the date of initial application, the Group will reclassify available-for-sale financial assets to financial assets at fair value through profit or loss.

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(b) Stocks

Upon de-recognition of equity investments currently classified as available-for-sale measured at fair value, the accumulated gains or losses previously recognized in other comprehensive income was recycled to profit or loss from equity. However, under IFRS 9, subsequent fair value changes of the aforementioned equity investments are recognized in other comprehensive income and cannot be recycled to profit or loss. Upon de-recognition, the accumulated amounts in other component of equity is reclassified to retained earnings (reclassification to profit or loss is not allowed).

Based on the facts and circumstances that existed as on 1 January 2018, aside from part of the financial assets which are not held-for-trading investments designated to measure at fair value through other comprehensive income, the others should be reclassified as financial assets at fair value through profit or loss. No difference from carrying amount exists when stocks are measured at fair value.

(c) Bonds

As the cash flow characteristics for bonds are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed as on 1 January 2018, bonds should be reclassified from available-for-sale financial assets to financial assets measured at amortized cost in accordance with IFRS 9 if the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. The difference between fair value and amortized cost previously recognized will be adjusted to other equity and the carrying amount of the reclassified financial assets. The financial assets should also be assessed for impairment in accordance with IFRS 9.

Bond investments held within a business model whose objective is to hold financial assets in order to collect contractual cash flows should be classified as financial assets at fair value through other comprehensive income under IFRS 9. No difference from carrying amount exists, and the aforementioned assets should be assessed for impairment in accordance with IFRS 9.

Bond investments whose cash flow characteristics are not solely payments of principal and interest on the principal amount outstanding should be classified as financial assets at fair value through profit or loss under IFRS 9. The reclassification doesn't result in any difference from carrying amount.

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Held-to maturity financial assets and debt instrument investments for which no active market exists

Bond investments classified as held-to-maturity financial assets and loans and receivables (placed in debt instrument investments for which no active market exists) according to IAS 39 and whose cash flow characteristics are solely payments of principal and interest on the principal amount outstanding, based on the facts and circumstances that existed on 1 January 2018, should be reclassified from held-to-maturity financial assets and debt instrument investments for which no active market exists to financial assets measured at amortized cost in accordance with IFRS 9 if the financial assets are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows. No difference from carrying amount exists, and the aforementioned assets should be assessed for impairment in accordance with IFRS 9.

Held-to-maturity financial assets and debt instrument investments for which no active market exists held within a business model whose objective is to hold financial assets in order to collect contractual cash flows should be reclassified as financial assets at fair value through other comprehensive income under IFRS 9. The reclassification of business model will increase other equity and the carrying amount of the reclassified financial assets. The aforementioned assets should also be assessed for impairment in accordance with IFRS 9.

Bond investments classified as loans and receivables (placed in debt instrument investments for which no active market exists) according to IAS 39 and whose cash flow characteristics are solely payments of principal and interest on the principal amount outstanding should be classified as financial assets at fair value through profit or loss.

Other effects

The Group applies to the classification and measurement requirements in IFRS 9, and increases the deferred tax assets and liabilities accordingly.

b. Impairment assessment of financial assets

The Group recognized adjustments of expected credit losses of on-balance sheet and off-balance sheet debt instruments, which increased assets by \$138,622 thousand, increased liabilities by \$122,276 thousand, decreased retained earnings by \$7,836 thousand and increased other equity by \$24,182 thousand.

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As for financial assets (e.g. on-balance sheet debt instruments and off-balance sheet debt instruments) that are not measured at fair value through profit or loss, the impairment of debt instruments is evaluated by applying expected credit risk model in accordance with IFRS 9. If the credit risk of the financial assets doesn't increase significantly after the initial recognition, the allowance for losses will be measured at 12-month expected credit losses. If the credit risk of the financial assets increases significantly after the initial recognition and is not low credit risk, the allowance for losses will be measured at credit losses during remaining term to maturity. For receivables and contractual assets arose from the transactions in the scope of IFRS 15, credit losses are evaluated by simplified method. The aforementioned rule of impairment assessment is different from incurred losses model applied currently.

(E) A reconciliation of the allowance for impairment balance recognized by incurred loss model in IAS 39 “*Financial Instruments: Recognition and Measurement*” to the allowance for impairment balance under the expected credit loss model in IFRS 9 “*Financial Instruments*” as at 1 January 2018 are as follows:

Accounting item and measurement type	Allowance for impairment balance under IAS 39	reclassification	remeasurement	Allowance for impairment balance under IFRS 9
Receivables	\$2,431,464	\$-	\$(167,805)	\$2,263,659
Due from the Central Bank and call loans to banks	-	-	8,955	8,955
Financial assets at fair value through profit or loss(IAS39)				
Classified as financial assets at fair value through other comprehensive income (IFRS 9)	-	-	37	37
Available-for sale financial instruments (IAS 39)				
Classified as financial assets at fair value through other comprehensive income (IFRS 9)	146,379	(146,379)	18,126	18,126
Investments in debt securities with no active market (IAS 39)				
Classified as financial assets at fair value through other comprehensive income (IFRS 9)	-	-	2,724	2,724
Classified as investments in debt instrument measured at amortized cost (IFRS 9)	-	-	13,745	13,745
Held-to-maturity financial assets (IAS 39)				
Classified as financial assets at fair value through other comprehensive income (IFRS 9)	-	-	3,295	3,295
Classified as financial assets measured at amortized cost (IFRS 9)	-	-	1,107	1,107
Financing commitments	-	-	116,847	116,847
Others (Note 1)	13	-	10,069	10,082
Total	<u>\$2,577,856</u>	<u>\$(146,379)</u>	<u>\$7,100</u>	<u>\$2,438,577</u>

Note1: Others contained cash and cash equivalents, securities purchased under agreement to resell, other financial assets and other assets.

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Notes: As the Group compares the allowance for doubtful accounts provided in the classification assessment of credit assets with the allowance for losses calculated under the expected credit loss model in IFRS 9 and sets aside the higher one as required by local competent authorities, there is no impact on the balance of allowance for losses provided for the discounts and loans, guarantee receivables and the letters of credit receivables as at 1 January 2018.

(F) Please refer to note 4, 5, 6 and 12 for further details on disclosures under IFRS 7 "Financial Instruments: Disclosures" and IFRS 9 "Financial Instruments".

C. Prepayment features with negative compensation (Amendments to IFRS 9)

The amendment allows financial assets with prepayment features that permit or require a party to a contract either to pay or receive reasonable compensation for the early termination of the contract, to be measured at amortized cost or at fair value through other comprehensive income. The amendment has been issued by IASB (effective for annual periods beginning on or after 1 January 2019), but has not yet been endorsed by FSC. However, for the Q&As issued by FSC on 12 December 2017, the Group considers them to be necessary for adoption, so the Group has early applied them on 1 January 2018. The Group does not expect the adoption of such standards will have significant impact on the consolidated companies.

D. Disclosure initiative (IAS 7 The correction of the statement of cash flow)

For the financing activities about the bank's liabilities; the information of the reconciliation increasing the year beginning balance to the year end balance, please refer to note 12.

(2) Newly issued, revised or amended standards or interpretations, which have been issued by IASB and endorsed by FSC, but have not yet been adopted by the Group, are listed below:

Item No.	Newly issued/revised/amended standards or interpretations	Effective date issued by IASB
1	IFRS 16 "Leases"	1 January 2019
2	IFRIC 23 "Uncertainty over Income Tax Treatments"	1 January 2019
3	Investments in Associates and Joint Ventures (Amendments to IAS 28)	1 January 2019
4	Improvements to International Financial Reporting Standards (2015-2017 cycle)	1 January 2019
5	Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)	1 January 2019

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A. IFRS 16 “Leases”

The new standard requires lessees to account for all leases under a single on-balance sheet model (subject to certain exemptions). Lessor accounting still uses the dual classification approach: operating lease and finance lease.

B. IFRIC 23 “Uncertainty Over Income Tax Treatments”

The interpretation clarifies application of recognition and measurement requirements in IAS 12 *Income Taxes* when there is uncertainty over income tax treatments.

C. IAS 28 “Investment in Associates and Joint Ventures” – Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture before it applies IAS 28, and in applying IFRS 9, does not take account of any adjustments that arise from applying IAS 28.

D. *Improvements to International Financial Reporting Standards (2015-2017 cycle)*

IFRS 3 “Business Combinations”

The amendments clarify that an entity that has joint control of a joint operation shall remeasure its previously held interest in a joint operation when it obtains control of the business.

IFRS 11 “Joint Arrangements”

The amendments clarify that an entity that participates in, but does not have joint control of, a joint operation does not remeasure its previously held interest in a joint operation when it obtains joint control of the business.

IAS 12 “Income Taxes”

The amendments clarify that an entity shall recognize the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

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IAS 23 “Borrowing Costs”

The amendments clarify that an entity should treat as part of general borrowings any borrowing made specifically to obtain an asset when the asset is ready for its intended use or sale.

E. Plan Amendment, Curtailment or Settlement – Amendments to IAS 19

The amendments clarify that when a change in a defined benefit plan is made (such as amendment, curtailment or settlement, etc.), the entity should use the updated assumptions to remeasure its net defined benefit liability or asset.

The above-mentioned standards and interpretations issued by IASB and endorsed by FSC. The Group elected to apply this interpretation prospectively on 1 January 2019. This change in accounting principle did not significantly impact the Group's recognition and measurement.

- (3) Newly issued, revised or amended standards or interpretations, which have been issued by IASB but have not yet been endorsed by FSC, and have not yet been adopted by the Group as at the date of issuance of the Group's financial report, are listed below:

Item No.	Newly issued/revised/amended standards or interpretations	Effective date issued by IASB
1	Amendments to IFRS 10 “Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	To be determined by IASB
2	IFRS 17 “Insurance Contracts”	1 January, 2021
3	Definition of a Business (Amendments to IFRS 3)	1 January, 2020
4	Definition of Material (Amendments to IAS 1 and 8)	1 January, 2020

A. Amendments to IFRS 10 “Financial Statements” and IAS 28 “Investments in Associates and Joint Ventures” – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the inconsistency between the requirements in IFRS 10 *Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*, in dealing with the loss of control of a subsidiary that is contributed to an associate or a joint venture. IAS 28 restricts gains and losses arising from contributions of non-monetary assets to an associate or a joint venture to the extent of the interest attributable to the other equity holders in the associate or joint ventures. IFRS 10 requires full profit or loss recognition on the loss of control of the subsidiary. IAS 28 was amended so that the gains or losses resulting from the sale or contribution of assets that constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized in full.

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IFRS 10 was also amended so that the gains or losses resulting from the sale or contribution of a subsidiary that does not constitute a business as defined in IFRS 3 between an investor and its associate or joint venture is recognized only to the extent of the unrelated investors' interests in the associate or joint venture.

B. IFRS 17 “*Insurance Contracts*”

On initial recognition, an entity shall measure a group of insurance contracts at the total of the fulfilment cash flows and the contractual service margin. The fulfilment cash flows comprise of the following:

- (A) estimates of future cash flows
- (B) discount rate: an adjustment to reflect the time value of money and the financial risks related to the future cash flows, to the extent that the financial risks are not included in the estimates of the future cash flows
- (C) a risk adjustment for non-financial risk

Carrying amount of a group of insurance contracts as at the end of each reporting period represents the sum of the liability for remaining coverage and the liability for incurred compensation.

In addition to general model, the standard provides:

- (A) a specific application approach for contracts with discretionary participation features (the variable fee approach).
- (B) a simplified approach for short-term contracts (the premium allocation approach).

C. *Definition of a Business* (Amendments to IFRS 3)

The amendments clarify the definition of a business in IFRS 3 Business Combinations. The amendments are intended to assist entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition.

IFRS 3 continues to adopt a market participant's perspective to determine whether an acquired set of activities and assets is a business. The amendments clarify the minimum requirements for a business; add guidance to help entities assess whether an acquired process is substantive; and narrow the definitions of a business and of outputs; etc.

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D. Definition of a Material (Amendments to IAS 1 and 8)

The main amendment is to clarify new definition of material. It states that “information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.”

The above-mentioned standards and interpretations issued by IASB have not yet endorsed by FSC at the date when the Bank’s financial statements were authorized for issue, the local effective dates are to be determined by FSC. The Group is currently determining the potential impact of the standards and interpretations.

4. Summary of significant accounting policies

(1) Statement of compliance

The consolidated financial statements of the Group for the nine-month periods ended 30 September 2018 and 2017 have been prepared in accordance with the “Regulations Governing the Preparation of Financial Reports by Public Banks”, the “Regulations Governing the Preparation of Financial Reports by Securities Issuers”, the “Regulations Governing the Preparation of Financial Reports by Securities Firms”, and IAS 34 *Interim Financial Reporting* as endorsed and became effective by FSC.

(2) Basis of preparation

The consolidated financial reports comprise the consolidated balance sheet, consolidated statements of comprehensive income, the consolidated statements of change in equity, the consolidated statements of cash flows and related notes.

The consolidated financial statements have been prepared on a historical cost basis, except for financial instruments and investment property that have been measured at fair value. The consolidated financial statements are expressed in thousands of New Taiwan Dollars unless otherwise stated.

The Group classifies their economic activities as operating, investing and financing activities in accordance with management’s judgment. The consolidated statements of cash flows presented the changes in cash and cash equivalents during the reporting period from operating, investing and financing activities. The components of cash and cash equivalents are disclosed in Note 6.(1).

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(3) Basis of consolidation

Control is achieved when the Bank is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the Investee. Specifically, the Bank controls an investee if and only if the Group has:

- A. Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- B. Exposure, or rights, to variable returns from its involvement with the investee, and
- C. The ability to use its power over the investee to affect its returns

When the Bank has less than a majority of the voting or similar rights of an investee, the Bank considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- A. The contractual arrangement with the other vote holders of the investee
- B. Rights arising from other contractual arrangements
- C. The Bank's voting rights and potential voting rights

The Bank re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Subsidiaries are fully consolidated from the acquisition date, being the date on which the Bank obtains control, and continue to be consolidated until the date that such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the parent company, using uniform accounting policies. All intra-group balances, income and expenses, unrealized gains and losses and dividends resulting from intra-group transactions are eliminated in full.

A change in the ownership interest of a subsidiary, without a change of control, is accounted for as an equity transaction.

Total comprehensive income of the subsidiaries is attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

If the Bank loses control of a subsidiary, it:

- A. Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- B. Derecognizes the carrying amount of any non-controlling interest;
- C. Recognizes the fair value of the consideration received;
- D. Recognizes the fair value of any investment retained;
- E. Recognizes any surplus or deficit in profit or loss; and
- F. Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss.

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The consolidated entities are listed as follows:

Investor	Subsidiary	Business nature	Ownership (%)		
			2018.09.30	2017.12.31	2017.09.30
The Bank	Indovina Bank Limited (“Indovina Bank”) Indovina Bank was incorporated in Vietnam on 21 November 1990.	Wholesale banking	50%	50%	50%
The Bank	Cathay United Bank (Cambodia) Corporation Limited (“CUBC Bank”) SBC Bank was incorporated in Cambodia on 5 July 1993, and renamed as CUBC as of 14 January 2014.	Wholesale banking	100%	100%	100%
The Bank	Cathay United Bank (China) Limited (“CUBCN Bank”) CUBCN Bank was incorporated in China on 3 September 2018. (Note)	Wholesale banking	100%	-	-

Note : The Bank was authorized by the authorities to merge Cathay United Bank-Shanghai Branch, Cathay United Bank-Qingdao Branch, and Cathay United Bank-Shenzhen Branch’s working capital into Cathay United Bank (China) Ltd.

(4) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed.

Goodwill is initially measured at cost being the excess of the consideration transferred over the Bank’s net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Bank’s cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

(5) Investments accounted for using the equity method

The Bank's investment in its associate is accounted for using the equity method. An associate is an entity over which the Bank has significant influence. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture.

When an associate or joint venture issues new stock, and the Bank's interest in the associate or joint venture is reduced or increased as the Bank fails to acquire shares newly issued in the associate or joint venture proportionately to its original ownership interest, the increase or decrease in the interest in the associate or joint venture is recognized in additional paid-in capital and investments accounted for using the equity method. When the interest in the associate or joint venture is reduced, the cumulative amounts previously recognized in other comprehensive income is reclassified to profit or loss or other appropriate items. The aforementioned capital surplus recognized is reclassified to profit or loss on a pro rata basis when the Bank disposes the associate or joint venture.

The financial statements of the associate or joint venture are prepared for the same reporting period as the Bank. Where necessary, adjustments are made to bring the accounting policies in line with those of the Bank.

In accordance with IAS 28 "*Investments in Associates and Joint Ventures*" (before 1 January 2018: IAS 39 "*Financial Instruments: Recognition and Measurement*"), the Bank determines at each reporting date whether there is any objective evidence that the investment in the associate or an investment in a joint venture is impaired. If this is the case, the Bank calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and recognizes the amount in the "share of profit or loss of an associate or joint venture" in the statement of comprehensive income as required by IAS 36 "*Impairment of Assets*". If using the investment's value in use as the recoverable amount, the Bank determines the value in use based on the following estimates:

- A. Future cash flows the Bank expects to derive from the investment in the associate or joint venture, including cash flows from the operation of the associate and from the ultimate disposal of such investment, or
- B. Present value of the future cash flows from dividends expected to be received from the associate and from the disposal of the investment.

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Because goodwill included as part of the carrying amount of an investment in an associate or an investment in a joint venture is not separately recognized, it is not tested for impairment separately by applying the requirements for testing goodwill impairment in IAS 36 “*Impairment of Assets*”.

Upon loss of significant influence over the associate or joint venture, the Bank measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss. Furthermore, if an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Bank continues to apply the equity method and does not re-measure the retained interest.

(6) Foreign currency transactions

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

Transactions in foreign currencies are initially recorded by the Group entities at their respective functional currency rates prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency closing rate of exchange ruling at the reporting date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions.

All exchange differences arising on the settlement of monetary items or on translating monetary items are taken to profit or loss in the period in which they arise except for the following:

- A. Exchange differences arising from foreign currency borrowings for an acquisition of a qualifying asset to the extent that they are regarded as an adjustment to interest costs are included in the borrowing costs that are eligible for capitalization.
- B. IFRS 9 “*Financial Instruments*” (Before 1 January 2018: IAS 39 “*Financial Instruments: Recognition and Measurement*”) are accounted for based on the accounting policy for financial instruments.
- C. Exchange differences arising on a monetary item that forms part of a reporting entity’s net investment in a foreign operation is recognized initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment.

When a gain or loss on a non-monetary item is recognized in other comprehensive income, any exchange component of that gain or loss is recognized in other comprehensive income. When a gain or loss on a non-monetary item is recognized in profit or loss, any exchange component of that gain or loss is recognized in profit or loss.

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(7) Translation of financial statements in foreign currency

The assets and liabilities of foreign operations are translated into New Taiwan Dollars at the closing rate of exchange prevailing at the reporting date and their income and expenses are translated at an average rate for the period. The exchange differences arising on the translation are recognized in other comprehensive income. On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated in the separate component of equity, is reclassified from equity to profit or loss when the gain or loss on disposal is recognized. When the partial disposal involves the loss of control of a subsidiary that includes a foreign operation, and the retained interest after the partial disposal of an interest in a joint arrangement or a partial disposal of an interest in an associate that includes a foreign operation is a financial asset that includes a foreign operation.

Any goodwill and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and expressed in its functional currency.

(8) Cash and cash equivalents

Cash and cash equivalents in consolidated balance sheet comprise cash on hand, demand deposits and short-term, highly liquid time deposits or investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Group classifies time deposits that are readily convertible to known amounts of cash within twelve months and which are subject to an insignificant risk of changes in value as cash equivalents. The consolidated statements of cash flows consist of cash and cash equivalents in consolidated balance sheet, due from the Central Bank and call loans to the banks and securities purchased under agreements to resell that conformed to the definition of cash and cash equivalents in IAS 7.

(9) Bills and bonds under repurchase or resell agreements

Bills and bonds under repurchase or resell agreements are accounted for under the financing method. Bills and bonds sold under repurchase agreements are presented as “Securities sold under agreements to repurchase” at the sale date. Bills and bonds invested under resell agreements are presented as “Securities purchased under agreements to resell” at the purchase date. The difference between the purchase or the selling price and the contracted resell or repurchase price is recorded as interest income or interest expense, respectively.

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(10) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities within the scope of IFRS 9 “*Financial Instruments*” (Before 1 January 2018: IAS 39 “*Financial Instruments: Recognition and Measurement*”) are recognized initially at fair value plus or minus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

A. Financial assets: Recognition and Measurement

The accounting policies from 1 January 2018 as follow:

The Group accounts for regular way purchase or sales of financial assets on the trade date.

The Group classified financial assets as subsequently measured at amortized cost, fair value through other comprehensive income or fair value through profit or loss considering both factors below:

- (A) the Group’s business model for managing the financial assets and
- (B) the contractual cash flow characteristics of the financial asset.

Financial assets measured at amortized cost

A financial asset is measured at amortized cost if both of the following conditions are met and presented as note receivables, trade receivables financial assets measured at amortized cost and other receivables etc., on balance sheet as at the reporting date:

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

Such financial assets are subsequently measured at amortized cost (the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and adjusted for any loss allowance) and is not part of a hedging relationship. A gain or loss is recognized in profit or loss when the financial asset is derecognized, through the amortization process or in order to recognise the impairment gains or losses.

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Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:

- (A) purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
- (B) financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

Financial asset at fair value through other comprehensive income

A financial asset is measured at fair value through other comprehensive income if both of the following conditions are met:

- (A) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
- (B) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Recognition of gain or loss on a financial asset measured at fair value through other comprehensive income are described as below:

- (A) A gain or loss on a financial asset measured at fair value through other comprehensive income recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gains and losses, until the financial asset is derecognized or reclassified.
- (B) When the financial asset is derecognized the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment.
- (C) Interest revenue is calculated by using the effective interest method. This is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for:
 - a. Purchased or originated credit-impaired financial assets. For those financial assets, the Group applies the credit-adjusted effective interest rate to the amortized cost of the financial asset from initial recognition.
 - b. Financial assets that are not purchased or originated credit-impaired financial assets but subsequently have become credit-impaired financial assets. For those financial assets, the Group applies the effective interest rate to the amortized cost of the financial asset in subsequent reporting periods.

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In addition, for the equity instruments within the scope of application in IFRS 9 but neither held for trading nor applicable to the contingent consideration recognized by the acquirer in IFRS 3 “Business Combinations”, an irrevocable election can be made at initial recognition to recognize subsequent changes in fair value in other comprehensive income. The amount recognized in other comprehensive income should not be subsequently transferred to profit or loss (the accumulated amount included in the other equity items should be transferred to retained earnings directly upon the disposal of such equity instruments), but should be presented as financial assets at fair value through other comprehensive income in the balance sheet. Dividends on investments are recognized in profit or loss unless the dividends clearly represent a recovery of part of the investment costs.

Financial assets at fair value through profit or loss

All financial assets are measured at fair value through profit or loss except that the aforementioned one that meet specific criterias are measured at amortized cost or at fair value through other comprehensive income, and presented as financial assets at fair value through profit or loss in the balance sheet.

Financial assets at fair value through profit or loss are measured at fair value. Gain or loss from the remeasurement are recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss.

The accounting policies before 1 January 2018 as follow:

The Group classifies its financial assets as either financial assets at fair value through profit or loss, held-to-maturity financial assets, investment in debt securities with no active market, financial assets carried at cost, available-for-sale financial assets, derivative financial assets for hedging and loans and receivables where appropriate. Financial liabilities are classified as either financial liabilities at fair value through profit or loss and financial liabilities carried at amortized cost. When financial assets or liabilities are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group accounts for regular way purchase or sales of financial assets on the trade date (i.e. the date that the Group commits to purchase or sell the asset).

Financial assets or liabilities at fair value through profit or loss

Financial assets or liabilities include held for trading and designated by the Group at fair value through profit or loss are classified as financial assets or liabilities at fair value through profit or loss.

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A financial asset is classified as held for trading if:

- (A) It is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (B) On initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (C) It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial asset at fair value through profit or loss; or a financial asset may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (A) It eliminates or significantly reduces a measurement or recognition inconsistency; or
- (B) A group of financial assets, financial liabilities or both is managed and its performances evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Financial assets at fair value through profit or loss are measured at fair value. When it changes in fair value it recognized in profit or loss. Dividends or interests on financial assets at fair value through profit or loss are recognized in profit or loss (including those received during the period of initial investment).

For financial liabilities designated as at fair value through profit and loss, the recognition of the full amount of change in the fair value in profit or loss only if the presentation of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

If financial assets do not have quoted prices in an active market and their fair value cannot be measured reliably, they are classified as financial assets measured at cost on balance sheet as at the reporting date.

Held-to-maturity financial assets

Non-derivative financial assets with fixed or determinable collections and fixed maturity which management has the intent and ability to hold to maturity are classified as held-to-maturity financial assets and reported at amortized cost. Such gains and losses are recognized when the investments are derecognized or impaired, as well as through amortized.

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Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity except for impairment loss and foreign currency exchange related gains or losses, until the investment is derecognized at which time the cumulative gain or loss previously reported in equity is transferred to income statement. However, any difference between the initial amount and the maturity amount of available-for-sale financial assets shall be amortized by effective interest method as interest income or expense over the relevant periods.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than:

- (A) Those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading;
- (B) Those that the entity upon initial recognition designates as at fair value through profit or loss;
- (C) Those that the entity upon initial recognition designates as available-for-sale; or
- (D) Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Gains and losses are recognized when the investments are derecognized, impaired and as well as through the amortization process.

Other financial assets

(A) Investments in debt securities with no active market

Investment in debt securities with no active market are non-derivative financial assets with fixed or determinable collections that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized when these investments are derecognized, impaired and as well as through the amortization process.

(B) Financial assets carried at cost

Investment in equity instruments without quoted market price and derivative instruments linked to or settled by delivery of such unquoted equity investments shall be measured at cost.

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B. Impairment of financial assets

The accounting policies from 1 January 2018 as follow:

The Group recognizes and measures the allowance for losses of the debt instrument investments measured at fair value through other comprehensive income, the debt instrument investments measured at amortized cost and off-balance sheet debt instruments on the basis of expected credit losses. The debt instrument investments measured at fair value through other comprehensive income recognizes the allowance for losses in other comprehensive income without reducing the carrying amount of such investments. In addition to be recognized and measured on the basis of expected credit losses, loans and receivables and off-balance sheet credit assets are also recognized and measured in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. The higher values are used to make appropriate provisions for the allowance for losses, reserve for losses on guarantees and reserve for financing commitments.

The Group measures expected credit losses of a financial instrument in a way that reflects:

- (A) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- (B) the time value of money; and
- (C) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The loss allowance is measures as follow:

- (A) At an amount equal to 12-month expected credit losses: the credit risk on a financial asset has not increased significantly since initial recognition or the financial asset is determined to have low credit risk at the reporting date. In addition, the Group measures the loss allowance at an amount equal to lifetime expected credit losses in the previous reporting period, but determines at the current reporting date that the credit risk on a financial asset has increased significantly since initial recognition is no longer met.
- (B) At an amount equal to the lifetime expected credit losses: the credit risk on a financial asset has increased significantly since initial recognition or financial asset that is purchased or originated credit-impaired financial asset.
- (C) For trade receivables or contract assets arising from transactions within the scope of IFRS 15, the Group measures the loss allowance at an amount equal to lifetime expected credit losses.

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In addition, in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”, the Bank shall allocate sufficient loan loss provision and reserves against liability on guarantees. Classification system classifies normal credit assets under the first category, with poorer credit assets assessed based on the securities and the length of time overdue, respectively classified as second category special mention, third category expectation of recovery, fourth category difficulty of recovery, and fifth category no hope of recovery.

The minimum loan loss provision and guarantee reserve shall be the sum of 1% of the outstanding balance of Category One credit asset’s claim (excluding assets that represent claims against a Taiwan government agency), 2% of the balance of Category Two credit assets, 10% of the balance of Category Three credit assets, 50% of the balance of Category Four credit assets, and the full balance of Category Five credit assets.

At each reporting date, the Group needs to assess whether the credit risk on a financial asset has increased significantly since initial recognition by comparing the risk of a default occurring at the reporting date and the risk of default occurring at initial recognition. Please refer to Note 12 for further details on credit risk.

The accounting policies before 1 January 2018 as follow:

The Group assesses at each reporting date whether there is any objective evidence that a financial asset other than the financial assets at fair value through profit or loss is impaired. A financial asset is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset. The carrying amount of the financial asset impaired, other than receivables impaired which are reduced through the use of an allowance account, is reduced directly and the amount of the loss is recognized in profit or loss.

A significant or prolonged decline in the fair value of an available-for-sale equity instrument below its cost is considered a loss event.

Other loss events include:

- (A) significant financial difficulty of the issuer or obligor; or
- (B) a breach of contract, such as a default or delinquency in interest or principal payments;
or
- (C) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (D) the disappearance of an active market for that financial asset because of financial difficulties.

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The Group applies the following methods to determine the amount of any impairment loss:

Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognized in other comprehensive income and there is objective evidence that the asset is impaired, the cumulative loss that had been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment even though the financial asset has not been derecognized.

In the case of equity investments classified as available-for-sale, impairment losses are not reversed through profit or loss; increases in its fair value after impairment are recognized directly in other comprehensive income. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment losses was recognized in profit or loss, the impairment losses are reversed through, with the amount of the reversal recognized in profit or loss.

Financial assets carried at amortized cost

If there is objective evidence that an impairment loss on a financial asset carried at amortized cost has been incurred, the amount of the loss is measured by the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The carrying amount of the financial asset is reduced either directly or through the use of an allowance account. The amount of the loss is recognized in profit or loss.

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 either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal is recognized in profit or loss.

Loans and receivables

The Group first assesses whether objective evidence of impairment exists individually for loans and receivables that are individually significant. If there is objective evidence that an impairment loss on individual loans and receivables has been incurred, the amount of impairment loss should be assessed individually. If there is objective evidence that an impairment loss on a loan and receivable that is not individually significant has been incurred, the Bank shall include those assets in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment.

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If there is objective evidence that an impairment loss has been incurred, the amount of loss is measured as the difference between the carrying amount of loans and receivables and the present value of estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows on loans and receivables is discounted at the financial assets original effective interest rate. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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 (such as an improvement in the debtor's credit rating), the previously recognized impairment loss shall be reversed either directly or by adjusting an allowance account. The reversal shall not result in a carrying amount of the loan and receivable that exceeds what the amortized cost would have been had the impairment not been recognized at the date the impairment is reversed. The amount of the reversal shall be recognized in profit or loss.

In addition, in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", the Bank shall allocate sufficient loan loss provision and reserves against liability on guarantees. Classification system classifies normal credit assets under the first category, with poorer credit assets assessed based on the securities and the length of time overdue, respectively classified as second category special mention, third category expectation of recovery, fourth category difficulty of recovery, and fifth category no hope of recovery.

The minimum loan loss provision and guarantee reserve shall be the sum of 1% of the outstanding balance of Category One credit asset's claim (excluding assets that represent claims against an ROC government agency), 2% of the balance of Category Two credit assets, 10% of the balance of Category Three credit assets, 50% of the balance of Category Four credit assets, and the full balance of Category Five credit assets.

C. Derecognition of financial assets

A financial asset (or where applicable a part of a financial asset or part of a group of similar financial asset) is derecognized when:

- (A) The rights to receive cash flows from the asset have expired
- (B) The Group has transferred the asset and substantially all the risks and rewards of the asset have been transferred
- (C) The Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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On derecognition of a financial asset in its entirety, the difference between the carrying amount and the consideration received or receivable including any cumulative gain or loss that had been recognized in other comprehensive income, is recognized in profit or loss.

D. Financial liabilities and equity instruments

Classification between liabilities or equity

The Group classifies the instrument issued as a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognized at the proceeds received, net of direct issue costs.

The transaction cost is allocated to the liabilities and equities on the base of the proportion that convertible bonds allocated to the liabilities and equities at the initial recognition.

When the holders of convertible bonds require to act the conversion rights before the due dates of the convertible bonds, adjust the book values of liabilities elements to the book values that should be at the time point of converting, as the basis of recoding the issuing of common share.

Financial liabilities

Financial liabilities within the scope of IFRS 9 “Financial Instruments” (before 1 January 2018: IAS 39 “*Financial Instruments: Recognition and Measurement*”) are classified as financial liabilities at fair value through profit or loss or financial liabilities measured at amortized cost upon initial recognition.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated as at fair value through profit or loss.

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A financial liability is classified as held for trading if:

- (A) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- (B) on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- (C) it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

If a contract contains one or more embedded derivatives, the entire hybrid (combined) contract may be designated as a financial liability at fair value through profit or loss; or a financial liability may be designated as at fair value through profit or loss when doing so results in more relevant information, because either:

- (A) it eliminates or significantly reduces a measurement or recognition inconsistency; or
- (B) a group of financial assets, financial liabilities or both is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the key management personnel.

Gains or losses on the subsequent measurement of liabilities at fair value through profit or loss including interest paid are recognized in profit or loss.

Before 1 January 2018, if the financial liabilities at fair value through profit or loss do not have quoted prices in an active market and their fair value cannot be reliably measured, then they are classified as financial liabilities measured at cost on balance sheet and carried at cost as at the reporting date.

Financial liabilities at amortized cost

Financial liabilities measured at amortized cost include payables and loans that are subsequently measured using the effective interest rate method after initial recognition. Gains and losses are recognized in profit or loss when the liabilities are derecognized and amortized through the effective interest rate method.

Amortized cost is calculated by discount or premium happened in acquisition and transaction costs.

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Derecognition of financial liabilities

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified (whether or not attributable to the financial difficulty of the debtor), such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the respective carrying amounts and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

E. Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously.

(11) Derivative instrument

The Group uses derivative instruments to hedge its foreign currency risks and interest rate risks. A derivative is classified in the balance sheet as assets or liabilities at fair value through profit or loss except for derivatives that are designated effective hedging instruments which are classified as derivative financial assets or liabilities for hedging.

Derivative instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative. Any gains or losses arising from changes in the fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognized in equity.

Before 1 January 2018, derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated at fair value through profit or loss. These embedded derivatives are separated from the host contract and accounted for as a derivative. The aforementioned policy are applicable to host contracts as financial liabilities or non-financial assets since 1 January 2018.

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(12) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- A. In the principal market for the asset or liability, or
- B. In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

(13) Impairment of non-financial assets

The Group assesses at the end of each reporting period whether there is any indication that an asset in the scope of IAS 36 "*Impairment of Assets*" may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating units ("CGU") fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Bank estimates the asset's or cash-generating unit's recoverable amount. A previously recognized impairment loss is reversed only if there has been an increase in the estimated service potential of an asset which in turn increases the recoverable amount. However, the reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years.

A cash generating unit, or groups of cash-generating units, to which goodwill has been allocated is tested for impairment annually at the same time, irrespective of whether there is any indication of impairment. If an impairment loss is to be recognized, it is first allocated to reduce the carrying amount of any goodwill allocated to the cash generating unit (group of units), then to the other assets of the unit (group of units) pro rata on the basis of the carrying amount of each asset in the unit (group of units). Impairment losses relating to goodwill cannot be reversed in future periods for any reason.

An impairment loss of continuing operations or a reversal of such impairment loss is recognized in profit or loss.

(14) Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee.

(15) Foreclosed properties

Foreclosed properties of the Group represent assets acquired by repossession of collateral for realization and are stated at the lower of cost or net realizable value on the balance sheet date. If there is an objective evidence of impairment, the impairment loss shall be recognized.

(16) Lease

All the leasing contracts of the Group follow the regulations of IAS17 and SIC4 and are categorized as operating lease. If the Group is the lessee, the asset then is recorded as leased asset in the balance sheet. The rent payable and receivable of operating lease are recorded by its rental duration using straight-line method. They are recorded as "Other general and administrative expenses" and "Other net non-interest income".

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(17) Property and equipment

Property and equipment is stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Such cost includes the cost of dismantling and removing the item and restoring the site on which it is located and borrowing costs for construction in progress if the recognition criteria are met. When significant parts of property and equipment are required to be replaced in intervals, the Bank recognizes such parts as individual assets with specific useful lives and depreciation, respectively. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in profit or loss as incurred.

Depreciation is calculated on a straight-line method over the following estimated useful lives:

Building	5 - 60	years
Machinery and equipment	3 - 8	years
Transportation equipment	3 - 7	years
Miscellaneous equipment	3 - 15	years

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefit is expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in profit or loss.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively, if appropriate.

(18) Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day to day servicing of an investment property. Subsequent to initial recognition, investment properties are measured using the fair value model in accordance with the requirements of IAS 40 "*Investment property*" for that model. Gains or losses arising from changes in the fair values of investment properties are included in the consolidated statement of comprehensive income in the period in which they arise, other than those that meet the criteria to be classified as held for sale (or are included in a disposal group that is classified as held for sale) in accordance with IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*".

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Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in profit or loss in the period of derecognition.

The fair value of investment properties is measured on the character, location and condition of specific property.

(19) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in profit or loss for the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each financial year. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

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The category of intangible assets of the Group and the amortization method over the estimated useful lives are as follows:

<u>Category</u>	<u>Useful lives</u>	<u>Amortization method</u>
Computer software	3 - 8 years	Straight-line method
Other intangible assets	4 years	Straight-line method

(20) Income taxes

Income tax expense (income) is the aggregate amount included in the determination of profit or loss for the period in respect of current tax and deferred tax.

Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current income tax relating to items recognized in other comprehensive income or directly in equity is recognized in other comprehensive income or equity and not in profit or loss.

The income tax for undistributed earnings is recognized as income tax expense in the subsequent year when the distribution proposal is approved by the board of directors.

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- A. Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- B. In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- A. Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
- B. In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the reporting date. The measurement of deferred tax assets and deferred tax liabilities 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. Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity. Deferred tax assets are reassessed at each reporting date and are recognized accordingly.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Interim period income tax expense is accrued using the tax rate that would be applicable to expected total annual earnings, that is, the estimated average annual effective income tax rate applied to the pre-tax income of the interim period. The estimated average annual effective income tax rate only includes current income tax. The recognition and measurement of deferred tax follows annual financial reporting requirements in accordance with IAS “12 *Income Taxes*”. The Company and Subsidiaries recognize the effect of change in tax rate for deferred taxes in full if the new tax rate is enacted by the end of the interim reporting period, by charging to profit or loss, other comprehensive income, or directly to equity.

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In accordance with Article 49 of the Financial Holding Company Act, the Company and its parent company jointly filed corporation income tax returns and 10% surcharge on undistributed retained earnings since 2002 under the integrated income tax system. Such effects on current tax and deferred tax are accounted for as receivable or payables.

Effective from 1 January, 2006, the Company has considered the impact of the “Alternative Minimum Tax Act” to estimate their income tax liabilities.

(21) Employee benefits

Defined contribution plans

The Bank has a pension plan covering all full-time employees (the defined benefit plan). Under the plan, pension benefit payments for each employee are based on the employee’s years of service and final average compensation. The Bank has established two employee retirement fund committees to supervise the employees’ retirement fund based on the regulations of the employee retirement plan. Contribution to the pension fund is made to the separate accounts of the above two committees monthly. The Bank makes contributions to the pension plan, which is administered and operated by an independent employee retirement fund committee. The pension plan is not reflected in the consolidated financial statements. Pension benefits for employees of the overseas subsidiaries and the branches are provided in accordance with the respective local regulations.

The Labor Pension Act of the ROC (the “Act”), which adopts a defined contribution pension plan, is effective on 1 July 2005. In accordance with the Act, employees of the Bank may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Act. For employees subject to the Act, the Bank shall make monthly contributions to the employees’ individual pension accounts on a basis 6% of the employees’ monthly wages. Monthly contributions are recognized as pension costs.

Defined benefit plans

Post-employment benefit plan that is classified as a defined benefit plan uses the Projected Unit Credit Method to measure its obligations and costs based on actuarial assumptions.

Re-measurements, comprising of the effect of the actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets, excluding net interest are recognized as other comprehensive income with a corresponding debit or credit to other equity in the period in which they occur.

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Past service costs are recognized in profit or loss on the earlier of:

- A. The date of the plan amendment or curtailment, and
- B. The date that the Group recognizes restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset, both as determined at the start of the annual reporting period, taking account of any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payment.

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

Employee preferential interest rate deposits

The Bank offers its employees with preferential deposit, including providing finite amount preferential interest rate deposits to current employees and providing the preferential interest rate deposits to current employees and retired employees after their retirement. The difference between the interest rate of preferential deposits and the market rate is recognized as employee benefits.

The finite amount preferential deposits that the Bank paid to its current employees are calculated monthly on accrual basis. The difference between the interest rate of preferential deposit and the market rate is recorded as “Employee benefits expenses”. In accordance with the article 30 of the “Regulations Governing the Preparation of Financial Reports by Public Banks”, when the interest incurred from preferential interest rate deposits exceed the interest generated from market rate, it should be considered the actuarial amount according to defined benefit plan regulated on IAS 19 “Employee Benefits” since the employee’s retirement date.

(22) Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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(23) Interest income

Interest income is recognized over the period by applying the interest rate method and measured except for delinquent accounts and troubled accounts whose interest is recognized when received.

(24) Service fee income and award credits deferred income

The revenues from contracts between the Group and customers mainly include the service fee and award credits deferred income.

The Group earns service fee from a diverse range of services it provides to its customers.

The award credits deferred income represents the award credits granted to the credit card holders by the Group. The accounting treatments are described respectively as follows:

The accounting policies from 1 January 2018 are as follows:

The Group earns service fee and award credits and deferred income from services provided at a specific time point, over a period of time or from transaction services provided then recognizes revenue. A contract asset is recognized when it has transferred services to customers but has not yet obtained the right to receive the consideration unconditionally. While, in some cases, the Group has received part of consideration from customers when signing contracts, the Group shall bear the obligation to provide services subsequently, then contract liability is recognized.

Generally, the aforementioned contract liability of the Group should be transferred into income within one year, so there is no significant financial component resulted.

The accounting policies before 1 January 2018 are as follows:

The Group earns service fee from services provided at a specific time point, over a period of time or from transaction services provided then recognizes revenue. Award credits deferred income is recognized as deferred income at its fair value. The related part of redeemed or expired award credits in deferred income are recognized as revenue when the award credits are redeemed or expired.

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(25) Operating segment information

An operating segment is a component of an entity that has the follow characteristics:

- A. Engaging in business activities from which it may earn revenues and incur expenses;
- B. Whose operating results are regularly reviewed by the entity's chief operating decision marker to make decisions about resource to be allocated to the segment and assess its performance, and
- C. For which discrete financial information is available.

5. Significant accounting judgments, estimates and assumptions

The preparation of the Group's consolidated financial statements require management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods.

(1) Judgment

In the process of applying the Group's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the consolidated financial statements:

A. Investment properties

Certain properties of the Bank comprise a portion that is held to earn rentals or for capital appreciation and another portion that is owner-occupied. The property is classified as investment property in its entirety only if the portion that is owner-occupied is under 5% of the total property.

B. Operating lease commitment – the Group as the lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

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(2) Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

A. Impairment losses on loans and receivables

The accounting policies from 1 January 2018 are as follows:

The estimate of impairment losses on loans and receivables of the Group is measured by the amount of expected credit losses during the remaining term to maturity. Under the contract, the present value of the difference between the contractual cash flow (carrying amount) and the expected cash flow (assessment of prospective information) is credit loss, which is measured by the undiscounted difference in case that the impact from discounting of short-term loans and receivables is insignificant. When the future actual cash flow is less than expectation, it may result in significant impairment loss. Please refer to note 12 for further details.

The accounting policies before 1 January 2018 as follow:

The Group review their loans and receivables to assess whether an impairment loss should be recorded in profit or loss on a monthly basis. When the Group determines whether to recognize impairment losses, they mainly decide if there is any observable evidence indicating possible impairment. The evidence may include observable information indicating unfavorable changes in debtor payment status, or sovereign or the local economic situation related to debt payment. While analysing expected cash flow, the estimates by the management are based on past losses experience on the assets of similar credit risk characteristics. The Group periodically reviews methods and assumptions behind the amount and schedule of expected cash flow, to reduce the difference between expected and actual loss.

B. Fair value of financial instruments

Where the fair value of financial instruments cannot be derived from an active market or a quoted price, it is determined using a valuation technique. Observable market data for similar financial instruments is utilized as inputs to measure fair value. If observable inputs are not available, prudent assumptions are used for estimating fair value. In applying valuation techniques, the Group adopts pricing models in accordance with its procedure for valuation. All models are adjusted to ensure that their results reflect actual data and market prices.

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C. Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs that would be directly attributable to the disposal of the asset or cash generating unit. The value in use calculation is based on a discounted cash flow model. The cash flows projections are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

The Bank determines whether goodwill is impaired on an annual basis and when circumstances indicate that the carrying value may be impaired. This requires an estimation of the recoverable amount of the CGU or groups of CGUs to which goodwill is allocated. Estimating the recoverable amount requires the Bank to make an estimate of the expected future cash flows from the CGU or groups of CGUs and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

D. Award credits deferred income

The accounting policies from 1 January 2018 are as follows:

As to customer loyalty program, the bank recognizes the fair values of all the relative consideration received and receivable, and also evaluates the cost and the liabilities might derive from award credits and other consideration. The revenue belongs to award credits would be deferred and recognized as contract liabilities. It would be recognized as revenue only when the obligation of the bank is fulfilled. As points issued under the program do not expire, such estimates are subject to significant uncertainty.

The accounting policies before 1 January 2018 as follow:

The Bank recognizes the fair value of all considerations received or receivable as revenue at the time of sale, and estimates the cost and related liabilities resulting from the awards given. The consideration allocated to the award credits should be deferred and only recognized as revenue when award credits are redeemed and the Bank fulfils its obligations to supply awards. As points issued under the program do not expire, such estimates are subject to significant uncertainty.

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E. Income tax

Uncertainties exist with respect to the interpretation of complex tax regulations and the amount and timing of future taxable income. Given the wide range of international business relationships and the long-term nature and complexity of existing contractual agreements, differences arising between the actual results and the assumptions made, or future changes to such assumptions, could necessitate future adjustments to tax income and expense already recorded. The Group establishes provisions, based on reasonable estimates, for possible consequences of audits by the tax authorities of the respective countries in which it operates. The amount of such provisions is based on various factors, such as experience of previous tax audits and differing interpretations of tax regulations by the taxable entity and the responsible tax authority. Such differences of interpretation may arise on a wide variety of issues depending on the conditions prevailing in the respective Group entity's domicile.

Deferred tax assets are recognized for all carry forward of unused tax losses and unused tax credits and deductible temporary differences to the extent that it is probable that taxable profit will be available or there are sufficient taxable temporary differences against which the unused tax losses, unused tax credits or deductible temporary differences can be utilized. The amount of deferred tax assets determined to be recognized is based upon the likely timing and the level of future taxable profits and taxable temporary differences together with future tax planning strategies.

F. Pension benefits

The cost of post-employment benefit and the present value of the pension obligation under defined benefit pension plans are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate and future salary increases.

According to internal regulation of the Bank or hiring agreement, IAS 19 "*Employee Benefit*" applies to the excess interest of retiring employee preferential interest rate deposits once the employee is retired.

G. Fair value of investment property

The fair value of investment property is derived from valuation techniques, including income approach (such as discounted cash flow model and direct capitalization approach), comparison approach, and cost approach, while the assumptions used in applying valuation techniques will have impacts on the fair value of investment property. Please refer Note 6.(13) for more details.

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6. Breakdown of Significant Accounts

(1) Cash and cash equivalents

	<u>2018.09.30</u>	<u>2017.12.31</u>	<u>2017.09.30</u>
Cash on hand	\$17,093,643	\$18,106,605	\$16,292,975
Checks for clearance	6,535,975	7,025,587	2,499,852
Due from commercial banks	55,197,051	40,826,340	56,599,410
Subtotal	78,826,669	65,958,532	75,392,237
Less: allowance for doubtful accounts(Note)	(5,725)	-	-
Net balance	<u>\$78,820,944</u>	<u>\$65,958,532</u>	<u>\$75,392,237</u>

The components of cash and cash equivalents in statement of cash flows are listed below.

	<u>2018.09.30</u>	<u>2017.12.31</u>	<u>2017.09.30</u>
Cash and cash equivalents in consolidated balance sheets	\$78,820,944	\$65,958,532	\$75,392,237
Due from the Central Bank and call loans to banks satisfied the definition of cash and cash equivalents under IAS7	62,747,868	70,168,447	28,220,195
Securities purchased under agreements to resell satisfied the definition of cash and cash equivalents under IAS7	90,784,688	87,483,656	65,593,899
Cash and cash equivalents at end of the periods in consolidated statements of cash flows	<u>\$232,353,500</u>	<u>\$223,610,635</u>	<u>\$169,206,331</u>

Notes: The Group has adopted IFRS 9 from 1 January 2018, and assessed the expected credit losses of the components of cash and cash equivalents in the cash flow statement in accordance with IFRS 9. The allowances as at 30 September 2018 and 1 January 2018 were \$16,562 thousand and \$8,776 thousand respectively.

As of 30 September 2018, certain securities purchased under agreements to resell were sold under repurchase agreement with notional amounts of \$226,077 thousand. Such repurchase agreements amounting to \$204,378 thousand were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreements entered prior to 30 September 2018 were settled at \$205,638 thousand prior to 31 October 2018.

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(2) Due from the Central Bank and call loans to banks

	<u>2018.09.30</u>	<u>2017.12.31</u>	<u>2017.09.30</u>
Call loans to banks	\$41,992,442	\$30,687,790	\$20,702,496
Due from the Central Bank - Statutory reserve on deposits	59,286,282	54,995,333	54,793,282
Due from the Central Bank - General deposits	<u>20,755,425</u>	<u>39,480,657</u>	<u>7,517,698</u>
Subtotal	122,034,149	125,163,780	83,013,476
Less: allowance for doubtful accounts	(64,265)	-	-
Net balance	<u>\$121,969,884</u>	<u>\$125,163,780</u>	<u>\$83,013,476</u>

A. The Bank

Statutory reserve on deposits and general deposits consists mainly of New Taiwan dollars and foreign currency deposit reserves.

As provided by the Central Bank of the ROC, NTD-denominated deposit reserves are determined monthly at prescribed rates on average balances of customers' NTD-denominated deposits. These reserves included \$53,853,940 thousand, \$51,180,284 thousand and \$50,561,759 thousand as of 30 September 2018, 31 December 2017 and 30 September 2017, respectively, which are subject to withdrawal restrictions.

In addition, the foreign-currency deposit reserves are determined at prescribed rates on balances of additional foreign-currency deposits. These non-interest bearing reserves may be withdrawn momentarily. As of 30 September 2018, 31 December 2017 and 30 September 2017, the balances of foreign-currency deposit reserves were \$1,513,173 thousand, \$1,531,299 thousand and \$2,030,554 thousand, respectively.

B. Indovina Bank

In accordance with the relevant local laws and regulations governing credit institutions, the amounts of compulsory reserves for the State Bank of Vietnam were \$1,217,763 thousands, \$1,112,223 thousands and \$920,592 thousands as of 30 September 2018, 31 December 2017 and 30 September 2017, respectively.

C. CUBC Bank

In accordance with the relevant local laws and regulations governing credit institutions, the amounts of compulsory reserves for the National Bank of Cambodia were \$1,415,363 thousands, \$1,171,527 thousands and \$1,280,377 thousands as of 30 September 2018, 31 December 2017 and 30 September 2017, respectively.

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D. CUBCN Bank

In accordance with the relevant local laws and regulations governing credit institutions, the amount of compulsory reserves for the People's Bank of China was \$1,286,043 thousands as of 30 September 2018.

(3) Financial assets at fair value through profit or loss

	2018.09.30	2017.12.31 (Note)	2017.09.30 (Note)
Financial assets at fair value through profit or loss			
Stocks	\$29,567		
Short-term bills	176,279,574		
Bonds	41,146,933		
Derivative financial instruments	57,441,368		
Total	<u>\$274,897,442</u>		
	2018.09.30	2017.12.31	2017.09.30
	(Note)		
Financial assets held for trading:			
Stocks		\$4,779,697	\$541,138
Short-term bills		170,563,632	168,179,257
Mutual funds and beneficiary securities		49,939	-
Bonds		103,419,235	114,566,582
Derivative financial instruments		33,172,556	34,856,081
Total		<u>\$311,985,059</u>	<u>\$318,143,058</u>

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

A. As of 30 September 2018, 31 December 2017 and 30 September 2017, the amount (the range of fair value for derivative contracts between initial recognition and subsequent measurement) for derivative financial instruments (include hedging) are disclosed as following: (Unit: thousands of US dollars):

	2018.09.30	2017.12.31	2017.09.30
Currency forward contracts	\$86,932,558	\$76,351,206	\$63,096,825
Interest rate swap	87,044,422	51,136,885	48,454,610
Cross currency swap	1,484,026	3,657,069	4,539,309
Options	4,517,481	3,206,295	2,687,246
Futures	646,929	1,970,671	1,867,831

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B. As of 30 September 2018, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of \$995,963 thousand. Such repurchase agreements amounting to \$913,548 thousand, which were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreement entered prior to 30 September 2018 were settled at \$913,833 thousand prior to 31 October 2018.

As of 31 December 2017, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of \$46,143,100 thousand. Such repurchase agreements amounting to \$43,634,657 thousand, which were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreement entered prior to 31 December 2017 were settled at \$43,732,175 thousand prior to 28 February 2018.

As of 30 September 2017, certain financial assets at fair value through profit or loss were sold under repurchase agreements with notional amounts of \$40,287,131 thousand. Such repurchase agreements amounting to \$38,411,134 thousand, which were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreement entered prior to 30 September 2017 were settled at \$39,782,201 thousand prior to 31 October 2017.

(4) Financial assets at fair value through other comprehensive income

	2018.09.30	2017.12.31 (Note)	2017.09.30 (Note)
Debt instrument investment at fair value through other comprehensive income			
Corporate bonds	\$41,355,705		
Government bonds	73,679,637		
Financial bonds	74,438,093		
Asset-based bonds	5,436,017		
Subtotal	<u>194,909,452</u>		
Equity instrument investment at fair value through other comprehensive income			
Stocks	<u>16,818,015</u>		
Total	<u><u>\$211,727,467</u></u>		

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

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A. Dividend income recognized related to the equity instrument investments in financial assets at fair value through other comprehensive income held by the Group was \$1,525,392 thousand in the nine-month period ended 30 September of 2018, of which \$648,440 thousand were related to the investment held till the balance sheet date, and the rest were related to the investment derecognized in the nine-month period ended 30 September 2018.

In view of investment strategy, the Group sold the equity investments in financial assets at fair value through other comprehensive income in the nine-month period ended 30 September of 2018 (the fair value at the time of sale was \$26,272,419 thousand) and transferred the accumulated unrealized valuation profit of \$294,915 thousand upon disposal from other equity to retained earnings.

B. As at 30 September 2018, certain financial assets at fair value through other comprehensive income were sold under repurchase agreement with notional amounts of \$53,149,767 thousand. Such repurchase agreement amounting to \$46,113,710 thousand was posted to the “Securities sold under agreements to repurchase” account. Repurchase agreements entered prior to 30 September 2018 were settled at \$46,311,723 thousand prior to 31 December 2018.

C. As at 30 September 2018, \$253,701 thousand of certain financial assets at fair value through other comprehensive income were pledged to other parties as collateral for business reserves and guarantees.

D. Please refer to note 6.(35) for further details on the related information of impairment losses on investments in debt instruments measured at fair value through other comprehensive income.

(5) Debt instrument investment measured at amortized cost

	2018.09.30	2017.12.31 (Note)	2017.09.30 (Note)
Short-term bills	\$255,594,914		
Bonds	69,672,778		
Subtotal	325,267,692		
Less: accumulated depreciation	(52,031)		
Net balance	<u>\$325,215,661</u>		

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

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- A. As at 30 September 2018, certain financial assets measured at amortized cost were sold under repurchase agreements with notional amounts of \$25,638,808 thousand. Such repurchase agreements amounting to \$14,824,026 thousand, which were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheets. Repurchase agreement entered prior to 30 September 2018 were settled at \$14,886,110 thousand prior to 30 November 2018.
- B. As at 30 September 2018, \$64,169,571 thousand of certain financial assets measured at amortized cost were pledged to other parties as collateral for business reserves and guarantees.
- C. The Bank classified certain financial assets as investments in debt instruments measured at amortized cost. Please refer to note 6.(35) for further details on the related information of impairment losses on.

(6) Receivables-net

	2018.09.30	2017.12.31	2017.09.30
Notes receivable	\$410	\$-	\$7,500
Accounts receivable	70,902,412	65,308,138	65,780,227
Interest receivable	8,397,481	7,630,282	6,909,634
Acceptance	1,602,833	785,112	953,668
Factoring receivable	4,275,306	2,248,622	1,962,053
Others	2,856,890	3,450,428	11,782,499
Subtotal	88,035,332	79,422,582	87,395,581
Adjustment for discounts and premiums	(10,656)	(10,301)	(13,187)
Less: allowance for doubtful accounts	(2,050,016)	(2,431,464)	(2,779,585)
Net balance	<u>\$85,974,660</u>	<u>\$76,980,817</u>	<u>\$84,602,809</u>

A. The Group adopted IFRS 9 for impairment assessment since 1 January 2018. Please refer to Note 12 for more details on movement of gross carrying amount of receivables and loss allowance of receivables.

B. Information on allowance for doubtful accounts is as follows:

	2017.01.01-2017.09.30		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	\$208,096	\$3,628,263	\$3,836,359
(Reversal) Allowance for doubtful accounts	(6,069)	63	(6,006)
Write-offs	(1,165,679)	-	(1,165,679)
Debt negotiation recoveries	84,834	-	84,834
Recoveries	350,604	-	350,604
Reclassification	728,112	(976,391)	(248,279)
Effects of exchange rates changes	(1,425)	(70,823)	(72,248)
Balance, end of the period	<u>\$198,473</u>	<u>\$2,581,112</u>	<u>\$2,779,585</u>

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C. Impairment assessment of receivables – the Group

Item		Receivables	
		2017.12.31	2017.09.30
With objective evidence of impairment	Individual assessment	\$34,688	\$80,123
	Collective assessment	191,529	195,146
Without objective evidence of impairment	Collective assessment	79,196,365	87,120,312

Item		Allowance for doubtful accounts	
		2017.12.31	2017.09.30
With objective evidence of impairment	Individual assessment	\$11,165	\$56,355
	Collective assessment	137,996	142,118
Without objective evidence of impairment	Collective assessment	2,282,303	2,581,112

Notes: receivables shall refer to amounts originated excluded allowance for doubtful accounts and discount or premium.

(7) Discounts and loans - net

	2018.09.30	2017.12.31	2017.09.30
Outward documentary bills	\$2,320,809	\$1,339,549	\$1,404,354
Overdrafts	2,126,019	2,191,344	2,811,025
Short-term loans	440,557,025	384,290,373	450,684,882
Medium-term loans	370,801,197	342,713,958	332,960,145
Long-term loans	776,134,681	724,090,995	709,944,593
Delinquent accounts	2,486,630	2,782,300	2,746,012
Subtotal	1,594,426,361	1,457,408,519	1,500,551,011
Adjustment for discounts and premiums	275,453	389,580	436,497
Less: allowance for doubtful accounts	(25,258,603)	(23,239,932)	(22,624,645)
Net balance	<u>\$1,569,443,211</u>	<u>\$1,434,558,167</u>	<u>\$1,478,362,863</u>

A. Please refer to Note 12.(7) for details on loans by industries and geographic regions.

B. The Group adopted IFRS 9 for impairment assessment since 1 January 2018. Please refer to Note 12 for more details on movement of gross amount of loans and loss allowance of receivables.

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C. Information on allowance for doubtful accounts is as follows:

	2017.01.01-2017.09.30		
	Individually impaired	Collectively impaired	Total
Balance, beginning of the period	\$3,192,994	\$16,672,454	\$19,865,448
Allowance for doubtful accounts	1,830,565	53,643	1,884,208
Write-offs	(502,660)	-	(502,660)
Debt negotiation recoveries	78,283	-	78,283
Recoveries	1,234,516	-	1,234,516
Reclassification	(1,632,618)	1,880,897	248,279
Effects of changes in exchange rates	(6,573)	(176,856)	(183,429)
Balance, end of the period	<u>\$4,194,507</u>	<u>\$18,430,138</u>	<u>\$22,624,645</u>

D. Impairment assessment of discounts and loans — the Group

Item		Discounts and loans	
		2017.12.31	2017.09.30
With objective evidence of impairment	Individual assessment	\$11,086,752	\$10,321,972
	Collective assessment	7,948,737	7,942,371
Without objective evidence of impairment	Collective assessment	1,438,373,030	1,482,286,668

Item		Allowance for doubtful account	
		2017.12.31	2017.09.30
With objective evidence of impairment	Individual assessment	\$3,155,218	\$2,607,493
	Collective assessment	1,548,753	1,587,014
Without objective evidence of impairment	Collective assessment	18,535,961	18,430,138

Note: Discounts and loans shall refer to amounts originated excluding allowance for doubtful accounts and discount or premium.

(8) Available-for-sale financial assets - net

	2018.09.30	2017.12.31	2017.09.30
	(Note)		
Stocks		\$15,833,022	\$14,292,994
Mutual funds and beneficiary securities		541,355	274,598
Bonds		132,106,292	129,635,494
Total		<u>\$148,480,669</u>	<u>\$144,203,086</u>

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

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A. Impairment assessment of available-for-sale financial assets above, please refer to Note 12. (7).

B. As of 31 December 2017, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of \$29,926,975 thousand. Such repurchase agreements amounting to \$29,338,529 thousand were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheet. Repurchase agreements entered prior to 31 December 2017 were settled at \$29,404,419 thousand prior to 30 June 2018.

As of 30 September 2017, certain available-for-sale financial assets were sold under repurchase agreements with notional amounts of \$26,099,787 thousand. Such repurchase agreements amounting to \$25,616,299 thousand were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheet. Repurchase agreements entered prior to 30 September 2017 were settled at \$25,659,744 thousand prior to 31 October 2017.

C. Available-for-sale financial assets of \$57,613 thousand and \$57,656 thousand as of 31 December 2017 and 30 September 2017, respectively, were pledged to other parties as collateral for business reserves and guarantees.

(9) Held-to-maturity financial assets - net

	2018.09.30 (Note)	2017.12.31	2017.09.30
Short-term bills		\$5,221,668	\$5,904,657
Bonds		29,123,417	31,327,434
Total		<u>\$34,345,085</u>	<u>\$37,232,091</u>

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

A. As of 31 December 2017, certain held-to-maturity financial assets were sold under repurchase agreements with notional amounts of \$32,683,560 thousand. Such repurchase agreements amounting to \$23,242,069 thousand were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheet. Repurchase agreements entered prior to 31 December 2017 were settled at \$23,319,479 thousand prior to 31 March 2018.

As of 30 September 2017, held-to-maturity financial assets were sold under repurchase agreements with notional amounts of \$33,933,063 thousand. Such repurchase agreements amounting to \$23,986,727 thousand were posted to the “Securities sold under agreements to repurchase” account on the consolidated balance sheet. Repurchase agreements entered prior to 30 September 2017 were settled at \$24,032,835 thousand prior to 31 October 2017.

B. Held-to-maturity financial assets of \$595,043 thousand and \$581,868 thousand as of 31 December 2017 and 30 September 2017, respectively, were pledged to other parties as collateral of business reserves and guarantees.

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(10) Investments accounted for using the equity method – net

	2018.09.30		2017.12.31		2017.09.30	
	Carrying value	% of ownership	Carrying value	% of ownership	Carrying value	% of ownership
Investment in associates						
Taiwan Real-estate Management Corp.	\$102,068	30.15	\$101,936	30.15	\$99,358	30.15
Taiwan Finance Corp.	1,637,371	24.57	1,642,111	24.57	1,611,337	24.57
Total	<u>\$1,739,439</u>		<u>\$1,744,047</u>		<u>\$1,710,695</u>	

A. The shares of the subsidiaries and associates that the Bank invested in are not publicly traded. The subsidiaries and associates are not significantly restricted in term of ability to transfer funds to the investors in the form of cash dividends, repayment of loans or advances.

B. Investment in the associates

The Bank's investment in the associates are not significant. The carrying amount of investments in associates accounted for using the equity method amounted to \$1,739,439 thousand, \$1,744,047 thousand and \$1,710,695 thousand, as of 30 September 2018, 31 December 2017 and 30 September 2017, respectively. The aggregate financial information of the Bank's investment in the associates is as follows:

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Profit from continuing operations	\$23,707	\$26,934
Other comprehensive income (post-tax)	(7,436)	6,792
Total comprehensive income	16,271	33,726
	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Profit from continuing operations	\$65,644	\$78,304
Other comprehensive income (post-tax)	(6,480)	22,803
Total comprehensive income	59,164	101,107

No investment in the associates had contingent liabilities or capital commitments and were pledged as of 30 September 2018, 31 December 2017 and 30 September 2017.

C. Selling all shares of the Seaward Card Co., Ltd. to the Symphox Information Co., Ltd. was resolved by the Bank's board of directors on 29 June 2017. The Bank's board of directors authorized the Chairman to handle the follow-up matters.

The Bank received \$46,800 thousand by selling the share of the Seaward Card Co., Ltd. at price \$15.6 per share on 21 July 2017. The amount of the gains on disposal was \$7,755 thousand.

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D. The share of the profit or loss of these associates and joint ventures accounted for using the equity method, which were recognized based on the investees' unaudited financial statements, amounted to gains \$23,707 thousand, gains \$26,934 thousand, gains \$65,644 thousand and gains \$78,304 thousand for the three-month periods ended 30 September 2018 and 2017, and nine-month periods ended 30 September 2018 and 2017, respectively, and the share of other comprehensive income of these associates and joint ventures accounted for using the equity method amounted to losses \$7,436 thousand, gains \$6,792 thousand, losses \$6,480 thousand and gains \$22,803 thousand for the three-month periods ended 30 September 2018 and 2017, and nine-month periods ended 30 September 2018 and 2017, respectively, the carrying amounts of investments accounted for using equity method were \$1,739,439 thousand and \$1,710,695 thousand as at 30 September 2018 and 30 September 2017, respectively.

(11) Investments in debt securities with no active market – net

	2018.09.30		
	(Note)	2017.12.31	2017.09.30
Short-term bills		\$318,625,000	\$292,815,000
Bonds		69,662,593	68,099,563
Total		<u>\$388,287,593</u>	<u>\$360,914,563</u>

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

A. Impairment assessment of investments in debt securities with no active market assets above, please refer to Note 12. (7).

B. As of 31 December 2017, certain investments in debt securities with no active market assets were sold under repurchase agreement with notional amounts of \$22,555,953 thousand. Such repurchase agreements amounting to \$13,726,170 thousand were posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 31 December 2017 were settled at \$13,763,664 thousand prior to 31 January 2018.

As of 30 September 2017, certain investments in debt securities with no active market assets were sold under repurchase agreement with notional amounts of \$18,679,940 thousand. Such repurchase agreements amounting to \$10,822,614 thousand were posted to the "Securities sold under agreements to repurchase" account on the consolidated balance sheets. Repurchase agreements entered prior to 30 September 2017 were settled at \$11,112,686 thousand prior to 31 October 2017.

C. \$63,800,000 thousand of certificates of deposit as of 31 December 2017 and 30 September 2017, were pledged to other parties as collateral for business reserves and guarantees.

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(12) Property and equipment - net

	Land	Buildings	Office equipment	Transportation equipment	Leasehold improvements	Other equipment	Construction in progress and prepayment for equipment	Total
Cost:								
2017.01.01	\$15,582,091	\$10,554,198	\$4,011,829	\$116,086	\$118,508	\$7,469,582	\$558,127	\$38,410,421
Additions	-	545	387,669	1,000	9,038	155,379	323,793	877,424
Transfers	-	43	6,643	4,173	(50)	136,282	(180,202)	(33,111)
Disposals	-	-	(228,478)	(3,843)	(2,943)	(200,874)	-	(436,138)
Exchange differences	(8,559)	(21,888)	(30,818)	(6,842)	(7,254)	(10,322)	(4,586)	(90,269)
2017.09.30	<u>\$15,573,532</u>	<u>\$10,532,898</u>	<u>\$4,146,845</u>	<u>\$110,574</u>	<u>\$117,299</u>	<u>\$7,550,047</u>	<u>\$697,132</u>	<u>\$38,728,327</u>
2018.01.01	\$15,377,939	\$10,303,217	\$4,234,054	\$108,381	\$59,762	\$7,707,438	\$532,452	\$38,323,243
Additions	-	-	862,867	1,530	1,800	199,836	523,539	1,589,572
Transfers	-	(447)	109,638	-	576	267,512	(479,413)	(102,134)
Disposals	-	(1,217)	(465,199)	(1,955)	-	(557,117)	-	(1,025,488)
Others(Note1)	(1,800)	-	-	-	-	-	-	(1,800)
Exchange differences	3,048	7,802	4,693	2,434	1,404	6,710	1,916	28,007
2018.09.30	<u>\$15,379,187</u>	<u>\$10,309,355</u>	<u>\$4,746,053</u>	<u>\$110,390</u>	<u>\$63,542</u>	<u>\$7,624,379</u>	<u>\$578,494</u>	<u>\$38,811,400</u>
Depreciations and impairments:								
2017.01.01	\$-	\$4,036,824	\$3,271,890	\$77,598	\$57,583	\$6,068,114	\$-	\$13,512,009
Depreciation	-	165,393	226,470	6,732	10,457	316,443	-	725,495
Transfers	-	(166)	(126)	-	(49)	-	-	(341)
Disposals	-	-	(226,041)	(3,843)	(2,943)	(185,380)	-	(418,207)
Exchange differences	-	(5,344)	(22,399)	(4,512)	(1,617)	(3,930)	-	(37,802)
2017.09.30	<u>\$-</u>	<u>\$4,196,707</u>	<u>\$3,249,794</u>	<u>\$75,975</u>	<u>\$63,431</u>	<u>\$6,195,247</u>	<u>\$-</u>	<u>\$13,781,154</u>
2018.01.01	\$-	\$4,137,330	\$3,118,151	\$75,243	\$20,180	\$6,099,041	\$-	\$13,449,945
Depreciation	-	161,783	330,323	5,892	6,184	360,803	-	864,985
Transfers	-	-	(17,069)	-	-	16,887	-	(182)
Disposals	-	(548)	(464,610)	(1,955)	-	(545,762)	-	(1,012,875)
Exchange differences	-	2,418	3,959	1,789	593	2,612	-	11,371
2018.09.30	<u>\$-</u>	<u>\$4,300,983</u>	<u>\$2,970,754</u>	<u>\$80,969</u>	<u>\$26,957</u>	<u>\$5,933,581</u>	<u>\$-</u>	<u>\$13,313,244</u>
Net carrying amount:								
2018.09.30	<u>\$15,379,187</u>	<u>\$6,008,372</u>	<u>\$1,775,299</u>	<u>\$29,421</u>	<u>\$36,585</u>	<u>\$1,690,798</u>	<u>\$578,494</u>	<u>\$25,498,156</u>
2017.12.31	<u>\$15,377,939</u>	<u>\$6,165,887</u>	<u>\$1,115,903</u>	<u>\$33,138</u>	<u>\$39,582</u>	<u>\$1,608,397</u>	<u>\$532,452</u>	<u>\$24,873,298</u>
2017.09.30	<u>\$15,573,532</u>	<u>\$6,336,191</u>	<u>\$897,051</u>	<u>\$34,599</u>	<u>\$53,868</u>	<u>\$1,354,800</u>	<u>\$697,132</u>	<u>\$24,947,173</u>

Note1: Urban renewal resettlement and relocation compensation.

Components of building that have different useful lives are main building structure, air conditioning units and elevators, which are depreciated over five years to sixty years.

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(13) Investment properties - net

	<u>Land</u>	<u>Buildings</u>	<u>Total</u>
<u>Carrying Value:</u>			
2017.01.01	\$1,466,409	\$88,191	\$1,554,600
Loss arising from changes in the fair value	(35,146)	(2,724)	(37,870)
Disposal	(1,146)	(414)	(1,560)
2017.09.30	<u>\$1,430,117</u>	<u>\$85,053</u>	<u>\$1,515,170</u>
2018.01.01	\$1,414,476	\$132,896	\$1,547,372
Disposal	(85,900)	-	(85,900)
2018.09.30	<u>\$1,328,576</u>	<u>\$132,896</u>	<u>\$1,461,472</u>
		2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Rental income from investment property		\$-	\$-
Less: Direct operating expenses from investment property not generating rental income		(451)	(176)
Total		<u>\$(451)</u>	<u>\$(176)</u>
		2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Rental income from investment property		\$-	\$-
Less: Direct operating expenses from investment property not generating rental income		(2,183)	(1,381)
Total		<u>\$(2,183)</u>	<u>\$(1,381)</u>

A. As of 30 September 2018, 31 December 2017 and 30 September 2017, no investment property was pledged.

B. The Bank appointed appraisers from REPro Valuation and Professional Services (Fu-Xue Shi, Zhi-Hao Wu, Hong-Xu Wu) to evaluate the fair value of investment property at 30 June 2018 and 31 December 2017, respectively. The Bank appointed appraisers from CCIS Valuation and Professional Services (Ching-Sheng Huang) to evaluate the fair value of investment property based on the “Regulations on Real Estate Appraisal” on 30 June 2017. Also, the appraiser should review the effectiveness of the original valuation report which represents the fair value information on the aforementioned valuation date is still effective as of 30 September 2018 and 30 September 2017 respectively.

Fair value has been supported by observable evidences in the market. The appraisal approaches used are mainly the income approach (such as discounted cash flow model and direct capitalization approach), sales comparison approach and cost approach, etc.

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- (A) Office building has market liquidity and their rent levels are more comparable with similar items from the same neighborhood. The fair value has been determined by comparison approach and income approach.

Net rental income is based on the current market practices, assuming an annual rent increase of between 0% to 1.5% to extrapolate the total income of the underlying property, excluding losses as a result of idle and other reasons and related operation costs.

According to the ROC Real Estate Appraisers Association Gazette No.5, the house tax has been determined based on the reference tables of current house values assessed for each city/county to estimate the total current house value assessed. House tax is calculated based on the tax rates provided by the House Tax Act and the actual payment date.

Land value tax is based on the changes in the announced land values of the underlying property in the past few years and the actual payment data, to further extrapolate the announced land value in the future.

The replacement allowance is calculated renovation cost base on 15% construction cost, presume the useful life of 20 years, according to the ROC Real Estate Appraisers Association Gazette No.5, the replacement allowance is based on 0.5% to 1.5% of construction or building cost.

The main parameters are as follows:

	2018.09.30	2017.12.31	2017.09.30
Direct capitalization rate	2.05% - 5.85%	2.03% - 5.83%	1.60% - 2.95%
Overall capital interest rate	0.76% - 2.89%	0.76% - 2.89%	0.84% - 2.76%

- (B) The fair value has been determined by the method of land development analysis and comparison. Reserved area in hillside land, Scenic land site, areas for agriculture, animal husbandry and forestry had fewer market transactions as their uses are restricted by law, and will not have significant changes in the market in the near year.

	2018.09.30	2017.12.31	2017.09.30
Rate of return	15%	15% - 20%	25% - 30%
Overall capital interest rate	2.11%	1.63% - 2.11%	4.99% - 17.11%

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(14) Intangible assets - net

	Goodwill	Computer software	Others	Total
Cost:				
2017.01.01	\$7,014,285	\$1,843,629	\$8,257	\$8,866,171
Additions-acquired separately	-	135,277	19,126	154,403
Disposals	-	(60,327)	-	(60,327)
Transfers	-	70,212	(2,681)	67,531
Exchange differences	(20,866)	(9,223)	(521)	(30,610)
2017.09.30	<u>\$6,993,419</u>	<u>\$1,979,568</u>	<u>\$24,181</u>	<u>\$8,997,168</u>
2018.01.01	\$6,988,589	\$1,996,800	\$20,043	\$9,005,432
Additions-acquired separately	-	165,058	10,650	175,708
Disposals	-	(76,540)	-	(76,540)
Transfers	-	108,460	-	108,460
Exchange differences	7,431	(4,267)	454	3,618
2018.09.30	<u>\$6,996,020</u>	<u>\$2,189,511</u>	<u>\$31,147</u>	<u>\$9,216,678</u>
Amortization and impairment:				
2017.01.01	\$-	\$1,045,165	\$-	\$1,045,165
Amortization	-	199,197	-	199,197
Disposals	-	(60,327)	-	(60,327)
Exchange differences	-	(5,722)	-	(5,722)
2017.09.30	<u>\$-</u>	<u>\$1,178,313</u>	<u>\$-</u>	<u>\$1,178,313</u>
2018.01.01	\$-	\$1,219,448	\$-	\$1,219,448
Amortization	-	240,774	-	240,774
Disposals	-	(76,540)	-	(76,540)
Exchange differences	-	(6,365)	-	(6,365)
2018.09.30	<u>\$-</u>	<u>\$1,377,317</u>	<u>\$-</u>	<u>\$1,377,317</u>
Net carrying amount:				
2018.09.30	<u>\$6,996,020</u>	<u>\$812,194</u>	<u>\$31,147</u>	<u>\$7,839,361</u>
2017.12.31	<u>\$6,988,589</u>	<u>\$777,352</u>	<u>\$20,043</u>	<u>\$7,785,984</u>
2017.09.30	<u>\$6,993,419</u>	<u>\$801,255</u>	<u>\$24,181</u>	<u>\$7,818,855</u>

Impairment testing of goodwill:

A. Key assumptions used in recoverable amount calculations of the cash-generating unit:

The recoverable amount of the cash-generating unit has been determined based on value in use, using cash flow projections based on financial budgets approved by the management of the Bank covering a five-year period.

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B. The calculation of value in use for the cash-generating unit is most sensitive to the following assumptions:

(A) Discount rates

Discount rates reflect the current market assessment of the risks specific to the unit. Discount rates are calculated by the Capital Assets Pricing Model (CAPM).

(B) Projected growth rates, used to extrapolate cash flows beyond the budget period:

Assumptions are based on published industry research.

C. Sensitivity to changes in assumptions:

The Bank believes that reasonable possible changes in key assumptions used to determine the recoverable amount segments will not result in an impairment of goodwill.

(15) Other assets - net

	2018.09.30	2017.12.31	2017.09.30
Prepayment	\$1,663,339	\$1,323,144	\$1,496,662
Temporary payments	284,622	228,550	877,692
Interbank settlement fund	3,171,310	4,285,737	3,204,326
Refundable deposits, net	26,965,835	17,633,953	20,017,465
Operating deposits, net	650,988	720,648	720,630
Others	112,712	93,273	102,735
Total	<u>\$32,848,806</u>	<u>\$24,285,305</u>	<u>\$26,419,510</u>

As of 30 September 2018, 31 December 2017 and 30 September 2017, the amounts of land use rights of \$459,363 thousand, \$448,910 thousand and \$455,820 thousand were recognized under prepayment, respectively.

(16) Due to the Central Bank and call loans from banks

	2018.09.30	2017.12.31	2017.09.30
Due to commercial banks	\$19,896,585	\$14,296,722	\$15,207,195
Due to Post Co., Ltd.	18,057,626	18,719,644	18,899,045
Overdrafts from banks	1,825,632	591,665	1,613,083
Call loans from banks	47,391,360	56,809,828	56,731,582
Total	<u>\$87,171,203</u>	<u>\$90,417,859</u>	<u>\$92,450,905</u>

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(17) Financial liabilities at fair value through profit or loss

	<u>2018.09.30</u>	<u>2017.12.31</u>	<u>2017.09.30</u>
Financial liabilities designated at fair value through profit or loss:			
Bonds	\$51,470,506	\$53,639,010	\$44,927,462
Financial liabilities held for trading:			
Bonds	98,850	49,945	298,204
Derivative financial instruments	57,953,091	33,718,696	35,105,078
Total	<u>\$109,522,447</u>	<u>\$87,407,651</u>	<u>\$80,330,744</u>

The Bank was authorized to issue subordinated financial debentures amounting to USD\$990 million in September 2014, which issued a subordinated financial debentures amounting to US\$660 million (perpetual) and US\$330 million (fifteen-year) with a fixed interest rate of 5.10% and 4.00% in 8 October 2014, respectively, and the interest is payable annually. The Bank was authorized by the authorities to redeem the US\$660 million bonds at its book value after 12 year by fulfilling the said conditions.

The Bank was authorized to issue unsubordinated financial debentures amounting to US\$180 million (thirty-year) in 30 March 2015, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.20%.

The Bank was authorized to issue unsubordinated financial debentures amounting to US\$195 million (thirty-year) in 11 April 2017, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.30%.

The Bank was authorized to issue unsubordinated financial debentures amounting to US\$300 million (thirty-year) in 24 November 2017, in addition to redeeming bond by exercising call option, redeemable on maturity, in the form of zero-coupon bonds, internal rate of return of 4.10%.

The Bank converted fixed interest rate into floating interest rate with interest rate swap contract to hedge the fair value risk resulting from interest rate. The interest rate swap valuations for the three-month periods ended 30 September 2018 and 2017, and for nine-month periods ended 30 September 2018 and 2017 was net losses \$231,335 thousand, net gains \$431,522 thousand, net losses 2,253,566 thousand, and net gains \$1,196,934 thousand, respectively.

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(18) Payables

	2018.09.30	2017.12.31	2017.09.30
Accounts payable	\$6,954,482	\$7,374,046	\$2,806,974
Interest payable	4,676,823	3,665,969	3,648,042
Accrued expenses	6,947,663	7,556,732	5,404,804
Acceptance	1,643,394	796,185	958,338
Tax payable	214,312	370,384	154,336
Receipts under custody	2,187,617	506,995	1,222,513
Others	5,382,515	3,186,866	19,473,157
Total	<u>\$28,006,806</u>	<u>\$23,457,177</u>	<u>\$33,668,164</u>

(19) Deposits and remittances

	2018.09.30	2017.12.31	2017.09.30
Check deposits	\$13,482,088	\$15,337,920	\$12,171,672
Demand deposits	498,113,444	483,481,732	467,201,246
Demand savings deposits	852,294,063	805,442,387	811,838,664
Time deposits	460,923,578	420,512,537	417,387,722
Negotiable certificates of deposit	3,366,736	3,310,000	3,469,600
Time savings deposits	366,785,379	368,394,533	372,261,164
Outward remittances	633,011	890,569	1,515,308
Remittances payable	1,334,595	998,285	1,517,474
Total	<u>\$2,196,932,894</u>	<u>\$2,098,367,963</u>	<u>\$2,087,362,850</u>

(20) Financial debentures payable

	2018.09.30	2017.12.31	2017.09.30
Subordinated financial debentures	<u>\$55,600,000</u>	<u>\$63,350,000</u>	<u>\$63,350,000</u>

The Bank issued a ten-year subordinated financial debentures totaling \$1,500,000 thousand with a stated interest rate of 2.60% in July 2009, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling \$3,850,000 thousand with a stated interest rate of 1.65% in March 2011, and the interest is payable quarterly. The Bank had redeemed all these debentures in March 2018.

The Bank issued a ten-year subordinated financial debentures totaling \$1,500,000 thousand with a stated interest rate of 1.72% in March 2011, and the interest is payable quarterly.

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The Bank issued a seven-year subordinated financial debentures totaling \$3,900,000 thousand with a stated interest rate of 1.65% in June 2011, and the interest is payable quarterly. The Bank had redeemed all these debentures in June 2018.

The Bank issued a ten-year subordinated financial debentures totaling \$2,500,000 thousand with a stated interest rate of 1.72% in June 2011, and the interest is payable quarterly.

The Bank issued a seven-year subordinated financial debentures totaling \$200,000 thousand with a stated interest rate of 1.48% in June 2012, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling \$4,200,000 thousand with a stated interest rate of 1.65% in June 2012, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling \$5,600,000 thousand with a stated interest rate of 1.65% in August 2012, and the interest is payable annually.

The Bank issued a seven-year subordinated financial debentures totaling \$100,000 thousand with a stated interest rate of 1.55% in April 2013, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling \$9,900,000 thousand with a stated interest rate of 1.70% in April 2013, and the interest is payable annually.

The Bank issued a seven-year subordinated financial debentures totaling \$3,000,000 thousand with a stated interest rate of 1.70% in May 2014, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling \$12,000,000 thousand with a stated interest rate of 1.85% in May 2014, and the interest is payable annually.

The Bank issued a seven-year subordinated financial debentures totaling \$2,400,000 thousand with a stated interest rate of 1.50% in April 2017, and the interest is payable annually.

The Bank issued a ten-year subordinated financial debentures totaling \$12,700,000 thousand with a stated interest rate of 1.85% in April 2017, and the interest is payable annually.

Each subordinated financial debenture has a lower priority claim on assets and income than other debts. That is, its principal and interest are repayable only after more senior debt with higher priority has been satisfied. These subordinated financial debentures are, however, senior to common stock.

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(21) Other financial liabilities

	2018.09.30	2017.12.31	2017.09.30
Principal received from the sale of structured products	\$76,491,161	\$66,057,646	\$61,916,628

(22) Provisions

	2018.09.30	2017.12.31	2017.09.30
Reserve for employee benefits			
— Defined benefits plan	\$2,432,002	\$2,507,030	\$2,299,576
Reserve for employee benefits			
— Preferential interest rate deposits	567,460	579,063	565,018
Reserve for losses on guarantees	120,855	72,897	73,496
Finance commitment reserve	205,753	-	-
Other operating reserve	30,869	28,674	26,408
Total	\$3,356,939	\$3,187,664	\$2,964,498

	2018.01.01	Addition (Reversal)	2018.09.30
Reserve for employee benefits			
— Defined benefits plan	\$2,507,030	\$(75,028)	\$2,432,002
Reserve for employee benefits			
— Preferential interest rate deposits	579,063	(11,603)	567,460
Reserve for losses on guarantees	72,897	47,958	120,855
Finance commitment reserve	116,847	88,906	205,753
Other operating reserve	28,674	2,195	30,869
Total	\$3,304,511	\$52,428	\$3,356,939

	2017.01.01	Addition (Reversal)	2017.09.30
Reserve for employee benefits			
— Defined benefits plan	\$2,377,078	\$(77,502)	\$2,299,576
Reserve for employee benefits			
— Preferential interest rate deposits	576,083	(11,065)	565,018
Reserve for losses on guarantees	73,181	315	73,496
Other operating reserve	27,622	(1,214)	26,408
Total	\$3,053,964	\$(89,466)	\$2,964,498

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(23) Post-employment benefits

Defined contribution plan

Expenses under the defined contribution plan for the three-month periods ended 30 September 2018 and 2017, and for the nine-month periods ended 30 September 2018 and 2017 were \$102,800 thousand, \$83,172 thousand, \$277,514 thousand and \$245,596 thousand, respectively, and recorded as “Employee benefits expenses”.

Defined benefit plan

Expense under the defined benefit plan for the three-month periods ended 30 September 2018 and 2017, and for the nine-month periods ended 30 September 2018 and 2017 were \$41,432 thousand, \$53,779 thousand, \$153,712 thousand and \$158,570 thousand, respectively, and recorded as “Employee benefits expenses”.

Employee preferential interest rate deposits plan

Expenses under preferential interest rate deposits plan for three-month periods ended 30 September 2018 and 2017, and for the nine-month periods ended 30 September 2018 and 2017 were \$83,889 thousand, \$79,538 thousand, \$250,383 thousand and \$240,722 thousand, respectively, and recorded as “Employee benefits expenses”.

(24) Other liabilities

	2018.09.30	2017.12.31	2017.09.30
Unearned receipts	\$528,881	\$558,868	\$518,114
Temporary receipts	2,114,736	1,768,412	1,595,228
Guarantee deposits received	4,216,815	5,226,119	4,697,596
Contract liabilities	1,304,422	-	-
Deferred income	-	1,487,838	1,391,539
Others	-	14,990	8,455
Total	<u>\$8,164,854</u>	<u>\$9,056,227</u>	<u>\$8,210,932</u>

(25) Capital stock

As of 30 September 2018, 31 December 2017 and 30 September 2017, the Bank had issued outstanding capital stock of \$91,197,623 thousand, \$78,604,060 thousand and \$78,604,060 thousand divided into 9,119,762 thousand, 7,860,406 thousand and 7,860,406 thousand common shares, respectively, with par value \$10 per share.

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Insurance of common stock for cash by 535,643 thousand common shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 27 April 2017. The recapitalization was approved by FSC and the recapitalization record date was 13 June 2017. The Bank approved that issue price was \$28 per share on 27 April 2017. The authorized share capital amounted to \$77,456,243 thousand after recapitalization.

The recapitalization of undistributed earnings of \$1,147,816 thousand divided into 114,782 thousand common shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 27 April 2017. The recapitalization was approved by the FSC and the recapitalization record date was 29 June 2017. The authorized share capital amounted to \$78,604,060 thousand after recapitalization.

The recapitalization of undistributed earnings of \$12,593,563 thousand divided into common shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 26 April 2018. The recapitalization was approved by the Financial Supervisory commission and the recapitalization record date was 2 July 2018. The authorized share capital amounted to \$91,197,623 thousand after recapitalization.

(26) Capital surplus

	2018.09.30	2017.12.31	2017.09.30
Capital surplus from the merger Bank	\$10,949,303	\$10,949,303	\$10,949,303
Additional paid-in capital	22,648,873	22,648,873	22,648,873
Others	12,807	12,807	12,807
Total	<u>\$33,610,983</u>	<u>\$33,610,983</u>	<u>\$33,610,983</u>

(27) Retained earnings

A. According to the Bank's Articles of Incorporation, the Bank's annual earnings, after paying tax and deducting any deficits of prior years, if any, shall be appropriated as legal capital reserve according to the law and appropriated special capital reserve in accordance with the resolution.

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- B. The Company Act provides that the Bank must retain part of its annual net income as legal reserve, and cash dividend declaration, if any, should not exceed the limit of 15% of paid-in capital until such retention of legal reserve reaches the amount of paid-in capital. The legal reserve may be used at any time to offset the accumulated deficit, if any. Once the legal reserve reaches 25% of the paid-in capital, the portion of legal reserve which exceeds 25% of the paid-in capital may be distributed by issuing new shares or by cash.
- C. Accounting to Order No. Financial-Supervisory-Securities-Corporate-10310000140 and Financial-Supervisory-Securities-Corporate-1030006415, on the first-time adoption of fair value model for investment properties subsequent measurement, the Bank shall set aside an equal amount of special reserve with transfer the fair value increment of investment properties to retained earnings. After transferring the fair value increment of investment properties to retained earnings, if the Bank could not set aside the enough amount to special reserve, the Bank could only set aside the amount according to the retained earnings balance, and the special reserve that is not enough to be set aside would not be counted in the accumulated fair value increment of investment properties.

When the Bank adopts the fair value model for investment properties subsequent measurement, the Bank shall set aside an equal to amount of special reserve when transfer the fair value increment of investment properties.

For any subsequent reversal of accumulated fair value increment of investment properties or disposal of investment properties, the amount reversed may be distributed.

The Bank has reversed special reserve of investment properties to retained earnings during the years ended 30 September 2018 and 2017 as results of the use, disposal or reclassification of related assets in the amounts set out below:

	Investment properties	Others	Total
2017.01.01	\$1,621,659	\$271,009	\$1,892,668
Appropriation of special reserve	-	86,060	86,060
Reversal of special reserve	(1,365)	-	(1,365)
2017.09.30	\$1,620,294	\$357,069	\$1,977,363
2018.01.01	\$1,620,294	\$357,069	\$1,977,363
Appropriation of special reserve	-	951,443	951,443
Others	5,002	-	5,002
2018.09.30	\$1,625,296	\$1,308,512	\$2,933,808

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D. On 26 April 2018 and 27 April 2017, the following are appropriations and distribution approved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) and resolved as follows:

	2017		2016	
	Amount	Dividend per share	Amount	Dividend per share
Appropriation of legal reserves	\$5,807,539	\$-	\$5,164,217	\$-
Appropriation of special reserves	951,443	-	84,695	-
Distribution of cash dividends	-	-	10,814,972	1.50
Distribution of stock dividends	12,593,563	1.60	1,147,816	0.16

Please refer to Note 6.(36) for further details on employees' compensation and remuneration to directors and supervisors.

(28) Unrealized financial assets at fair value through other comprehensive income

	2018.01.01- 2018.09.30 (Note)	2017.01.01- 2017.09.30 (Note)
2018.01.01	\$5,598,353	
Unrealized financial assets at fair value through other comprehensive income	(2,945,155)	
Unrealized financial assets at fair value through other comprehensive income associated with income tax	151,342	
Disposal of equity instrument at fair value through other comprehensive income	(294,915)	
2018.09.30	<u>\$2,509,625</u>	

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

(29) Unrealized gains (losses) on available-for-sale financial assets

	2018.01.01- 2018.09.30 (Note)	2017.01.01- 2017.09.30
Beginning balance		\$468,952
Unrealized gains on available-for-sale financial assets		1,234,538
Income tax of unrealized losses on available-for-sale financial assets		(16,300)
Share of unrealized gains on available-for-sale financial assets of associates accounted for using the equity method		127,131
Ending balance		<u>\$1,814,321</u>

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

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(30) Non-controlling interests

	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Beginning balance	\$3,844,089	\$3,877,157
Net income attributable to non-controlling interests	152,893	323,741
Other comprehensive income attributable to non-controlling interests		
Exchange differences resulting from translating the financial statements of a foreign operation	86,502	(238,156)
Debt instrument investment at fair value through other comprehensive income	3,130	-
Unrealized gains on available-for-sale financial assets	-	104,327
Change in non-control interests	(281,542)	-
Ending balance	<u>\$3,805,072</u>	<u>\$4,067,069</u>

(31) Net interest income

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Interest income		
Discounts and loans	\$9,930,812	\$8,280,059
Factoring receivable	12,109	9,157
Due from banks and call loans to banks	743,212	495,363
Securities	2,357,415	2,449,095
Credit cards	571,772	542,393
Others	244,184	128,238
Subtotal	<u>13,859,504</u>	<u>11,904,305</u>
Interest expense		
Deposits	3,496,625	2,932,225
Due to Central Bank and other banks	141,296	69,060
Funds borrowed from the Central Bank and banks	282,559	215,554
Structured products	619,541	434,465
Financial debentures	248,592	280,823
Others	445,139	319,942
Subtotal	<u>5,233,752</u>	<u>4,252,069</u>
Net interest income	<u>\$8,625,752</u>	<u>\$7,652,236</u>

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	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Interest income		
Discounts and loans	\$28,133,730	\$23,789,547
Factoring receivable	35,495	32,026
Due from banks and call loans to banks	2,130,911	1,004,839
Securities	7,026,559	7,460,496
Credit cards	1,685,967	1,589,493
Others	609,568	328,283
Subtotal	<u>39,622,230</u>	<u>34,204,684</u>
Interest expense		
Deposits	9,854,558	8,561,538
Due to Central Bank and other banks	335,616	179,100
Funds borrowed from the Central Bank and banks	893,403	598,381
Structured products	1,714,555	1,272,170
Financial debentures	783,308	792,844
Others	1,442,794	707,938
Subtotal	<u>15,024,234</u>	<u>12,111,971</u>
Net interest income	<u>\$24,597,996</u>	<u>\$22,092,713</u>

(32) Net fee income

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Fee income:		
Trust business	\$789,741	\$790,146
Cross-selling marketing	1,507,147	1,317,890
Credit card business	2,271,874	2,066,983
Loan business	511,192	327,611
Others	574,242	477,927
Subtotal	<u>5,654,196</u>	<u>4,980,557</u>
Fee expense:		
Credit card business	618,580	529,476
Others	284,940	250,348
Subtotal	<u>903,520</u>	<u>779,824</u>
Net fee income	<u>\$4,750,676</u>	<u>\$4,200,733</u>

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	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Fee income:		
Trust business	\$2,453,236	\$2,047,562
Cross-selling marketing	4,953,878	4,861,155
Credit card business	5,365,336	4,752,613
Loan business	991,085	903,082
Others	1,631,088	1,355,949
Subtotal	<u>15,394,623</u>	<u>13,920,361</u>
Fee expense:		
Credit card business	1,711,072	1,602,238
Others	810,593	698,490
Subtotal	<u>2,521,665</u>	<u>2,300,728</u>
Net fee income	<u>\$12,872,958</u>	<u>\$11,619,633</u>

The bank also has business for online pay service, service fee revenue were \$465 thousand and \$0 thousand, and fructus or others income which used payment were both \$0 thousand for the nine-month periods ended 30 September 2018 and 2017, respectively.

Contract liabilities

	2018.01.01	2018.09.30	Difference
Contract liabilities	<u>\$1,487,838</u>	<u>\$1,304,422</u>	<u>\$(183,416)</u>

The Group transferred \$1,103,673 thousand and \$2,023,136 thousand from contract liability to income because the performance obligation was acted in the three-month and nine-month periods ended 30 September 2018.

(33) Gains (losses) on financial assets and liabilities at fair value through profit or loss

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Stocks	\$115,061	\$19,797
Short-term bills	285,401	184,199
Funds	9,143	-
Bonds	799,650	471,290
Derivative financial instruments	659,988	1,510,600
Total	<u>\$1,869,243</u>	<u>\$2,185,886</u>

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	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Stocks	\$137,978	\$64,365
Short-term bills	873,231	457,848
Funds	(60,001)	(1,307)
Bonds	307,800	725,693
Derivative financial instruments	3,578,892	3,555,119
Total	<u>\$4,837,900</u>	<u>\$4,801,718</u>

Realized gains or losses on financial assets and liabilities at fair value through profit or loss include interest income \$561,148 thousand, \$764,768 thousand, \$2,459,715 thousand, \$1,602,326 thousand, dividends income \$25,265 thousand, \$13,961 thousand, \$55,463 thousand, \$20,360 thousand, and interest expense \$429,899 thousand, \$418,671 thousand, \$1,282,020 thousand, \$1,228,373 thousand and gains or losses on disposal of financial assets were gain \$983,848 thousand, and gain \$825,274 thousand, and gain \$442,605 thousand and gain \$2,742,330 thousand and gains on evaluation of financial assets were \$728,881 thousand, \$1,000,554 thousand, \$3,162,137 thousand and \$1,665,075 thousand ; net gains were \$1,869,243 thousand, \$2,185,886 thousand, \$4,837,900 thousand and \$4,801,718 thousand ,for the three-month periods ended 30 September 2018 and 2017, and for the nine-month periods ended 30 September 2018 and 2017, respectively.

(34) Net other non-interest income

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Income from Securities underwriting	\$8,141	\$25,748
Rental income from operating assets	60,324	63,797
Investment in debt securities with no active market	-	154,509
Gain(Loss) on disposal of property and equipment	242	(2,289)
Loss from retirement of properties and equipment	(8,911)	(2,344)
Gain on valuation of investment properties	-	10
Others	135,687	205,207
Total	<u>\$195,483</u>	<u>\$444,638</u>

	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Income from Securities underwriting	\$64,924	\$74,198
Rental income from operating assets	181,397	190,480
Investment in debt securities with no active market	-	269,650
Gain on disposal of property and equipment	557	30
Loss from retirement of properties and equipment	(11,825)	(17,896)
Gain on disposal of investment properties	14,100	10
Loss on valuation of investment properties	-	(37,870)
Others	369,168	503,645
Total	<u>\$618,321</u>	<u>\$982,247</u>

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(35) Reserves for impairment loss of assets, bad debt expenses, commitments and losses on guarantees

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Gains on reversal of impairment loss on debt instrument investment at fair value through other comprehensive income	\$ (3,050)	(Note)
Debt instrument investment at amortized cost impairment loss	4,258	(Note)
Subtotal	1,208	(Note)
Bad debt expenses for loans	754,959	\$571,668
Allowance(Reversal) for doubtful accounts	79,355	(32,342)
Provision of reserve for losses on guarantees	1,403	6,146
Reversal of reserve for financing commitments	(19,738)	-
Other bad debt expenses	3,904	25,509
Subtotal	819,883	570,981
Total	<u>\$821,091</u>	<u>\$570,981</u>
	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Debt instrument investment at fair value through other comprehensive income impairment losses	\$76,414	(Note)
Debt instrument investment at amortized cost impairment loss	36,896	(Note)
Subtotal	113,310	(Note)
Bad debt expenses for loans	2,012,376	\$1,884,208
Allowance(Reversal) for doubtful accounts	161,379	(6,006)
Provision of reserve for losses on guarantees	29,989	315
Provision of reserve for financing commitments	87,217	-
Other bad debt expenses	20,782	(4)
Subtotal	2,311,743	1,878,513
Total	<u>\$2,425,053</u>	<u>\$1,878,513</u>

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

Please refer to Note 12 for further details on credit risk.

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(36) Employee benefits expenses

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Salary	\$3,091,693	\$2,695,417
Insurance	240,916	226,393
Post-employment benefit	165,838	157,984
Others	196,739	173,204
Total	<u>\$3,695,186</u>	<u>\$3,252,998</u>

	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Salary	\$9,356,124	\$7,909,715
Insurance	712,094	671,526
Post-employment benefit	497,633	469,150
Others	574,722	509,678
Total	<u>\$11,140,573</u>	<u>\$9,560,069</u>

Based on profit of current year, the Bank estimated the amounts of the employees' compensation and remuneration of directors for the nine-month period ended 30 September 2018 to be 0.05 % and doesn't exceed 0.1% of profit of current period, and recognized employee benefits and remuneration of directors were 10,536 thousand and 3,238 thousand. The estimation of employee bonus for the nine-month period ended 30 September 2017 was \$9,466 thousand based on profitability of the current period and were recognized as salary expense. The actual amount of payments resolved at the next year shareholders' meeting might differ from the estimation mentioned above and the difference, if any, will be recognized as income or expense in the next year.

A resolution was passed at a Board of Directors meeting held on 15 March 2018 to distribute \$10,922 thousand and \$7,000 thousand in cash as employees' compensation and supervisor's compensation. No material differences existed between the estimated amount and the actual distribution of the employee's compensation and supervisor's compensation for the year ended 31 December 2017.

A resolution was passed at a Board of Directors meeting held on 8 March 2017 to distribute \$9,639 thousand in cash as employees' compensation. No material differences existed between the estimated amount and the actual distribution of the employee bonuses for the year ended 31 December 2016.

As of 30 September 2018 and 2017, the Bank and subsidiaries employed 12,091 and 11,439 employees, respectively.

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(37) Depreciation and amortization expenses

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Depreciation expenses - property and equipment	\$298,188	\$247,667
Amortization expenses - intangible assets	87,178	71,806
Total	<u>\$385,366</u>	<u>\$319,473</u>
	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Depreciation expenses - property and equipment	\$864,985	\$725,495
Amortization expenses - intangible assets	240,774	199,197
Total	<u>\$1,105,759</u>	<u>\$924,692</u>

(38) Other general and administrative expenses

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Rental expenses	\$572,337	\$516,811
Business promotion expenses	308,456	322,645
Product promotion expenses	1,315,641	1,150,282
Insurance expenses	176,244	168,280
Tax expenses	573,327	499,780
Others	1,355,284	1,294,107
Total	<u>\$4,301,289</u>	<u>\$3,951,905</u>
	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Rental expenses	\$1,643,332	\$1,496,979
Business promotion expenses	999,936	979,110
Product promotion expenses	2,602,920	2,242,531
Insurance expenses	523,800	496,070
Tax expenses	1,675,570	1,481,464
Others	3,415,106	3,420,349
Total	<u>\$10,860,664</u>	<u>\$10,116,503</u>

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(39) Components of other comprehensive income

2018.07.01-2018.09.30

	Arising during the period	Reclassification adjustment during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Unrealized valuation gains(losses) on equity instrument investment at fair value through other comprehensive income	\$570,944	\$147,889	\$718,833	\$(167,032)	\$551,801
Change of designated financial liabilities at fair value through profit or loss resulting from credit risk	(463,100)	-	(463,100)	92,620	(370,480)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(472)	-	(472)	-	(472)
To be classified to profit of loss:					
Exchange differences resulting from translating the financial statement of a foreign operation	(1,210,273)	-	(1,210,273)	243,144	(967,129)
Gains(losses) on debit instrument investment at fair value through other comprehensive income	333,916	(284,052)	49,864	(36,327)	13,537
Gains on reversal of impairment loss on debt instrument at fair value through other comprehensive income	20,206	-	20,206	(2,916)	17,290
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(209,590)	-	(209,590)	-	(209,590)
Total	\$(958,369)	\$(136,163)	\$(1,094,532)	\$129,489	\$(965,043)

2017.07.01-2017.09.30

	Arising during the period	Reclassification adjustment during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Change of designated financial liabilities at fair value through profit or loss resulting from credit risk	\$146,231	\$-	\$146,231	\$(24,859)	\$121,372
To be classified to profit of loss:					
Exchange differences resulting from translating the financial statement of a foreign operation	151,189	-	151,189	(28,461)	122,728
Unrealized gains (losses) on available-for-sale financial assets	323,866	(618,270)	(294,404)	250	(294,154)
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	6,792	-	6,792	-	6,792
Total	\$628,078	\$(618,270)	\$9,808	\$(53,070)	\$(43,262)

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2018.01.01-2018.09.30

	Arising during the period	Reclassification adjustment during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Remeasurements of defined benefit plans	\$-	\$-	\$-	\$48,344	\$48,344
Revaluation surplus	-	-	-	2,287	2,287
Unrealized valuation gains(losses) on equity instrument investment at fair value through other comprehensive income	562,634	(294,915)	267,719	111,621	379,340
Change of designated financial liabilities at fair value through profit or loss resulting from credit risk	892,630	-	892,630	(135,477)	757,153
To be classified to profit of loss:					
Exchange differences resulting from translating the financial statement of a foreign operation	(830,483)	-	(830,483)	202,646	(627,837)
Losses on debit instrument investment at fair value through other comprehensive income	(1,848,736)	(1,172,108)	(3,020,844)	42,638	(2,978,206)
Gains on reversal of impairment loss on debt instrument at fair value through other comprehensive income	20,206	-	20,206	(2,916)	17,290
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	(209,106)	-	(209,106)	-	(209,106)
Total	\$(1,412,855)	\$(1,467,023)	\$(2,879,878)	\$269,143	\$(2,610,735)

2017.01.01-2017.09.30

	Arising during the period	Reclassification adjustment during the period	Other comprehensive income	Income tax benefit (expense)	Other comprehensive income, net of tax
Not to be reclassified to profit or loss:					
Change of designated financial liabilities at fair value through profit or loss resulting from credit risk	\$(1,119,012)	\$-	\$(1,119,012)	\$190,232	\$(928,780)
To be classified to profit of loss:					
Exchange differences resulting from translating the financial statement of a foreign operation	(1,369,361)	-	(1,369,361)	192,305	(1,177,056)
Unrealized gains (losses) on available-for-sale financial assets	3,000,020	(1,556,828)	1,443,192	(16,300)	1,426,892
Share of other comprehensive income of associates and joint ventures accounted for using the equity method	22,803	-	22,803	-	22,803
Total	\$534,450	\$(1,556,828)	\$(1,022,378)	\$366,237	\$(656,141)

The group reclassified \$1,172,108 thousand from accumulated other comprehensive income to profit and loss while derecognizing the debt instrument investments measured at fair value through other comprehensive income.

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(40) Income tax

- A. Under a directive issued by the Ministry of Finance (MOF), a financial holding company and its domestic subsidiaries that hold over 90% of shares issued by the financial holding company for 12 months within the same tax year may choose to adopt the consolidated income tax return for income tax filings. Additional tax and tax receivable resulting from the consolidated income tax return are recorded in the account of consolidated income tax return payable or receivable.
- B. The amendments to the Income Tax Act was promulgated on 7 February 2018. The amendments raised the corporate income tax rate for the Company from 17% to 20%, and changed the corporation income tax rate for undistributed earnings from 10% to 5% since 2018.
- C. The major components of income tax expense are as follows:

Income tax (expense) income recognized in profit or loss

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Current income tax (expense) income:		
Current income tax charge	\$ (635,530)	\$ (535,348)
Adjustments in respect of current income tax of prior periods	43,143	68
Deferred tax (expense) income:		
Deferred tax (expense) income relating to origination and reversal of temporary differences	(296,312)	(285,920)
Deferred tax expense relating to changes in tax rate	-	-
Income tax of overseas subsidiaries	(216,298)	(109,718)
Income tax expense	<u><u>\$ (1,104,997)</u></u>	<u><u>\$ (930,918)</u></u>
	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Current income tax (expense) income:		
Current income tax charge	\$ (2,443,966)	\$ (1,842,428)
Adjustments in respect of current income tax of prior periods	(15,837)	(114,488)
Deferred tax (expense) income:		
Deferred tax (expense) income relating to origination and reversal of temporary differences	(392,700)	(280,284)
Deferred tax expense relating to changes in tax rate	35,504	-
Income tax of overseas subsidiaries	(239,164)	(245,861)
Income tax expense	<u><u>\$ (3,056,163)</u></u>	<u><u>\$ (2,483,061)</u></u>

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Income tax relating to components of other comprehensive income

	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
Deferred tax (expense) income:		
Remeasurements of defined benefit plans	\$-	\$-
Revaluation surplus	-	-
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	92,620	(24,859)
Exchange differences resulting from translating the financial statements of a foreign operation	243,145	(28,461)
Unrealized financial losses on assets at fair value through other comprehensive income	(206,276)	-
Unrealized gains (losses) on available-for-sale financial assets	-	250
Income tax relating to components of other comprehensive income	<u>\$129,489</u>	<u>\$(53,070)</u>
	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
Deferred tax (expense) income:		
Remeasurements of defined benefit plans	\$48,344	\$-
Revaluation surplus	2,287	-
Changes of designated financial liabilities at fair value through profit or loss resulting from credit risk	(135,477)	190,232
Exchange differences resulting from translating the financial statements of a foreign operation	202,646	192,305
Unrealized gains on financial assets at fair value through other comprehensive income	151,343	-
Unrealized gains (losses) on available-for-sale financial assets	-	(16,300)
Income tax relating to components of other comprehensive income	<u>\$269,143</u>	<u>\$366,237</u>

D. The assessment of income tax returns

As of 30 September 2018, the assessment of the income tax returns of the Bank is as follows:

	<u>The assessment of income tax returns</u>
The Bank	Assessed and approved up to 2013

In 2010 to 2013, the income tax return had been assessed; however, the Bank has invoked the administrative remedy to cases about employee benefit of that year.

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(41) Earnings per share

Basic earnings per share are calculated by dividing net profit for the year attributable to ordinary equity holders of the parent entity by the weighted average number of ordinary shares outstanding during the year.

	<u>2018.07.01- 2018.09.30</u>	<u>2017.07.01- 2017.09.30</u>
Profit attributable ordinary to owners of the parent (in thousands dollars)	<u>\$7,069,544</u>	<u>\$6,195,570</u>
Retroactive adjustment weight-average shares outstanding (in thousands shares)	<u>9,119,762</u>	<u>9,119,762</u>
Earnings per share (in dollar)	<u>\$0.78</u>	<u>\$0.68</u>
	<u>2018.01.01- 2018.09.30</u>	<u>2017.01.01- 2017.09.30</u>
Profit attributable ordinary to owners of the parent (in thousands dollars)	<u>\$18,250,254</u>	<u>\$16,693,700</u>
Retroactive adjustment weight-average shares outstanding (in thousands shares)	<u>9,119,762</u>	<u>8,799,946</u>
Earnings per share (in dollar)	<u>\$2.00</u>	<u>\$1.90</u>

The Group adopt Cash-settled share-based payment transactions. Therefore, the amount of weighted average outstanding shares is unaffected. There is no need to calculate the diluted earnings per share.

Insurance of common stock for cash by 535,643 thousand common shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 27 April 2017. The recapitalization was approved by FSC and the recapitalization record date was 13 June 2017. The Bank approved that issue price was \$28 per share on 27 April 2017. The authorized share capital amounted to \$77,456,243 thousand after recapitalization.

The recapitalization of undistributed earnings of \$1,147,816 thousand divided into 114,782 thousand common shares was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 27 April 2017. The recapitalized was approved by the Financial Supervisory Commission and the recapitalization record date was 29 June 2017. The authorized share capital amounted to \$78,604,060 thousand after recapitalization.

The recapitalization of undistributed earnings of \$12,593,563 thousand was resolved by the Bank's board of directors (according to the Company Act, the board of directors acted on behalf of the Bank's shareholders) on 26 April 2018. The recapitalized was approved by the Financial Supervisory Commission and the recapitalization record date was 2 July 2018. The authorized share capital amounted to \$91,197,623 thousand after recapitalization.

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The recapitalization mentioned above were adjusted retrospectively the calculation of the current and previous periods in accordance with IAS 33 “*Earnings per Share*”.

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of completion of financial statements.

7. Related parties transactions

Related parties and relationships

<u>Related parties</u>	<u>Relationships</u>
Cathay Financial Holding Co., Ltd.	Parent Company
Taiwan Real-estate Management Corp	Accociate
Taiwan Finance Corp.	Accociate
Cathay Life Insurance Co., Ltd.	Other related party
Cathay Century Insurance Co., Ltd.	Other related party
Cathay Securities Co., Ltd.	Other related party
Cathay Securities (Hong Kong) Ltd.	Other related party
Cathay Venture Inc.	Other related party
Cathay Securities Investment Trust Co., Ltd.	Other related party
Cathay Securities Investment Consulting Co., Ltd.	Other related party
Conning Asia Pacific Ltd.	Other related party
Cathay Life Insurance (Vietnam) Co., Ltd.	Other related party
Cathay Insurance (Vietnam) Co., Ltd.	Other related party
Cathay Futures Co., Ltd.	Other related party
Symphox Information Co., Ltd.	Other related party
Seaward Card Co., Ltd.	Other related party
Tien-Tai energy Corp.	Other related party
Cathay Dragon Fund etc.	Other related party
Cathay United Bank Culture and Charity Foundation	Other related party
Cathay Life Insurance Employees’ Welfare Committee	Other related party
Cathay Real Estate Development Employees’ Welfare Committee	Other related party
Cathay Private Equity Co., Ltd.	Other related party
Vietinbank	Other related party
Cathay Real Estate Development Co., Ltd.	Other related party
Lin Yuan Property Management and Maintenance Co., Ltd.	Other related party
Lin Yuan (Shanghai) Real Estate Co., Ltd.	Other related party
Cathay Hospitality Management Co., Ltd.	Other related party
Cathay Healthcare Management Co., Ltd.	Other related party
Neo Cathay Co., Ltd.	Other related party
Liang Ting Industrial Company	Other related party
Others	Other related party

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Significant transactions with the related parties are summarized as follows:

(1) Loans and Deposits

Accounts/Related parties	2018.09.30		2017.12.31		2017.09.30	
	Amount	% of Account	Amount	% of Account	Amount	% of Account
<u>Loans</u>						
Associates						
Taiwan Real-estate Management Corp.	\$30,000	-	\$32,000	-	\$32,000	-
Other related parties						
Tien-Tai energy Corp.	81,488	0.01%	87,763	0.01%	89,855	0.01%
Others	1,431,304	0.09%	1,422,061	0.10%	1,309,309	0.09%
Subtotal	1,512,792	0.10%	1,509,824	0.11%	1,399,164	0.10%
Total	<u>\$1,542,792</u>	<u>0.10%</u>	<u>\$1,541,824</u>	<u>0.11%</u>	<u>\$1,431,164</u>	<u>0.10%</u>
Accounts/Related parties	2018.09.30		2017.12.31		2017.09.30	
	Amount	% of Account	Amount	% of Account	Amount	% of Account
<u>Deposits</u>						
Parent company						
Cathay Financial Holding Co., Ltd.	\$379,679	0.02%	\$137,400	0.01%	\$341,350	0.02%
Other related parties						
Cathay Life Insurance Co., Ltd.	20,469,169	0.93%	28,472,961	1.36%	21,125,058	1.01%
Cathay Century Insurance Co., Ltd.	2,022,388	0.09%	1,827,176	0.09%	1,430,972	0.07%
Cathay Securities Co., Ltd.	2,657,821	0.12%	3,414,826	0.16%	3,607,694	0.17%
Cathay Securities (Hong Kong) Ltd.	65	-	66	-	67	-
Cathay Futures Co., Ltd.	1,300,544	0.06%	1,041,691	0.05%	1,181,808	0.06%
Cathay Venture Inc.	69,996	-	25,765	-	116,047	0.01%
Cathay Securities Investment Trust Co., Ltd.	120,453	0.01%	179,814	0.01%	175,604	0.01%
Cathay Securities Investment Consulting Co., Ltd.	141,795	0.01%	146,976	0.01%	106,624	0.01%
Cathay Real Estate Development Co., Ltd.	655,076	0.03%	253,682	0.01%	169,568	0.01%
Cathay Hospitality Management Co., Ltd.	10,144	-	9,202	-	12,521	-
Cathay Life Insurance (Vietnam) Co., Ltd.	2,441,792	0.11%	29,124	-	17,810	-
Cathay Insurance (Vietnam) Co., Ltd.	182,761	0.01%	145,661	0.01%	141,159	0.01%
Cathay Dragon Fund etc.	66,793	-	106,497	-	14,320	-
Symphox Information Co., Ltd.	111,072	0.01%	150,870	0.01%	110,208	0.01%
Conning Asia Pacific Ltd.	77,887	-	90,502	-	76,433	-
Cathay Private Equity Co., Ltd.	33,981	-	49,963	-	-	-
Cathay United Bank Culture and Charity Foundation	548,107	0.02%	544,588	0.03%	552,946	0.02%
Cathay Life Insurance Employees' Welfare Committee	2,244,063	0.10%	3,065,254	0.15%	3,098,441	0.15%
Cathay Real Estate Development Employees' Welfare Committee	401,708	0.02%	363,768	0.02%	363,427	0.02%
Neo Cathay Co., Ltd.	203,928	0.01%	308,836	0.01%	584,260	0.02%
Lin Yuan (Shanghai) Real Estate Co., Ltd.	547,130	0.02%	-	-	-	-
Others	7,765,173	0.38%	9,013,397	0.42%	7,637,727	0.38%
Subtotal	42,071,846	1.93%	49,240,619	2.34%	40,522,694	1.96%
Total	<u>\$42,451,525</u>	<u>1.95%</u>	<u>\$49,378,019</u>	<u>2.35%</u>	<u>\$40,864,044</u>	<u>1.98%</u>

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Accounts/Related parties	Interest Income			
	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
<u>Loans</u>				
Associates				
Taiwan Real-estate Management Corp.	\$144	\$157	\$428	\$468
Other related parties				
Cathay Real Estate Development Co., Ltd.	-	34	-	36
Cathay Securities Co., Ltd.	-	-	3	-
Tien-Tai energy Corp.	642	732	1,987	2,221
Liang Ting Industrial Company	-	38	-	272
Others	6,305	4,131	18,695	15,611
Subtotal	6,947	4,935	20,685	18,140
Total	\$7,091	\$5,092	\$21,113	\$18,608

Accounts/Related parties	Interest Expense			
	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
<u>Deposits</u>				
Parent company				
Cathay Financial Holding Co., Ltd.	\$(329)	\$(87)	\$(627)	\$(214)
Other related parties				
Cathay Life Insurance Co., Ltd.	(11,418)	(7,974)	(37,035)	(19,754)
Cathay Century Insurance Co., Ltd.	(2,022)	(1,797)	(5,702)	(5,287)
Cathay Securities Co., Ltd.	(887)	(1,246)	(3,568)	(3,135)
Cathay Futures Co., Ltd.	(1,902)	(1,847)	(5,616)	(7,353)
Cathay Venture Inc.	(20)	(13)	(53)	(26)
Cathay Securities Investment Trust Co., Ltd.	(45)	(56)	(147)	(192)
Cathay Securities Investment Consulting Co., Ltd.	(131)	(130)	(475)	(425)
Cathay Real Estate Development Co., Ltd.	(20)	(9)	(36)	(34)
Cathay Hospitality Management Co., Ltd.	(4)	(4)	(20)	(20)
Cathay Life Insurance (Vietnam) Co., Ltd.	(20,920)	(984)	(21,111)	(1,236)
Cathay Insurance (Vietnam) Co., Ltd.	(1,844)	(3,699)	(4,968)	(7,159)
Cathay Dragon Fund etc.	(1)	(1)	(2)	(1)
Symphox Information Co., Ltd.	(166)	(148)	(498)	(431)
Conning Asia Pacific Ltd.	(143)	(75)	(503)	(166)
Cathay Private Equity Co., Ltd.	(5)	-	(14)	-
Cathay United Bank Culture and Charity Foundation	(1,417)	(1,411)	(4,188)	(4,253)
Cathay Life Insurance Employees' Welfare Committee	(5,613)	(5,927)	(17,215)	(17,508)
Cathay Real Estate Development Employees' Welfare Committee	(1,070)	(1,503)	(3,011)	(3,005)
Neo Cathay Co., Ltd.	(19)	(90)	(76)	(397)
Lin Yuan (Shanghai) Real Estate Co., Ltd.	(4,746)	-	(4,773)	-
Others	(14,988)	(10,347)	(47,762)	(44,611)
Subtotal	(67,381)	(37,261)	(156,773)	(114,993)
Total	\$(67,710)	\$(37,348)	\$(157,400)	\$(115,207)

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Accounts / Related parties	Account balance			
	2018.09.30	2017.12.31	2017.09.30	
<u>Due from commercial banks</u>				
Other related parties				
Vietinbank	\$5,288,469	\$5,340,176	\$5,424,476	
<u>Due to commercial banks</u>				
Other related parties				
Vietinbank	5,292,805	5,337,418	5,411,864	
	Interest Income (Expense)			
Accounts / Related parties	2018.07.01-	2017.07.01-	2018.01.01-	2017.01.01-
	2018.09.30	2017.09.30	2018.09.30	2017.09.30
<u>Due from commercial banks</u>				
Other related parties				
Vietinbank	\$1,258	\$1,256	\$3,841	\$5,121
<u>Due to commercial banks</u>				
Other related parties				
Vietinbank	(1,253)	(1,396)	(3,807)	(4,169)

Transactions terms with related parties are similar to those with third parties, except for the preferential interest rates set by the employees' interest rates on deposits and loans within prescribed limits.

(2) Lease

Accounts/Related parties	2018.07.01-	2017.07.01-	Payment term
	2018.09.30	2017.09.30	
<u>Rental income</u>			
Other related parties			
Cathay Life Insurance Co., Ltd.	\$12,147	\$15,635	Monthly
Cathay Century Insurance Co., Ltd.	2,282	2,251	Monthly
Cathay Securities Co., Ltd.	2,421	2,419	Monthly
Cathay United Bank Culture and Charity Foundation	1,158	1,158	Monthly
<u>Rental expense</u>			
Other related parties			
Cathay Life Insurance Co., Ltd.	174,007	157,952	Monthly
Cathay Real Estate Development Co., Ltd.	5,577	5,077	Monthly

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Accounts/Related parties	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30	Payment term
<u>Rental income</u>			
Other related parties			
Cathay Life Insurance Co., Ltd.	\$41,092	\$46,909	Monthly
Cathay Century Insurance Co., Ltd.	6,823	6,754	Monthly
Cathay Securities Co., Ltd.	7,261	7,511	Monthly
Cathay United Bank Culture and Charity Foundation	3,474	3,474	Monthly
<u>Rental expense</u>			
Other related parties			
Cathay Life Insurance Co., Ltd.	509,207	424,747	Monthly
Cathay Real Estate Development Co., Ltd.	14,767	15,072	Monthly
Accounts/Related parties	2018.09.30	2017.12.31	2017.09.30
<u>Refundable deposits</u>			
Other related parties			
Cathay Life Insurance Co., Ltd.	\$187,119	\$164,798	\$157,730
Cathay Real Estate Development Co., Ltd.	4,608	4,549	4,549
<u>Guarantee deposit received</u>			
Other related parties			
Cathay Life Insurance Co., Ltd.	12,019	15,367	15,367
Cathay Century Insurance Co., Ltd.	2,610	2,224	2,224
Cathay Securities Co., Ltd.	2,247	2,597	2,597

The rental period and the way of rent collection are in accordance with the contract. The main collection method is collected on a monthly basis and the general term is one to three years.

The lease period and the way of payment are in accordance with the contract. The main payment method is paid on a monthly basis and the general term is two to five years.

Accounts/Related parties	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
(3) <u>Commissions and handling fees income</u>		
Other related parties		
Cathay Life Insurance Co., Ltd.	\$1,765,601	\$1,560,714
Cathay Century Insurance Co., Ltd.	36,372	41,069
Cathay Securities Co., Ltd.	18,082	11,705
Cathay Securities Investment Trust Co., Ltd.	10,038	8,534
Cathay Securities Investment Consulting Co., Ltd.	4,381	4,114
Cathay Real Estate Development Co., Ltd.	1,499	1,032

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Accounts/Related parties	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
<u>Commissions and handling fees income</u>		
Other related parties		
Cathay Life Insurance Co., Ltd.	\$5,354,893	\$5,385,581
Cathay Century Insurance Co., Ltd.	121,100	115,943
Cathay Securities Co., Ltd.	52,190	33,573
Cathay Securities Investment Trust Co., Ltd.	32,132	24,006
Cathay Securities Investment Consulting Co., Ltd.	13,156	13,189
Cathay Real Estate Development Co., Ltd.	4,191	3,407
Accounts/Related parties	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
(4) <u>Commissions and handling fees expense</u>		
Other related parties		
Cathay Life Insurance Co., Ltd.	\$43,511	\$40,791
Symphox Information Co., Ltd.	175,896	123,712
Lin Yuan Property Management and Maintenance Co., Ltd.	1,949	2,700
Seaward Card Co., Ltd	53,687	63,240
Cathay Securities Investment Trust Co., Ltd.	1,800	-
Cathay Real Estate Development Co., Ltd.	1,269	1,262
Cathay Healthcare Management Co., Ltd.	1,330	1,982
Accounts/Related parties	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30
<u>Commissions and handling fees expense</u>		
Other related parties		
Cathay Life Insurance Co., Ltd.	\$136,336	\$129,943
Symphox Information Co., Ltd.	470,289	463,719
Lin Yuan Property Management and Maintenance Co., Ltd.	7,152	7,371
Seaward Card Co., Ltd	157,168	166,345
Cathay Securities Investment Trust Co., Ltd.	5,400	-
Cathay Real Estate Development Co., Ltd.	3,770	3,755
Cathay Healthcare Management Co., Ltd.	13,619	4,217
Accounts/Related parties	2018.07.01- 2018.09.30	2017.07.01- 2017.09.30
(5) <u>Insurance expenses paid</u>		
Other related parties		
Cathay Life Insurance Co., Ltd.	\$11,690	\$17,888
Cathay Century Insurance Co., Ltd.	27,683	29,942

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Accounts/Related parties	2018.01.01- 2018.09.30	2017.01.01- 2017.09.30	
<u>Insurance expenses paid</u>			
Other related parties			
Cathay Life Insurance Co., Ltd.	\$39,503	\$55,601	
Cathay Century Insurance Co., Ltd.	104,624	100,252	
Accounts/Related parties	2018.09.30	2017.12.31	2017.09.30
(6) <u>Related party receivable for allocation of linked tax system</u>			
Parent company			
Cathay Financial Holding Co., Ltd.	\$-	\$145,836	\$418,689
(7) <u>Receivables</u>			
Other related parties			
Cathay Securities Investment Trust	9,403	6,957	3,963
(8) <u>Related party receivables for commission of collecting insurances</u>			
Other related parties			
Cathay Life Insurance Co., Ltd.	368,730	163,342	365,870
(9) <u>Refundable deposit</u>			
Other related parties			
Cathay Futures Co., Ltd.	81,601	79,854	77,880
(10) <u>Accrued expenses</u>			
Other related parties			
Seaward Card Co., Ltd.	30,452	24,254	23,003
(11) <u>Accounts payable</u>			
Other related parties			
Cathay Century Insurance Co., Ltd.	9,747	9,994	10,402
Symphox Information Co., Ltd.	97,683	157,938	161,186
(12) <u>Related party payables for allocation of linked-tax system</u>			
Parent company			
Cathay Financial Holding Co., Ltd.	848,486	-	-

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(13) Securities trading

Related parties	Securities Name	2017.01.01~2017.09.30	
		Trading stocks	Sale price
Others			
Symphox Information Co., Ltd.	Seaward Card Co., Ltd.	3,000,000 stocks	\$46,800

There were no cases of trading of securities with related parties for the nine-month periods ended 30 September 2018.

The Bank sold the Seaward Card Co., Ltd. to related party, Symphox Information Co., Ltd., on 21 July 2017. Please refer to Note 6.(10.C) for details on sales.

(14) Key management personnel compensation

Accounts/Related parties	2018.07.01-	2017.07.01-
	2018.09.30	2017.09.30
Short-term employee benefits	\$75,149	\$60,071
Post-employment benefits	1,251	1,146
Total	\$76,400	\$61,217

Accounts/Related parties	2018.01.01-	2017.01.01-
	2018.09.30	2017.09.30
Short-term employee benefits	\$211,473	\$181,801
Post-employment benefits	3,781	3,476
Other long-term employee benefits	26	45
Total	\$215,280	\$185,322

The key management personnel of the Group include the Chairman, Vice-Chairman, Directors, Supervisors, President and Vice-President.

(15) Others

A. Trading of shares issued by the Bank and its related parties

Capital Increased by Cash.

Accounts/Related parties	Trading	2018.01.01-	2017.01.01-
		2018.09.30	2017.09.30
Parent company			
Cathay Financial Holding Co., Ltd.	Common stock	\$-	\$14,998,000

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- B. The Bank paid construction planning and design maintenance services fees to Lin Yuan Property Management and Maintenance Co., Ltd. in the amount of \$6,003 thousand, \$6,134 thousand, \$11,672 thousand and \$7,885 thousand for the three-month periods ended 30 September 2018 and 2017, and for the nine-month periods ended 30 September 2018 and 2017, respectively.
- C. The Bank purchased bonus points in exchange for merchandise for the Bank's customer from Symphox Information Co., Ltd. As of 30 September 2018, 31 December 2017 and 30 September 2017, the unconverted bonus points amounted to \$25,198 thousand, \$16,690 thousand and \$16,757 thousand, respectively.

The terms of the foregoing transactions with related parties are similar to those with third parties.

Combined disclosures have been made for transactions with related parties that are under a certain percentage of the total amount of all transactions with related parties and non-related parties.

8. Assets pledged as security

Please refer to Note 6.

9. Commitments and contingencies

As of 30 September 2018, 31 December 2017 and 30 September 2017, the Group had the following commitments and contingent liabilities, which are not reflected in the consolidated financial statements:

(1) The Bank

A. Entrusted Items and Guarantees:

	2018.09.30	2017.12.31	2017.09.30
Trust and security held for safekeeping	\$756,992,142	\$684,016,891	\$674,974,410
Travelers checks for sale	327,809	355,055	400,316
Bills for collection	38,546,180	40,718,597	41,772,446
Book-entry for government bonds and depository for short-term marketable securities under management	417,507,259	388,637,503	374,433,214
Entrusted financial management business	10,843,321	8,827,034	8,977,361
Guarantees on duties and contracts	8,578,417	7,167,460	7,247,707
Unused commercial letters of credit	4,639,987	3,765,996	3,519,231
Irrevocable loan commitments	197,550,766	211,222,089	163,638,252
Unused credit card lines commitments	584,940,748	555,478,907	549,927,730
Underwriting securities	2,320,000	230,000	5,230,000

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B. As of 30 September 2018, the Bank is subject to major ongoing lawsuits arising due to normal business relations as follows: Lee & Li, Attorneys-at-Law and SanDisk Corporation of USA alleged that the embezzlement case of Liu Wei-Chieh (an employee of Lee & Li), which occurred in October 2003 was caused by the negligence of the Bank in its operation, and the plaintiffs claimed damages from the Bank in the amount of approximately \$991,002 thousand and \$3,090,000 thousand separately. The case has been pending in the court since July 2007, and the Bank won favorable decisions in both first instance and second instances. Now the proceeding is still pending in the Supreme Court. Both the Bank and its attorneys hold that this case will not have material adverse effect on the financial position of the Bank.

C. As of 30 September 2018, 31 December 2017 and 30 September 2017, the operating leases agreement, rentals for lease that should be paid in future are disclosed in Note 12.(8).

(2) Indovina Bank

A. Entrusted Item and Guarantees:

	2018.09.30	2017.12.31	2017.09.30
Financial guarantee contracts	\$2,840,524	\$2,587,848	\$2,606,744
Unused commercial letters of credit	1,083,014	1,629,282	1,339,834

B. As of 30 September 2018, 31 December 2017 and 30 September 2017. According to the operating leases agreements of Indovina Bank, rentals for lease that should be paid in the future listed are as follows:

	2018.09.30	2017.12.31	2017.09.30
Not later than one year	\$29,259	\$31,454	\$34,130
Later than one year and not later than five years	59,241	61,348	65,864
Later than five years	12,022	17,045	19,863

(3) CUBC Bank

A. Entrusted Item and Guarantees:

	2018.09.30	2017.12.31	2017.09.30
Financial guarantee contracts	\$61,878	\$60,673	\$45,292
Irrevocable loan commitments	-	647,417	895,457
Credit card line commitments	439,718	403,120	358,640

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B. As of 30 September 2018, 31 December 2017 and 30 September 2017, the rentals for lease that should be paid in the future listed are as follows:

	<u>2018.09.30</u>	<u>2017.12.31</u>	<u>2017.09.30</u>
Not later than one year	\$15,826	\$14,845	\$15,887
Later than one year and not later than five years	38,750	27,551	30,373
Later than five years	8,878	15,443	16,621

(4) CUBCN Bank

A. Entrusted Item and Guarantees:

	<u>2018.09.30</u>	<u>2017.12.31</u>	<u>2017.09.30</u>
Financial guarantee contracts	\$283,329	\$-	\$-
Unused commercial letters of credit	796,103	-	-
Irrevocable loan commitments	591,990	-	-

B. As of 30 September 2018, 31 December 2017 and 30 September 2017, the rentals for lease that should be paid in the future listed are as follows:

	<u>2018.09.30</u>	<u>2017.12.31</u>	<u>2017.09.30</u>
Not later than one year	\$108,347	\$-	\$-
Later than one year and not later than five years	33,271	-	-
Later than five years	-	-	-

10. Losses due to major disasters

None.

11. Significant subsequent events

None.

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12. Other

(1) Disclosure of financial instruments information

A. Information of fair value

	2018.09.30	
	Carrying value	Fair value
<u>Financial assets</u>		
Financial assets at fair value through profit or loss	\$274,897,442	\$274,897,442
Financial assets at fair value through other comprehensive income	211,727,467	211,727,467
Available-for-sale financial assets- net	(Note)	(Note)
Held-to-maturity financial assets- net	(Note)	(Note)
Investment in debt securities with no active market- net	(Note)	(Note)
Financial assets at amortized cost		
Cash and cash equivalents (exclude cash on hand)	61,727,301	61,727,301
Due from the Central Bank and call loan to banks	121,969,884	121,969,884
Debt instrument investment at amortized cost	325,215,661	323,491,116
Securities purchased under agreements to resell	90,784,688	90,784,688
Receivables - net	85,974,660	85,974,660
Discounts and loans - net	1,569,443,211	1,569,443,211
Other financial assets - net	1,044	1,044
Other assets - net	27,616,823	27,616,823
Subtotal	<u>2,282,733,272</u>	<u>2,281,008,727</u>
Total	<u>\$2,769,358,181</u>	<u>\$2,767,633,636</u>
	2018.09.30	
	Carrying value	Fair value
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	\$87,171,203	\$87,171,203
Securities sold under agreements to repurchase	62,055,662	62,055,662
Payables	28,006,806	28,006,806
Deposits and remittances	2,196,932,894	2,196,932,894
Financial debentures payable	55,600,000	55,600,000
Other financial liabilities	76,491,161	76,491,161
Other liabilities	4,216,815	4,216,815
Subtotal	<u>2,510,474,541</u>	<u>2,510,474,541</u>
Financial liabilities at fair value through profit or loss		
Held for trading	58,051,941	58,051,941
Designated at fair value through profit or loss	51,470,506	51,470,506
Subtotal	<u>109,522,447</u>	<u>109,522,447</u>
Total	<u>\$2,619,996,988</u>	<u>\$2,619,996,988</u>

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	2017.12.31	
	Carrying value	Fair value
<u>Financial assets</u>		
Financial assets at fair value through profit or loss	\$311,985,059	\$311,985,059
Financial assets at fair value through other comprehensive income	(Note)	(Note)
Available-for-sale financial assets- net	148,480,669	148,480,669
Held-to-maturity financial assets - net	34,345,085	35,129,018
Investment in debt securities with no active market- net	388,287,593	389,043,125
Financial assets at amortized cost		
Cash and cash equivalents (exclude cash on hand)	47,851,927	47,851,927
Due from the Central Bank and call loan to banks	125,163,780	125,163,780
Debt instrument investment at amortized cost	(Note)	(Note)
Securities purchased under agreements to resell	87,483,656	87,483,656
Receivables - net	76,980,817	76,980,817
Discounts and loans - net	1,434,558,167	1,434,558,167
Other financial assets - net	1,276	1,276
Other assets - net	18,354,601	18,354,601
Subtotal	<u>1,790,394,224</u>	<u>1,790,394,224</u>
Total	<u>\$2,673,492,630</u>	<u>\$2,675,032,095</u>
	2017.12.31	
	Carrying value	Fair value
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	\$90,417,859	\$90,417,859
Securities sold under agreements to repurchase	109,941,425	109,941,425
Payables	23,457,177	23,457,177
Deposits and remittances	2,098,367,963	2,098,367,963
Financial debentures payable	63,350,000	63,350,000
Other financial liabilities	66,057,646	66,057,646
Other liabilities	5,226,119	5,226,119
Subtotal	<u>2,456,818,189</u>	<u>2,456,818,189</u>
Financial liabilities at fair value through profit or loss		
Held for trading	33,768,641	33,768,641
Designated at fair value through profit or loss	53,639,010	53,639,010
Subtotal	<u>87,407,651</u>	<u>87,407,651</u>
Total	<u>\$2,544,225,840</u>	<u>\$2,544,225,840</u>

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	2017.09.30	
	Carrying value	Fair value
<u>Financial assets</u>		
Financial assets at fair value through profit or loss	\$318,143,058	\$318,143,058
Financial assets at fair value through other comprehensive income	(Note)	(Note)
Available-for-sale financial assets	144,203,086	144,203,086
Held-to-maturity financial assets	37,232,091	38,287,239
Investment in debt securities with no active market	360,914,563	361,123,026
Financial assets at amortized cost		
Cash and cash equivalents (exclude cash on hand)	59,099,262	59,099,262
Due from the Central Bank and call loan to banks	83,013,476	83,013,476
Debt instrument investment at amortized cost	(Note)	(Note)
Securities purchased under agreements to resell	65,593,899	65,593,899
Receivables - net	84,602,809	84,602,809
Discounts and loans - net	1,478,362,863	1,478,362,863
Other financial assets - net	3,005	3,005
Other assets - net	20,738,095	20,738,095
Subtotal	<u>1,791,413,409</u>	<u>1,791,413,409</u>
Total	<u>\$2,651,906,207</u>	<u>\$2,653,169,818</u>
	2017.09.30	
	Carrying value	Fair value
<u>Financial liabilities</u>		
Financial liabilities at amortized cost:		
Due to the Central Bank and call loans from banks	\$92,450,905	\$92,450,905
Securities sold under agreements to repurchase	98,836,774	98,836,774
Payables	33,668,164	33,668,164
Deposits and remittances	2,087,362,850	2,087,362,850
Financial debentures payable	63,350,000	63,350,000
Other financial liabilities	61,916,628	61,916,628
Other liabilities	4,697,596	4,697,596
Subtotal	<u>2,442,282,917</u>	<u>2,442,282,917</u>
Financial liabilities at fair value through profit or loss		
Held for trading	35,403,282	35,403,282
Designated at fair value through profit or loss	44,927,462	44,927,462
Subtotal	<u>80,330,744</u>	<u>80,330,744</u>
Total	<u>\$2,522,613,661</u>	<u>\$2,522,613,661</u>

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

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- B. The methodologies and assumptions used by the Group to estimate the above fair value of financial instruments are summarized as follows:
- (A) The carrying value of short-term financial instruments, such as cash and cash equivalents, receivables, securities purchased under agreements to resell, securities sold under agreements to repurchase, payables, refundable deposits, guarantee deposits, borrowed funds, due from the Central Bank and call loans to banks and due to the Central Bank and call loans from banks arising in the ordinary course of business, approximate the fair value because of the relatively short period of time between their origination and expected realization.
 - (B) Quoted market prices, if available, are utilized as estimates of the fair values of financial instruments at fair value through profit or loss financial assets at fair value through other comprehensive income, available-for-sale financial instruments, debt instrument investment at amortized cost held-to-maturity financial assets, purchase of foreign exchange, debt instrument investment without active market. If no quoted market prices exist for certain financial instruments, the fair value of such instruments has been derived based on pricing models. A price model incorporates all factors that market participants would consider in setting a price. The discounted cash flow technique is used to estimate the fair value of a debt instrument where an active market does not exist. The estimates, hypotheses and discount rates for valuation refer to quoted prices, from financial instruments, of financial instruments having substantially the same terms and characteristics, including the credit quality of debtors, the remaining term over which the contractual interest rate is fixed, the remaining term to repayment of the principal, and the currency in which the payments are to be made.
 - (C) Discounts and loans, deposits, financial debentures payable and principals received from the sale of structured products are classified as interest-bearing financial instruments. Thus, their carrying value is equivalent to their fair value. The face value of delinquent accounts deducted from allowance for doubtful accounts is adopted as fair value.
 - (D) The fair value of financial debentures payable which designated as at fair value through profit or loss is estimated by discounting future cash flows using rates currently available for debt on similar terms and remaining maturities.
 - (E) If the derivatives do not have market prices available to compare, the discounted-cash-flow model is applied to forward currency and interest rate swap and Black-Scholes model, Binomial Option Price model or Monte-Carlo-method are applied to option derivatives.

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- (F) The Bank adopts the exchange rates and market interest rates provide by Thomson Reuters' system to evaluate the fair value of forward currency, currency swap, interest rate swap and cross currency swap. The average price or closing price is used to figure the fair value of each contract.
- (G) Under the assumption that the Bank will not default, the Bank determines its credit value adjustment by multiplying three factors, probability of default ("PD"), loss given default ("LGD"), and exposure at default ("EAD") of the counterparty. On the other hand, under the assumption that the counterparty will not default, the Bank calculates its debit value adjustments by multiplying three factors, PD, LGD, and EAD of the Bank.

The estimated exposure at default for current period is evaluated by considering the fair value of the derivative instruments traded at OTC.

The Bank sets estimated LGD at 60 % for most of the counterparties, but may apply other assumptions when risk character and data are available.

The Bank has considered the adjustment of credit risk in the calculation of the fair value of financial instruments to reflect credit risk and credit quality of counterparty and the Bank, respectively.

(2) The fair value hierarchy information of the financial instruments

A. The definition of the hierarchy of the financial instruments is measured at fair value:

- 1st Level: Quoted (unadjusted) market prices in active markets for identical assets or liabilities that the entity can access at the measurement date.
- 2nd Level: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly.
- 3rd Level: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

For assets and liabilities that are recognized in the financial statement on a recurring basis, the bank determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization at the end of each reporting period.

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B. The Group measures financial instruments and investment properties based on recurring basis, and assets held for sale are measured on the lower of non-recurring basis and fair value minus cost of goods sold. The Group's fair value hierarchy is described as follows:

Item	2018.09.30			
	1 st Level	2 nd Level	3 rd Level	Total
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Financial assets mandatory at fair value through profit or loss				
Stocks	\$29,567	\$-	\$-	\$29,567
Bonds	13,770,141	27,376,792	-	41,146,933
other	-	176,279,574	-	176,279,574
Financial assets at fair value through other comprehensive income				
Stocks	13,092,048	782	3,725,185	16,818,015
Bonds	101,530,552	93,378,900	-	194,909,452
Investment properties	-	-	1,461,472	1,461,472
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Financial liabilities held for trading				
Bonds	-	98,850	-	98,850
Designated at fair value through profit or loss				
Bonds	-	51,470,506	-	51,470,506
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	6,022	45,086,223	12,349,123	57,441,368
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	6,121	45,675,140	12,271,830	57,953,091
2017.12.31				
Item	1 st Level	2 nd Level	3 rd Level	Total
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Stocks	\$4,779,697	\$-	\$-	\$4,779,697
Bonds	81,440,783	21,978,452	-	103,419,235
Others	49,939	170,563,632	-	170,613,571
Available-for-sale financial assets				
Stocks	12,435,887	763	3,396,372	15,833,022
Bonds	85,891,057	46,215,235	-	132,106,292
Others	541,355	-	-	541,355
Investment properties	-	-	1,547,372	1,547,372
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss				
Bonds	-	53,639,010	-	53,639,010
Financial liabilities held for trading				
Bonds	49,945	-	-	49,945
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	31,724	24,420,485	8,720,347	33,172,556
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	4,101	24,891,723	8,822,872	33,718,696

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Item	2017.09.30			
	1 st Level	2 nd Level	3 rd Level	Total
<u>Non-derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Stocks	\$541,138	\$-	\$-	\$541,138
Bonds	92,422,694	22,143,888	-	114,566,582
Others	-	168,179,257	-	168,179,257
Available-for-sale financial assets				
Stocks	10,897,239	775	3,394,980	14,292,994
Bonds	71,689,402	57,946,092	-	129,635,494
Others	274,598	-	-	274,598
Investment properties	-	-	1,515,170	1,515,170
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss				
Designated at fair value through profit or loss				
Bonds	\$-	\$44,927,462	\$-	\$44,927,462
Financial assets held for trading				
Bonds	298,204	-	-	298,204
<u>Derivative financial instruments</u>				
<u>Assets</u>				
Financial assets at fair value through profit or loss	103,165	22,058,115	12,694,801	34,856,081
<u>Liabilities</u>				
Financial liabilities at fair value through profit or loss	19,206	22,321,575	12,764,297	35,105,078

Transfers between 1st Level and 2nd Level during the period

For the nine-month period ended 30 September 2018, the Bank had no assets or liabilities transferred from 1st Level to 2nd Level.

For the nine-month period ended 30 September 2017, the Bank transferred government bonds designed as at fair value through profit or loss, an asset measured at fair value on a recurring basis, from 1st Level to 2nd Level. A total of \$8,431,930 thousand was transferred as its market price was obtainable.

Reconciliation for fair value measurements in 3rd Level for movements

Reconciliation for fair value measurements in 3rd Level of the fair value hierarchy for movements during the period is as follows:

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	Assets			Liabilities
	At fair value			At fair value through profit or loss
	At fair value through profit or loss	through other comprehensive income	Investment	
	Derivative	Stock	Properties	
Beginning balances as at 1 January 2018	\$8,720,347	\$3,396,372	\$1,547,372	\$8,822,872
Total gains and losses recognized				
Amount recognized in profit or loss				
Gains or losses on financial assets and liabilities at fair value through profit or loss	5,425,539	-	-	5,246,992
Gains on disposal of investment property	-	-	14,100	-
Amount recognized in other comprehensive income				
Unrealized gains on financial assets at fair value through other comprehensive income	-	1,966,757	-	-
Acquisition or issues	48,128	193,798	-	48,128
Disposal or settlements	(1,846,454)	(209,539)	(100,000)	(1,846,454)
Transfer	-	(1,622,203)	-	-
Effects of exchange rates changes	1,563	-	-	292
Ending balances as at 30 September 2018	\$12,349,123	\$3,725,185	\$1,461,472	\$12,271,830
	Assets			Liabilities
	At fair value			At fair value through profit or loss
	through profit or loss	Available-for- sale	Investment	
	Derivative	Stock	Properties	
Beginning balances as at 1 January 2017	\$17,622,700	\$3,278,958	\$1,554,600	\$17,699,268
Total gains and losses recognized				
Amount recognized in profit or loss				
Gains or losses on financial assets and liabilities at fair value through profit or loss	(4,984,265)	-	-	(4,986,679)
Gains on disposal of investment property	-	-	10	-
Loss on valuation of investment properties	-	-	(37,870)	-
Amount recognized in other comprehensive income				
Unrealized gains on available-for-sale financial assets	-	116,022	-	-
Acquisition or issues	612,881	-	-	612,881
Disposal or settlements	(556,515)	-	(1,570)	(556,515)
Effects of exchange rates changes	-	-	-	(4,658)
Ending balances as at 30 September 2017	\$12,694,801	\$3,394,980	\$1,515,170	\$12,764,297

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Total gains or losses recognized for the nine-month periods ended 30 September 2018 and 2017 in the table above contain unrealized gains and losses related to assets on hand as at 30 September 2018 and 2017 in the amount of gains \$5,425,539 thousand and losses \$5,022,135 thousand, respectively.

Total gains or losses recognized for the nine-month periods ended 30 September 2018 and 2017 in the table above contain unrealized gains and losses related to liabilities on hand as at 30 September 2018 and 2017 in the amount of losses \$5,246,992 thousand and gains \$4,986,679 thousand, respectively.

Information on 3rd Level significant unobservable inputs to valuation

Description of significant unobservable inputs to valuation of recurring fair value measurements categorized within 3rd Level of the fair value hierarchy is as follows:

2018.09.30

	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
<u>Financial assets</u>				
At fair value				
through other comprehensive Income-Stocks	Market company approach	Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
<u>Non-Financial Assets</u>				
Investment properties	Income approach and comparison approach	Direct capitalization rate	2.05%~5.85%	The higher the direct capitalization rate, the lower the fair value
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.76%~2.89%	The higher the composite interest rate for capital interest, the lower the fair value

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	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
<u>Financial assets</u>				
<u>Available-for-sale</u>				
-Stocks	Market company approach	Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
<u>Non-Financial Assets</u>				
Investment properties	Income approach and comparison approach	Direct capitalization rate	2.03%~5.83%	The higher the direct capitalization rate, the lower the fair value
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.76%~2.89%	The higher the composite interest rate for capital interest, the lower the fair value

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	Valuation techniques	Significant unobservable inputs	Interval (weighted average)	Relationship between inputs and fair value
<u>Financial assets</u>				
<u>Available-for-sale</u>				
-Stocks	Market company approach	Discount for lack of marketability	15%~20%	The higher the discount for lack of marketability, the lower the fair value of the stocks
	Income approach	Cost of equity rate	6%~7%	The higher the cost of equity rate, the lower the fair value of the stocks
	Value of net assets approach	Value of net assets	Not applicable	The higher the value of net assets, the higher the fair value of the stocks
<u>Non-Financial Assets</u>				
Investment properties	Income approach and comparison approach	Direct capitalization rate	1.60%~2.95%	The higher the direct capitalization rate, the lower the fair value
	Land development analysis approach and cost approach	Composite interest rate for capital interest	0.84%~17.11%	The higher the composite interest rate for capital interest, the lower the fair value

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Valuation process used for fair value measurements categorized within 3rd Level of the fair value hierarchy

The Group's Risk Management Department is responsible for validating the fair value measurements and ensuring that the results of the valuation are in line with market conditions, based on independent and reliable inputs which are consistent with other information, and represent exercisable prices. The Department analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies at each reporting date.

C. Fair value measurement hierarchy of the Group's assets and liabilities not measured at fair value but for which the fair value is disclosed

2018.09.30	1 st Level	2 nd Level	3 rd Level	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Debt instrument investment at amortized cost				
Bonds	\$39,130,622	\$16,433,051	\$12,264,307	\$67,827,980
Others	-	255,663,136	-	255,663,136
2017.12.31	1 st Level	2 nd Level	3 rd Level	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Financial assets held to maturity				
Bonds	\$24,588,987	\$5,313,456	\$-	\$29,902,443
Others	-	5,226,575	-	5,226,575
Debt instrument investments for which no active market exists				
Bonds	-	66,491,710	3,650,216	70,141,926
Others	-	318,901,199	-	318,901,199
2017.09.30	1 st Level	2 st Level	3 st Level	Total
Financial assets not measured at fair value but for which the fair value is disclosed:				
Financial assets held to maturity				
Bonds	\$26,024,128	\$6,333,341	\$-	\$32,357,469
Others	-	5,929,770	-	5,929,770
Debt instrument investments for which no active market exists				
Bonds	-	66,921,126	1,081,018	68,002,144
Others	-	293,120,882	-	293,120,882

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(3) Transfers of financial assets

A. Financial assets transferred that have not been fully removed

Transferred financial assets that are part of the Group daily operations that do not meet the criteria for full removal are mostly made up of debt securities used as counterparty collateral for repurchase agreements or equity securities lent out as part of securities lending agreement. The nature of these transactions are secured loans, and reflects the liability where the Bank are obligated to repurchase the transferred financial assets according to a fixed price in future periods. With respect to such transactions, the Bank will not be able to use, sell or pledge such transferred financial assets during the effective period. However the Bank is still exposed to interest rate risk and credit risk, hence they are not removed.

The following table analyses financial assets and financial liabilities that have not been fully removed:

2018.09.30	Transferred	Related	Transferred	Related	Net fair value
	Financial Assets	Financial	Financial Assets	Financial	
	Carrying Value	Liabilities	Fair Value	Liabilities Fair	
		Carrying value		value	
Financial assets at fair value through profit or loss					
Repurchase Agreements	\$995,963	\$913,548	\$963,398	\$913,548	\$49,850
Financial assets at fair value through other comprehensive income					
Repurchase Agreements	49,325,883	46,113,710	48,009,596	46,113,710	1,895,886
Financial assets at amortized cost					
Repurchase Agreements	18,134,642	14,824,026	18,134,642	14,824,026	3,310,616
Securities sold under agreements					
Repurchase Agreements	212,926	204,378	212,926	204,378	8,548
2017.12.31	Transferred	Related	Transferred	Related	Net fair value
	Financial Assets	Financial	Financial Assets	Financial	
	Carrying Value	Liabilities	Fair Value	Liabilities Fair	
		Carrying value		value	
Financial assets at fair value through profit or loss					
Repurchase Agreements	\$46,111,758	\$43,634,657	\$46,023,858	\$43,634,657	\$2,389,201
Available for sale Financial Assets					
Repurchase Agreements	30,037,560	29,338,529	29,620,525	29,338,529	281,996
Held to Maturity Financial Assets					
Repurchase Agreements	23,492,043	23,242,069	23,491,961	23,242,069	249,892
Debt instrument investments for which no active market exists					
Repurchase Agreements	13,877,559	13,726,170	13,877,559	13,726,170	151,389

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2017.09.30	Transferred	Related	Transferred	Related	Net fair value
	Financial Assets	Financial Liabilities	Financial Assets	Financial Liabilities	
	Carrying Value	Carrying value	Fair Value	Fair value	
Financial assets at fair value through profit or loss					
Repurchase Agreements	\$38,232,637	\$38,411,134	\$40,047,691	\$38,411,134	\$1,636,557
Available for sale Financial Assets					
Repurchase Agreements	25,689,199	25,616,299	25,601,898	25,616,299	(14,401)
Held to Maturity Financial Assets					
Repurchase Agreements	24,118,410	23,986,727	24,118,707	23,986,727	131,980
Debt instrument investments for which no active market exists					
Repurchase Agreements	12,307,786	10,822,614	12,307,814	10,822,614	1,485,200

(4) Offsetting of Financial assets and liabilities

The Bank own financial instruments that do not offset in accordance with IAS 32 but it executed enforceable master netting arrangement or other similar agreements with counterparties. Financial instruments subject to enforceable master netting arrangement or other similar agreements could be settled at net amount as chosen by the counterparties, or the financial instruments could be settled at gross amount if not. However, if one of the counterparty defaults, the other party could choose to settle the transaction at net amount.

Information related to offsetting of financial assets and financial liabilities is disclosed as follows:

2018.09.30						
Financial assets subject to offsetting, master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	\$56,542,428	\$-	\$56,542,428	\$56,542,428	\$-	\$-

2018.09.30						
Financial liabilities subject to offsetting, master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	\$57,478,419	\$-	\$57,478,419	\$56,542,428	\$935,991	\$-

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2017.12.31						
Financial assets subject to offsetting, master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	\$33,172,556	\$-	\$33,172,556	\$33,172,556	\$-	\$-

2017.12.31						
Financial liabilities subject to offsetting, master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	\$33,616,157	\$-	\$33,616,157	\$33,172,556	\$443,601	\$-

2017.09.30						
Financial assets subject to offsetting, master netting arrangement or similar agreement						
Item	Gross amount of recognized financial assets (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	\$34,855,900	\$-	\$34,855,900	\$34,855,900	\$-	\$-

2017.09.30						
Financial liabilities subject to offsetting, master netting arrangement or similar agreement						
Item	Gross amount of recognized financial liabilities (a)	Gross amount offset in the balance sheet (b)	Amount presented in the balance sheet (c)= (a)- (b)	Amount not offset in the balance sheet (d)		Net amount (e)= (c)- (d)
				Financial instruments (Note)	Cash collateral received/pledged	
Derivative Financial Instruments	\$35,035,582	\$-	\$35,035,582	\$34,855,900	\$179,682	\$-

Note: Master netting arrangement and non-cash collateral are included.

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(5) Financial risk management

Risk control and hedging strategy

The Bank's risk control and hedging strategy follows the requirement of customer service-oriented banking industry and regulatory environment. In order to comply with the above requirements, the Bank adopted different risk management methods to identify its risks and the Bank followed the spirit and regulation of the "Basel Accord" to keep strengthening its assets and the practices of capital management to maintain the best capital adequacy ratio.

The Bank organized the risk management committee and its responsibilities are illustrated as below:

- A. To amend the risk management policies, risk appetite or risk tolerance and report the above issues to board of directors for approval.
- B. To manage and decide the strategy about the Bank's credit risk, market risk and operational risk management.
- C. To report the significant risk management issues, such as credit ratings, market assessment and risk indicators.
- D. To analyze the issues that the Bank's business unit brought up for discussion.
- E. Other issues.

The Bank organized a risk management group to monitor, lead, develop, and establish the integral risk management framework.

(6) Market risk

Market risk is the potential loss arising from adverse movements of market price, such as interest rates, foreign exchange rates and equity securities.

The Bank organized market risk management department and the committee of assets and liabilities management is responsible for monitoring the market risk management. The department and committee periodically examine the Bank's structure of assets and liabilities; plan the pricing principle of deposit and loan and financing and using scheme of medium and long term funding while executing the market risk management, the market risk management department periodically provides the related information of management and reports to the authorized managers of the Bank for the management system, such as valuating position, risk limit management, calculating of profit and loss, pricing model and risk analysis, in order to control the overall market risk.

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Market risk management process

A. Identification and measurement

The operations department and risk management department of the Bank identified the market risk factors of risk exposure position, and measured the market risk further. Market risk factors are the components that could have an impact on value of financial instrument, such as interest rates, foreign exchange rates, equity securities...etc., including position, gain and loss, the loss of stress test, sensitivity (DV01, Delta, Vega, Gamma) and Value at Risk (VaR)...etc., to measure the extent of investment portfolio that is influenced by interest risk, foreign exchange risk and equity securities.

B. Monitoring and reporting

The risk management department periodically reports the execution of market risk management target, position and gain/loss control, sensitivity analysis, stress test, and VaR of equity securities to the board of directors, and helps the board of directors to fully understand the status of market risk management. The Bank also establishes a clear reporting process. Each transaction has the requirements about limitation and stop-loss points. If the transaction reaches its stop-loss limitation, stop-loss process will be implemented immediately. If the stop-loss process is not implemented, the transaction department should document the reason of non-implementing stop loss process and responding plan. Furthermore, the department shall report to the executive management for approval and report to the board of directors regularly.

Risk management policy of the trading book

The trading book is the portfolio of financial instruments and physical investment for the purpose of trading or the hedge on the trading book. Portfolio is held for trading, which is intended to earn the profit from bid-ask spread. Any positions aside from the above trading book will be in the banking book.

A. Strategy

In order to control market risk effectively and ensure flexibility in operating the transaction strategy, the Bank carries out various assessment and control. The portfolio of trading book has the risk limitation of each investment portfolio which is set according to the transaction strategy, category of investment and the annual profit target.

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B. Policy and procedure

The Bank sets the “Regulation Governing of Market Risk Management” as the important regulation that should be complied with when holding trading portfolio.

C. Valuation policy

If the financial instruments of trading book have market values, they should be evaluated at least once each day by the information that is from an independent source and easily accessible. If it's evaluated by a model, a mathematical model should be used prudently, and the assumptions and parameters of the valuation model should be regularly reviewed and examined.

D. Method of measurement

- (A) The assumption and calculation of VaR: see VaR section.
- (B) The Bank executes the stress test monthly with the following scenarios: the fluctuation of interest rate at 100bp, equity securities at 15% and foreign exchange rate at 3%, and reports to the risk management committee regularly.

Interest risk management of trading book

A. Definition of interest risk

Interest risk is the risk that the trading portfolios suffer losses or the change of its fair value which is caused by the fluctuation of interest rate. The main instruments include the securities and derivatives that relate to interest rates.

B. Interest risk management procedure of trading book

The Bank prudently choose its investment target by studying the credibility and financial position of the securities issuers, their sovereign risk and the trend of interest rates. According to the operating strategy and the circumstances of the market, the Bank sets the transaction limit and stop-loss limit (including the limits of dealing room, traders, and investment...etc.) of the trading book that are reported to the executive management or the board of directors for approval.

C. Method of measurement

- (A) The assumption and calculation of VaR: see VaR section.
- (B) The Bank measures the investment portfolio's interest risk exposure monthly.

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Interest risk management of banking book

The main objective of interest risk management of the banking book is to enhance the interest risk management, increase the operating efficiency of the fund and strengthen the business operation.

A. Strategy

Interest risk management enhances the Bank's ability take responsive actions to measure, to manage and avoid the risk that the fluctuation of interest rate may cause on the profit and the economic value of assets/liabilities.

B. Management procedure

When undertaking the operations relating to interest rate instruments, the Bank identifies the repricing risk of interest rate, yield curve risk, basis risk and options risk characteristics. In additional, the Bank also measures the potential impact of interest rate changes on the profit and economic value of the Bank. The Bank analyzes and monitors the interest risk limits and each target of interest risk management monthly. The results of analysis and monitoring are regularly reported to not only the risk management committee but also the board of directors.

If any risk management targets is found to exceed the limit during the monitoring process, it will be reported to the risk management committee and a solution should be proposed.

C. Method of measurement

The interest risk of the Bank mainly measures the repricing risk that is caused by the difference between maturity date and repricing date of the assets, liabilities, and off balance sheet items in banking book. To stabilize long-term profitability and ensure business growth, the Bank sets the monitoring indicators of interest sensitivity in major terms and implements stress test. Each interest risk indicator and the result of stress test are reported to the executive management regularly for review.

Foreign exchange risk management

A. Definition of foreign exchange risk

Foreign exchange risk is the gain/loss caused by two currencies exchange at different times. The Bank's foreign exchange risk arises from the derivative instruments, such as spot exchange, forward exchange and foreign exchange option...etc. The Bank's foreign exchange transactions are implemented daily to offset clients' position. Thus, the Bank suffers little foreign exchange risk.

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B. Policy, procedure and measurement methodology of foreign exchange risk management

In order to control foreign exchange risk, the Bank sets the limits of transaction and stop-loss limits for the dealing room and traders. Meanwhile, the Bank also sets the maximum annual loss limit to control the loss within the tolerable extent. Foreign exchange risk is controlled based on VaR. The assumption and calculation of VaR is described in VaR section.

For foreign exchange risk, the Bank sets the scenario at 3% fluctuation of interest rate of major currencies to execute the stress test quarterly, and reports to the risk management committee.

Risk management of equity securities price

A. Definition of risk of equity securities price

The market risk of equity securities held by the Bank includes the individual risk from the fluctuation of individual equity securities' market price and general market risk from the fluctuation of the overall price trend.

B. Purpose of risk management in equity securities prices

To avoid the massive fluctuation of equity securities price to worsen the Bank's financial situation or earnings. Also, to raise the operating efficiency of capital and strengthen the business operation.

C. Procedure of risk management of equity securities prices

The Bank sets investment limit on industries, using the β value to measure the investment portfolio affected by the systemic risk monthly. The stop-loss point must be authorized by the board of directors, and the equity investment should be authorized by the executives if the stop-loss point is reached but the investment is not going to be disposed of.

D. Measured methodology

The risk of equity securities prices in trading book is mainly controlled by VaR.

The Bank's risk of equity securities prices from its non-trading portfolio should be control by each bank according to its own business scale to develop a stress test under appropriate scenarios and report to the risk management committee.

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The Bank adopts many methodologies to manage its market risk. Value-at-risk (VaR) is one of the methodologies. VaR is a statistical measure that assesses potential losses that might be caused by changes in risk factors over a specified period of time and at a specific level of statistical confidence. The Bank applies historical simulation with a statistic confidence of 99% to extrapolate the VaR of one-year fluctuations. The following form indicates the VaR which is the estimation of potential amount of loss within one day. While the statistic confidence of 99% represents the possible fluctuations that would be included in assumed adverse market changes. Base on the assumption, the VaR may exceed the amounts listed in 1 of 100 days due to the price changes in the market. The overall VaR in the market may be less than the aggregate VaR of individual market risk factors.

2018.09.30			
Factors of market risk(Note)	Average balance	Maximum balance	Minimum balance
Interest rate	\$456,185	\$858,800	\$73,007
Foreign exchange	141,575	202,948	104,364
Equity securities price	296,393	424,067	206,747

2017.12.31			
Factors of market risk(Note)	Average balance	Maximum balance	Minimum balance
Interest rate	\$569,756	\$858,800	\$273,155
Foreign exchange	252,124	554,769	115,940
Equity securities price	232,500	303,251	165,345

2017.09.30			
Factors of market risk(Note)	Average balance	Maximum balance	Minimum balance
Interest rate	\$509,672	\$858,800	\$273,155
Foreign exchange	320,696	554,769	135,664
Equity securities price	208,592	303,251	118,192

Note: The information of factors of market risk is defined by risk management policy of the trading book.

The Bank enters into a variety of derivatives transactions for both trading and non-trading purposes. The objectives in using derivative instruments are to meet customers' needs, to manage the Bank's exposure to risks and to generate revenues through trading activities. The Bank trades derivative instruments on behalf of customers and for its own positions. The Bank provides derivative contracts to address customers' demands for customized derivatives and also takes proprietary positions for its own accounts.

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Stress testing

The stress testing is used to measure the maximum losses of risk asset portfolio under the worst scenario. The Bank's stress testing considers various types of risk factors and reporting the results will be reported to the executive management.

Stress Test(Note)		
Market/ Product	Scenarios	2018.09.30
Stock Market	Major Stock Exchanges +15%	\$1,671,285
	Major Stock Exchanges -15%	(1,671,285)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(524,840)
	Major Interest Rate - 100bp	623,280
Foreign Exchange Market	Major Currencies +3%	109,381
	Major Currencies -3%	(82,414)
Composite	Major Stock Exchanges -15%	(2,086,744)
	Major Interest Rate + 100bp	
	Major Currencies +3%	

Stress Test(Note)		
Market/ Product	Scenarios	2017.12.31
Stock Market	Major Stock Exchanges +15%	\$2,668,120
	Major Stock Exchanges -15%	(2,668,120)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(2,433,910)
	Major Interest Rate - 100bp	2,689,997
Foreign Exchange Market	Major Currencies +3%	(196,649)
	Major Currencies -3%	229,928
Composite	Major Stock Exchanges -15%	(5,298,679)
	Major Interest Rate + 100bp	
	Major Currencies +3%	

Stress Test(Note)		
Market/ Product	Scenarios	2017.09.30
Stock Market	Major Stock Exchanges +15%	\$1,755,340
	Major Stock Exchanges -15%	(1,755,340)
Interest Rate/Bond Market	Major Interest Rate + 100bp	(2,490,408)
	Major Interest Rate - 100bp	2,677,106
Foreign Exchange Market	Major Currencies +3%	106,297
	Major Currencies -3%	(113,639)
Composite	Major Stock Exchanges -15%	(4,139,452)
	Major Interest Rate + 100bp	
	Major Currencies +3%	

Note: The information of stress test is defined by risk management policy of the trading book.

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Sensitivity analysis

A. Interest rate risk

Interest rate factor sensitivities (the present value of one basis point, or “PVBP”) represent the change in the net present value of the interest rate derivatives portfolios caused by a parallel unit shift of 0.01% (1 basis point) in the interest rates in various yield curves affecting the portfolio. The Bank’s interest rate-sensitive portfolios include bonds, interest rate swaps and structured products composed of such products.

B. Foreign exchange risk

Foreign exchange rate factor sensitivities (“FX delta”) represent the change of the foreign exchange portfolios caused by the underlying currency exchange rate fluctuation.

C. Equity securities price risk

Equity securities price factor sensitivities (“Equity delta”) represent the change of the equity securities price portfolio caused by a parallel unit shift of 1% (100 basis points) in the underlying stocks prices fluctuation. The Bank’s equity portfolios include stocks and equity index options.

	<u>2018.09.30</u>	
	<u>Sensitivity of</u>	<u>Sensitivity of</u>
	<u>profit or loss</u>	<u>equity</u>
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	\$37,861	\$-
HKD+1%	(6,616)	-
JPY+1%	4,324	-
AUD+1%	(42,111)	-
CNY+1%	(15,891)	-
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	848	-
Yield curves (HKD) parallel shift+1bp	244	-
Yield curves (JPY) parallel shift+1bp	-	-
Yield curves (AUD) parallel shift+1bp	(181)	-
Yield curves (CNY) parallel shift+1bp	(359)	-
Equity securities price factor sensitivity (Equity Delta)	255	111,164

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	<u>2017.12.31</u>	
	<u>Sensitivity of</u>	<u>Sensitivity of</u>
	<u>profit or loss</u>	<u>equity</u>
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	\$(38,635)	\$-
HKD+1%	32	-
JPY+1%	1,488	-
AUD+1%	4,983	-
CNY+1%	22,123	-
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	(5,645)	-
Yield curves (HKD) parallel shift+1bp	(11)	-
Yield curves (JPY) parallel shift+1bp	-	-
Yield curves (AUD) parallel shift+1bp	(129)	-
Yield curves (CNY) parallel shift+1bp	(895)	-
Equity securities price factor sensitivity (Equity Delta)	48,183	129,692
	<u>2017.09.30</u>	
	<u>Sensitivity of</u>	<u>Sensitivity of</u>
	<u>profit or loss</u>	<u>equity</u>
Foreign exchange rate factor sensitivity (FX Delta)		
USD+1%	\$20,994	\$-
HKD+1%	(10,342)	-
JPY+1%	(11,467)	-
AUD+1%	(12,414)	-
CNY+1%	(5,243)	-
Interest rate factor sensitivity (PVBP)		
Yield curves (USD) parallel shift+1bp	(8,088)	-
Yield curves (HKD) parallel shift+1bp	(5)	-
Yield curves (JPY) parallel shift+1bp	-	-
Yield curves (AUD) parallel shift+1bp	(480)	-
Yield curves (CNY) parallel shift+1bp	(6,414)	-
Equity securities price factor sensitivity (Equity Delta)	5,287	111,736

Note: The information of equity securities price risk test is defined by risk management policy of the trading book.

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(7) Credit risk

Credit risk represents the risk of loss that the Group would incur if counterparty fails to perform its contractual obligations.

The Bank and Indovina Bank and CUBCN Bank

To centralize risk management functions currently handled by different departments, the Bank, Indovina Bank and CUBCN Bank board of directors resolved that a risk management department would be established to manage the credit risk. The objectives of a credit risk management are to improve asset quality and to generate stable profits while reducing risk through a diversified and balanced loan portfolio. The Bank, Indovina Bank and CUBCN Bank board of directors sets the counterparty credit limits, which are then implemented by the credit committee. The credit committee also monitors current and potential credit exposure to individual counterparties and on an aggregate basis to counterparties and their affiliates. The Bank and Indovina Bank perform periodic and systematic detailed reviews of its lending portfolios to identify credit risks and to assess the overall collectability of those portfolios.

The Bank, Indovina Bank and CUBCN Bank maintain a strict policy to evaluate customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans, and the Bank, Indovina Bank and CUBCN Bank retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

CUBC Bank

The CUBC Bank board of directors resolved that a risk management department would be established to manage the credit risk. The CUBC Bank board of directors sets the counterparty credit limits, which are then implemented by the credit committee

Loan Committee is the top lending authority within the CUBC bank. It is in charged with approval of all credit in excess of CUBC Bank lending authorities. Certain customers are required to provide appropriate collateral for the related loans, and the CUBC Bank retains the legal right to foreclose on or liquidate the collateral. The disclosure of the maximum credit exposure shall not take account of any collateral held or other enhancements.

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The management procedure and measurement methodology of credit risk in the Bank's main business are as follows:

The judgement of significant increase in credit risk after the initial recognition

The Bank and CUBCN Bank

The Bank and CUBCN Bank assess the movement in default risk during the expected lifetime of various types of credit assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition. To make this assessment, the Group has considered to show the reasonable and corroborative information (including prospective information) on the significant increase in credit risk after the initial recognition. The key indicators for consideration include:

A. Quantitative indicators

(A) Changes on credit rating

When the credit rating at the reporting date has decreased to some extent compared with that on initial recognition and the credit rating has not met the investment grade (i.e. the credit rating is lower than the credit rating Baa3 of Moody's, an international credit rating agency), it is determined that the credit risk has increased significantly since the initial recognition.

(B) Information on the overdue status of the contract

When the contract payment was overdue for more than 30 days as at the reporting date, it is determined that the credit risk has increased significantly since the initial recognition.

B. Qualitative indicators

When the information observed at the reporting date meets the following conditions, it is determined that the credit risk has increased significantly since the initial recognition.

(A) The refund records are reported

(B) Accountants have expressed significant doubt on its ability to continue as a going concern

(C) Other internal or external information on judging the credit quality changes

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Indovina Bank

The Indovina Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition:

A. Notch downgrade

A notch downgrade of obligor's internal or external ratings between the current grade and the grade at initial recognition greater than specific threshold would be classified as a significant increase in credit risk since initial recognition.

B. Low credit risk criteria

An exposure rated below Moody's investment grade at the reporting date would be classified as a significant increase in credit risk since initial recognition.

C. Past Due Information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

D. Internal Credit Assessment Indicators

The indicators with credit quality information that is weaker than upon initial recognition would be classified as a significant increase in credit risk since initial recognition.

CUBC Bank

The CUBC Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk has increased significantly since the initial recognition

A. Past Due Information

The contract payment over 30 days past due would be classified as a significant increase in credit risk since initial recognition.

B. Loan Classification from NBC

A loan contract with special mention position at reporting date would be classified as a significant increase in credit risk since initial recognition.

C. Internal Credit Assessment Indicators

The indicators with credit quality information that is weaker than upon initial recognition would be classified as a significant increase in credit risk since initial recognition.

Default and credit impairment of financial asset

The Bank and CUBCN Bank

The Bank and CUBCN Bank definition of default on financial assets is the same with the one of judging the credit impairment of financial assets. Where one or more of the following conditions are met, the Bank determines the financial assets to be subject to default and credit impairment.

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A. Quantitative indicator

(A) Changes on credit rating

When the credit rating at the reporting date fell into the default level, it is determined as credit impairment.

(B) Information on the overdue status of the contract

When the contract payment was overdue for more than 90 days as at the reporting date, it is determined as credit impairment.

B. Qualitative indicator

When the information observed at the reporting date meets the following conditions, it is determined as credit impairment.

(A) Bailout, reorganization, individual agreement due to debtor's financial difficulties

(B) Lawsuit action has been taken

(C) Debt settlement, debt negotiation

(D) Issuer or borrower has gone bankrupt or may file for bankruptcy or financial reorganization

(E) Principal or interest failed to be paid according to the issuing terms

(F) Other internal or external information on judging the deterioration in credit quality

The aforementioned definition of default and credit impairment applies to all financial assets held by the Bank, and is consistent with the definition applied on the significant financial assets for the purpose of internal credit risk management, and is also applied in the relevant impairment assessment model.

Indovina Bank

The Indovina Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk subjected to default:

A. Notch downgrade

An obligor who has failed to pay one or more of its financial obligations or is rated as default at the reporting date is considered to be credit-impaired.

B. Past Due Information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

C. Internal Credit Assessment Indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

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CUBC Bank

The CUBC Bank assesses the movement in default risk during the expected lifetime of various types of financial assets at each reporting date to determine if the credit risk subjected to default:

A. Past Due Information

The contract payment over 90 days past due would be classified as a credit-impaired loan.

B. Loan Classification from NBC

A loan contract with specific positions, such as substandard, doubtful and loss, at reporting date would be classified as a significant increase in credit risk since initial recognition.

C. Internal Credit Assessment Indicators

The indicators with credit deterioration information used for internal credit risk management purpose at the reporting date would be recognized as credit-impaired assets.

The measurement of expected credit loss

The Bank and CUBCN Bank

For the purpose of assessing the expected credit losses, the Bank and CUBCN Bank classify the credit assets into the following groups based on credit category, credit rating, risk characteristics, enterprise size, product category and so on.

Credit category	Definition
Enterprise loan	Grouped by risk characteristics, enterprise size and internal/external credit rating
Consumer loan	Grouped by product category and internal credit rating
Credit card	Grouped by product category and internal credit rating

When the credit risk of the financial instrument has not increased significantly after the initial recognition (Stage 1), the allowance for losses should be measured at the expected credit losses over 12 months by the Bank and CUBCN Bank. When the credit risk of the financial instrument has increased significantly (Stage 2) or the credit impairment has existed (Stage 3) after the initial recognition, the allowance for losses should be measured at the expected credit losses over the life time by the Bank and CUBCN Bank.

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For the measurement of the expected credit losses, the Bank and CUBCN Bank calculate its expected credit losses over 12 months and the life time respectively by multiplying three factors, i.e. probability of default (“PD”), loss given default (“LGD”) and exposure at default (“EAD”) of the borrower over the next 12 months and the life time, also considering the effect of the life time value of money.

The PD and LGD applied in the impairment assessment of the credit business of the Bank and CUBCN Bank are adjusted and calculated based on the internal and external information of each group as well as the currently observable data and the forward-looking macroeconomic information (such as economic growth rate, etc.).

The Bank and CUBCN Bank assessed the EAD of loan at the reporting date. According to internal and external information, the Bank considers the portion of the loan commitment that is expected to be drawn on over 12 months after the reporting date and the lifetime, to determine the EAD for calculating the expected credit losses.

The PD used in the impairment assessment of the Bank and CUBCN Bank debt instrument measured at fair value through other comprehensive income and measured at amortized cost, represents the PD of the issuer, guarantee agency or borrower. The LGD represents the loss rate resulted from the default of the issuer, guarantee agency or borrower. The LGD used in the Bank and CUBCN Bank relevant impairment assessment is based on the information regularly published by Moody's, an international credit rating agency; the PD is based on the information regularly published by Taiwan Ratings and Moody's, and calculated after adjusting the historical data based on the currently observable data and the looking-forward macroeconomic information (eg, gross domestic product and economic growth rate, etc.). The EAD is measured at the amortized cost of financial assets and interests receivable.

The valuation techniques or significant assumptions for assessing the expected credit losses have no significant change in 2018.

Indovina Bank

Indovida Bank has grouped their exposures on the basis of shared credit risk characteristic, including product and counterparty types as follows.

Category	Description
Loan portfolio	Grouped by product class, counterparty type and enterprise size, such as large corporate, SME and retail loans.
Bond portfolio	Grouped by product class, external credit rating and payment ranks, such as sovereign and corporate bonds.

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A. Loan portfolio

The segmentation of the bank's loan portfolio is based on its risk characteristics, such as product class, counterparty type and enterprise size. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the bank's historical delinquent information and recovery data and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

B. Bond portfolio

The segmentation of the bank's bond portfolio is based on its product class, external rating and payment rank. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by external information with sufficient historical default data and recovery rates and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

Cathay United Bank Cambodia (CUBC)

CUBC measures their expected credit losses by the following segments.

Category	Description
Loan	Grouped by product, counterparty types and loan classification by NBC, such as retail annuity and non-retail annuity.
Credit Card	Grouped as a whole by product characteristic

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The segmentation of the CUBC's loan portfolio is based on its risk characteristics, such as product class, counterparty type and loan classification by NBC. The measurement of expected credit loss is estimated by three main parameters, including probability of default, loss given default and exposure at default. The probability of default and loss given default were built by the internal and external historical delinquent information, default rates and written-off amounts and calibrated by selected macroeconomic factors for forward-looking adjustment. The estimated amounts of exposure at default were calculated by the amortized cost and interest receivable. At each financial reporting date, the above criteria for a significant increase in credit risk since initial recognition are not hit, the allowance loss shall be measured on the basis of the 12-month expected credit loss method. If financial assets meet the foregoing conditions of significant increases in credit risk or credit deterioration since initial recognition, the allowance losses shall be estimated according to the respective methods on the basis of lifetime expected credit losses.

Write-off policy

If any of the following conditions apply, the Group writes off its non-performing and nonaccrual loans as uncollectible, less the estimated recoverable amount.

The Bank can't expect reasonably to collect the financial assets that including the following index:

1. The recovery activity has stopped.
2. Assessed the borrower doesn't have sufficient assets or sources of income to pay the overdraft.

Financial assets have been written-off by the Group may still have ongoing recovery activity, and continue to follow the relevant policies to litigation proceedings.

The consideration of forward-looking information

The Bank and CUBCN Bank

The Bank and CUBCN Bank use historical data to analyze and identify the significant economic factors that affect the credit risks and expected credit losses of each group of assets, and use the regression model or imputation adjustment method to estimate the impairment parameter after the prospective adjustment. The significant economic factors and their impact on PD and LGD differ depending on the type of financial instruments.

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The significant economic factors identified by the Bank and CUBCN Bank in 2018 are as follows:

Credit category	Probability of Default (PD)	Loss Given Default (LGD)
Enterprise loan	GDP% Inflation Index Proportion of investment in GDP(%)	GDP%
Consumer loan	Growth rate of GDP(%) Proportion of savings in GDP(%) Unemployment rate % Implied Purchasing Power Parities(“PPP”) rate	
Credit card	Growth rate of GDP(%) Proportion of government revenue in GDP(%)	

Indovina Bank

Based on the qualitative and quantitative analysis of historical default data and macroeconomic factors, the bank applies the selected local and global economic factors in different portfolios. Regression models and interpolation adjustment were used to estimate the forward-looking parameters complied with regulatory requirements. The selected economic factors and their effects on PDs and LGDs varied from different types of portfolios.

The macroeconomic factors selected by the bank for the forward-looking adjustments in 2018 are as follows.

Segment	Selected Factors
Loan portfolio	Vietnam GDP growth rate
Bond portfolio	Global GDP growth rate Global inflation index

Cathay United Bank Cambodia (CUBC)

Based on the qualitative and quantitative analysis of historical default data and regional macroeconomic factors, CUBC chooses the local macroeconomic factor for parameter adjustments. The weighted average method and interpolation adjustment were used to estimate the forward-looking parameters complied with regulatory requirements. The selected economic factors and their effects on PDs varied from different groups of products.

The macroeconomic factors selected by CUBC for the forward-looking adjustments in 2018 are as follows.

Segment	Selected Factors
Retail loan	Cambodia GDP growth rate
Non-retail loan	Cambodia GDP growth rate
Credit Card	Cambodia GDP growth rate

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Loss allowance

Movement of allowance for doubtful accounts of discounts and loans

The reconciliation from beginning balance to ending balance of allowance for bad debts of discounts and loans for the nine-month period ended 30 September 2018 are as follows:

	Stage 1	Stage 2	Stage 3	Subtotal				
						Lifetime		Difference from
						expected		impairment charged
						Lifetime		in accordance with
						expected credit losses		“Regulations
						(Purchased or		Governing the
						originated		Procedures for
						credit-	Total of	Banking Institutions
						impaired	impairment	to Evaluate Assets
						financial	charged in	and Deal with Non-
						assets)	accordance with	performing/Non-
							IFRS 9	accrual Loans”
								Total
2018.01.01	\$3,724,645	\$1,036,509	\$-	\$4,690,540	\$-	\$9,451,694	\$13,788,238	\$23,239,932
Changes due to financial instruments recognized as at 1 January:								
Transfer to lifetime expected credit losses	(112,809)	1,111,931	7,421	(12,787)	-	993,756	-	993,756
Individual financial assets transferred to credit-impaired financial assets	(4,858)	(16,854)	(27,949)	831,693	-	782,032	-	782,032
Transfer to 12-month expected credit losses	113,319	(571,969)	(8)	(75,769)	-	(534,427)	-	(534,427)
Financial assets that have been derecognized during the period	(1,216,671)	(101,718)	(8)	(509,804)	-	(1,828,201)	-	(1,828,201)
New financial assets originated or purchased	1,933,807	538,138	2	945,558	-	3,417,505	-	3,417,505
Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”	-	-	-	-	-	-	190,452	190,452
Bad Loans Write-offs	-	-	-	(674,767)	-	(674,767)	-	(674,767)
Foreign exchange and other movements	(150,315)	(175,540)	28,118	(334,738)	-	(632,475)	304,796	(327,679)
2018.09.30	<u>\$4,287,118</u>	<u>\$1,820,497</u>	<u>\$7,576</u>	<u>\$4,859,926</u>	<u>\$-</u>	<u>\$10,975,117</u>	<u>\$14,283,486</u>	<u>\$25,258,603</u>

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Movement of allowance for doubtful accounts of receivables

The reconciliation from beginning balance to ending balance of allowance for doubtful accounts of receivables for the nine-month period ended 30 September 2018 are as follows:

	Stage 1	Stage 2	Stage 3	Subtotal				
						Difference from		
						impairment charged		
						in accordance with		
						“Regulations		
						Governing the		
						Procedures for		
						Banking Institutions		
						to Evaluate Assets		
						and Deal with Non-		
						performing/Non-		
						accrual Loans”		
						Total		
						Total of		
						impairment		
						charged in		
						accordance with		
						IFRS 9		
						Total		
						Total		
Beginning balance	\$78,157	\$63,923	\$-	\$2,106,749	\$-	\$2,248,829	\$14,830	\$2,263,659
Changes due to financial instruments recognized as at 1 January:								
Transfer to lifetime expected credit losses	(1,953)	64,936	-	(1,806)	-	61,177	-	61,177
Individual financial assets transferred to credit-impaired financial assets	(410)	(837)	-	63,824	-	62,577	-	62,577
Transfer to 12-month expected credit losses	1,224	(21,453)	-	(2,998)	-	(23,227)	-	(23,227)
Financial assets that have been derecognized during the period	(52,065)	(35,125)	-	(341,625)	-	(428,815)	-	(428,815)
New financial assets originated or purchased	80,506	43,197	-	220,015	-	343,718	-	343,718
Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non- performing/Non- accrual Loans”	-	-	-	-	-	-	34,661	34,661
Bad Loans Write-offs	-	-	-	(326,981)	-	(326,981)	-	(326,981)
Foreign exchange and other movements	18,431	(7,944)	-	53,268	-	63,755	(508)	63,247
Ending balance	\$123,890	\$106,697	\$-	\$1,770,446	\$-	\$2,001,033	\$48,983	\$2,050,016

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Movement of impairment loss of Financial assets at fair value through other comprehensive income

The reconciliation from beginning balance to ending balance of impairment loss of financial assets at fair value through other comprehensive income for the nine-month period ended 30 September 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Total
		Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	12-month expected credit losses (Non-purchased or originated financial assets)	Lifetime expected credit losses (Purchased or originated financial assets)	Total of impairment charged in accordance with IFRS 9
Beginning balance	\$24,182	\$-	\$-	\$-	\$-	\$24,182
Changes due to financial instruments recognized as at 1 January:						
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Individual financial assets transferred to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(9,105)	-	-	-	-	(9,105)
New financial assets originated or purchased	22,102	-	-	-	-	22,102
Foreign exchange and other movements	10,311	-	-	-	-	10,311
Ending balance	\$47,490	\$-	\$-	\$-	\$-	\$47,490

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Movement of the allowance for impairment debt instrument investments measured at amortized cost

The reconciliation from beginning balance to ending balance of allowance for impairment of the debt instrument investments measured at amortized cost for the nine-month period ended 30 September 2018 are as follows:

	Stage 1	Stage 2		Stage 3		Total
		Lifetime expected credit losses	Lifetime expected credit losses	(Non- purchased or originated credit- impaired financial assets)	(Purchased or originated credit- impaired financial assets)	Total of impairment charged in accordance with IFRS 9
Beginning balance	\$14,852	\$-	\$-	\$-	\$-	\$14,852
Changes due to financial instruments recognized as at 1 January:						
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Individual financial assets transferred to credit- impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(17,245)	-	-	-	-	(17,245)
New financial assets originated or purchased	59,676	-	-	-	-	59,676
Foreign exchange and other movements	(5,252)	-	-	-	-	(5,252)
Ending balance	\$52,031	\$-	\$-	\$-	\$-	\$52,031

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Movement of Reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments

The reconciliation from beginning balance to ending balance of the reserve for losses on guarantees, the letters of credit receivables and reserve for financing commitments for the nine-month period ended 30 September 2018 are as follows:

	Stage 1	Stage 2	Stage 3	Subtotal			
			Lifetime expected credit losses (Non- purchased or originated credit- impaired financial assets)	Lifetime expected credit losses (Purchased or originated credit- impaired financial assets)	Total of impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non- performing/Non- accrual Loans”	Total
Beginning balance	\$114,406	\$21,997	\$-	\$23,394	\$159,797	\$52,952	\$212,749
Changes due to financial instruments recognized as at 1 January:							
Transfer to lifetime expected credit losses	(1,022)	23,240	-	(24)	22,194	-	22,194
Individual financial assets transferred to credit-impaired financial assets	(17)	(27)	-	5,506	5,462	-	5,462
Transfer to 12-month expected credit losses	618	(11,900)	-	(362)	(11,644)	-	(11,644)
Financial assets that have been derecognized during the period	(25,209)	(8,877)	-	(14,260)	(48,346)	-	(48,346)
New financial assets originated or purchased	90,267	57,182	-	1,010	148,459	-	148,459
Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”	-	-	-	-	-	10,973	10,973
Foreign exchange and other movements	806	(1,366)	-	(4,411)	(4,971)	(79)	(5,050)
Ending balance	\$179,849	\$80,249	\$-	\$10,853	\$270,951	\$63,846	\$334,797

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Movement of the allowance for doubtful accounts and impairment of others

The reconciliation from beginning balance to ending balance of allowance for bad debts of the other financial assets for the nine-month period ended 30 September 2018 are as follows:

	Stage 1	Stage 2	Stage 3	Subtotal			
			Lifetime expected credit losses (Non- purchased or originated credit- impaired financial assets)	Lifetime expected credit losses (Purchased or originated credit- impaired financial assets)	Total of impairment charged in accordance with IFRS 9	Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non- performing/Non- accrual Loans”	Total
Beginning balance	\$19,028	\$-	\$-	\$-	\$19,028	\$9	\$19,037
Changes due to financial instruments recognized as at 1 January:							
Transfer to lifetime expected credit losses	-	-	-	-	-	-	-
Individual financial assets transferred to credit-impaired financial assets	-	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(1)	-	-	-	(1)	-	(1)
New financial assets originated or purchased	65,354	-	-	-	65,354	-	65,354
Difference from impairment charged in accordance with “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non- performing/Non-accrual Loans”	-	-	-	-	-	(2)	(2)
Foreign exchange and other movements	-	-	-	-	-	-	-
Ending balance	\$84,381	\$-	\$-	\$-	\$84,381	\$7	\$84,388

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The Group's other financial assets for assessing the expected credit impairment losses include cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under agreements to resell, refundable deposits and bills purchased.

Movement of the gross carrying amounts of discounts and loans

The movement of the gross carrying amounts of discounts and loans for the nine-month period ended 30 September 2018 are as follows:

	Stage1	Stage2		Stage3		Total
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses purchased or originated credit- impaired financial assets)	Lifetime expected credit losses (Purchased or originated credit- impaired financial assets)	
Beginning balance	\$1,399,416,842	\$47,415,416	\$558,373	\$10,407,468	\$-	\$1,457,798,099
Transfer to lifetime expected credit losses	(22,699,827)	22,362,169	396,277	(58,619)	-	-
Individual financial assets transferred to credit- impaired financial assets	(1,666,951)	(374,023)	(553,139)	2,594,113	-	-
Transfer to 12-month expected credit losses	22,096,914	(21,695,340)	(5,037)	(396,537)	-	-
Financial assets that have been derecognized during the period	(365,031,563)	(12,117,710)	(4,439)	(1,978,492)	-	(379,132,204)
New financial assets originated or purchased	500,093,528	12,425,749	256,180	1,458,937	-	514,234,394
Foreign exchange and other movements	2,575,073	214,219	(301,744)	(11,256)	-	2,476,292
Bad loans write-offs	-	-	-	(674,767)	-	(674,767)
Ending balance	\$1,534,784,016	\$48,230,480	\$346,471	\$11,340,847	\$-	\$1,594,701,814

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Movement of the gross carrying amounts of receivables

The movement of the gross carrying amounts of receivables for the nine-month period ended 30 September 2018 are as follows:

	Stage1	Stage2		Stage3		
				Lifetime expected	Lifetime expected	
				credit losses (Non-	credit losses	
		Lifetime expected	Lifetime expected	purchased or	(Purchased or	
	12-month	credit losses	credit losses	originated credit-	originated credit-	
	expected credit	(Collectively	(Individually	impaired financial	impaired financial	
	losses	assessed)	assessed)	assets)	assets)	Total
Beginning balance	\$74,426,480	\$2,069,732	\$354	\$2,915,898	\$-	\$79,412,464
Transfer to lifetime expected						
credit losses	(624,308)	626,856	-	(2,548)	-	-
Individual financial assets						
transferred to credit-						
impaired financial assets	(81,144)	(10,667)	-	91,811	-	-
Transfer to 12-month						
expected credit losses	300,837	(296,201)	-	(4,636)	-	-
Financial assets that have						
been derecognized during						
the period	(39,798,811)	(1,807,202)	-	(557,364)	-	(42,163,377)
New financial assets						
originated or purchased	50,027,186	802,991	-	353,870	-	51,184,047
Foreign exchange and other						
movements	(82,426)	678	9	262	-	(81,477)
Bad loans write-offs	-	-	-	(326,981)	-	(326,981)
Ending balance	\$84,167,814	\$1,386,187	\$363	\$2,470,312	\$-	\$88,024,676

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Movement of the gross carrying amounts of financial assets at fair value through other comprehensive income

The movement of the gross carrying amounts of financial assets at fair value through other comprehensive income for the nine-month period ended 30 September 2018 are as follows:

	Stage1	Stage2		Stage3		Total
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Non- purchased or originated credit- impaired financial assets)	Lifetime expected credit losses (Purchased or originated credit- impaired financial assets)	
Beginning balance	\$159,385,272	\$-	\$-	\$-	\$-	\$159,385,272
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Individual financial assets transferred to credit- impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(45,102,431)	-	-	-	-	(45,102,431)
New financial assets originated or purchased	79,624,038	-	-	-	-	79,624,038
Foreign exchange and other movements	2,528,149	-	-	-	-	2,528,149
Ending balance	\$196,435,028	\$-	\$-	\$-	\$-	\$196,435,028

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Movement of the gross carrying amounts of the debt instrument investments measured at amortized cost.

The movement of the gross carrying amounts of the debt instrument investments measured at amortized cost and off-balance sheet debt instruments for the nine-month period ended 30 September 2018 are as follows:

	Stage1	Stage2		Stage3		
		Lifetime expected	Lifetime expected	Lifetime expected	Lifetime expected	
		credit losses	credit losses	credit losses (Non-	credit losses	
	12-month	(Collectively	(Individually	purchased or	(Purchased or	
	expected credit	assessed)	assessed)	originated credit-	originated credit-	
	losses			impaired financial	impaired financial	
				assets)	assets)	Total
Beginning balance	\$376,068,060	\$-	\$-	\$-	\$-	\$376,068,060
Transfer to lifetime expected						
credit losses	-	-	-	-	-	-
Individual financial assets						
transferred to credit-						
impaired financial assets	-	-	-	-	-	-
Transfer to 12-month						
expected credit losses	-	-	-	-	-	-
Financial assets that have						
been derecognized during						
the period	(316,506,416)	-	-	-	-	(316,506,416)
New financial assets						
originated or purchased	272,939,643	-	-	-	-	272,939,643
Foreign exchange and other						
movements	(7,233,595)	-	-	-	-	(7,233,595)
Ending balance	\$325,267,692	\$-	\$-	\$-	\$-	\$325,267,692

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Movement of the gross carrying amounts of reserve for losses on guarantees, the letters of credit receivables, reserve for financing commitments and relevant off-balance sheet items.

The movement of the gross carrying amounts of the reserve for losses on guarantees, the letters of credit receivables, reserve for financing commitments and relevant off-balance sheet items for the nine-month period ended 30 September 2018 are as follows:

	Stage1	Stage2	Stage3			
				Lifetime expected	Lifetime expected	
				credit losses (Non-	credit losses	
		Lifetime expected	Lifetime expected	purchased or	(Purchased or	
	12-month	credit losses	credit losses	originated credit-	originated credit-	
	expected credit	(Collectively	(Individually	impaired financial	impaired financial	
	losses	assessed)	assessed)	assets)	assets)	
					Total	
Beginning balance	\$1,159,174,758	\$20,791,905	\$-	\$2,720,794	\$-	\$1,182,687,457
Transfer to lifetime expected						
credit losses	(14,453,712)	14,460,113	-	(6,401)	-	-
Individual financial assets						
transferred to credit-						
impaired financial assets	(119,656)	(17,739)	-	137,395	-	-
Transfer to 12-month						
expected credit losses	9,706,613	(9,665,948)	-	(40,665)	-	-
Financial assets that have						
been derecognized during						
the period	(242,394,917)	(7,410,190)	-	(415,729)	-	(250,220,836)
New financial assets						
originated or purchased	248,673,844	7,869,748	-	275,258	-	256,818,850
Foreign exchange and other						
movements	12,280,156	242,786	-	151	-	12,523,093
Ending balance	\$1,172,867,086	\$26,270,675	\$-	\$2,670,803	\$-	\$1,201,808,564

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Movement of the gross carrying amounts of other financial assets

The movement of the gross carrying amounts of other financial asset for the nine-month period ended 30 September 2018 are as follows:

	Stage1	Stage2		Stage3		Total
	12-month expected credit losses	Lifetime expected credit losses (Collectively assessed)	Lifetime expected credit losses (Individually assessed)	Lifetime expected credit losses (Non-purchased or originated credit-impaired financial assets)	Lifetime expected credit losses (Purchased or originated credit-impaired financial assets)	
Beginning balance	\$275,151,890	\$-	\$-	\$-	\$-	\$275,151,890
Transfer to lifetime expected credit losses	-	-	-	-	-	-
Individual financial assets transferred to credit-impaired financial assets	-	-	-	-	-	-
Transfer to 12-month expected credit losses	-	-	-	-	-	-
Financial assets that have been derecognized during the period	(16,277,515)	-	-	-	-	(16,277,515)
New financial assets originated or purchased	36,122,791	-	-	-	-	36,122,791
Ending balance	\$294,997,166	\$-	\$-	\$-	\$-	\$294,997,166

Other financial assets contained cash and cash equivalents, due from the Central Bank and call loans to banks, securities purchased under agreements to resell, guarantee deposits paid and exchange bills negotiated.

The category of credit asset and the grade of credit quality were narrated as follow:

A. Category of credit risk

The credit risk of the Bank was classified into five categories. Normal credit assets shall be classified as “Category One.” The remaining unsound credit assets shall be evaluated based on the status of the loan collaterals and the length of time overdue. Assets that require special mention shall be classified as “Category Two,” assets that are substandard shall be classified as “Category Three,” assets that are doubtful shall be classified as “Category Four,” and assets for which there is loss shall be classified as “Category Five”. For managing the default credits, the Bank established the regulations governing the procedure to deal with non-performing loans, non-accrual loans and bad debts.

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B. Grade of credit quality

The Bank sets the level of credit quality based on the characteristics and scale of business (such as establishing the internal rating model of credit risk, setting the credit rating table or relevant rules to classify) to proceed with risk management.

In order to measure the credit risk of the clients, the Bank employs the statistic methods and the professional judgment from the experts. The Bank develops the rating model of business credit after considering the clients' relevant information. The model shall be reviewed periodically to verify if the calculated results conform to the reality and revise every parameter to optimize the results.

With respect to consumer credit assets such as mortgages, credit cards, and small-amount credit loans, the Bank also evaluates default risk of clients by using the credit rating scores developed by the Bank and the external due diligence services.

The credit quality of the Bank's corporate borrowers is classified as excellent, good, average, and bad.

To ensure the reasonable estimated values of credit rating system's design, process, and relevant risk factors, the Bank executes the relevant verification and tests the model according to the actual default every year so that the calculated results will be close to actual default.

The Bank evaluates the counterparties' credit quality before transactions and refers to the domestic and foreign credit rating agencies, when rendering different lines of credit based on the credit quality.

C. Hedge of credit risk and easing policy

(A) Collateral

The Bank adopts a series of policies to lower the credit risk, and one of the frequently-used methods is requesting borrowers to provide collaterals. To ensure the creditor's rights, the Bank sets the scope available as collaterals and the procedures of appraising, managing, and disposing the collaterals. In addition, a credit contract is in place to provide the credit claim preservation, collaterals, and offset provisions to stipulate when a credit trigger event occurs, the Bank may reduce the limit, cut down the payback period, or deem all debts mature. Also, the Bank will use the deposits that the borrowers saved in the Bank to offset the liabilities to lower the credit risk.

Other non-credit business collaterals shall depend on the characteristics of the financial instruments. Only the asset-backed securities and other similar financial instruments are secured by an asset pool of financial instruments.

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(B) Limit of credit risk and control of credit risk concentration

To avoid the excessive risk concentration, the Bank limits the credit amounts of single counterparties and groups; the Bank also sets the investment guide and regulation of risk control of equity investment to restrict the investment limits of single person (company) or related company (group). Furthermore, the Bank establishes relevant regulations to control the concentration risk of assets, and sets the credit limits by industry, group, country, and stock types to monitor the credit concentration risk.

(C) Net settlement agreement

The Bank usually settles by the gross balance, but signs contract with some counterparties to settle by net balance. If a default happens, the Bank will terminate all transactions with the counterparty and settle by net balance in order to lower the credit risk.

D. Maximum exposures to credit risk

The Group's Discounts and loans

	Stage 1	Stage 2	Stage 3		2018.9.30	
	12-month expected credit loss	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Rating grade						
Consumer banking						
Excellent	\$559,654,517	\$489,527	\$-	\$-	\$-	\$560,144,044
Good	379,713,975	882,595	-	-	-	380,596,570
General	10,294,414	5,741,202	-	-	-	16,035,616
Bad	-	-	5,864,424	-	-	5,864,424
Corporate banking						
Excellent	377,366,671	13,344,488	-	-	-	390,711,159
Good	194,453,959	21,109,380	-	-	-	215,563,339
General	10,068,323	6,992,567	-	-	-	17,060,890
Bad	-	-	5,345,595	-	-	5,345,595
Credit card						
Excellent	1,928,173	270	-	-	-	1,928,443
Good	1,297,075	16,873	-	-	-	1,313,948
General	6,976	50	-	-	-	7,026
Bad	-	-	130,760	-	-	130,760
Total carrying amount	1,534,784,083	48,576,952	11,340,779	-	-	1,594,701,814
Less : Allowance impairment	(4,287,118)	(1,828,074)	(4,859,926)	-	-	(10,975,118)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	(14,283,485)	(14,283,485)
Total	\$1,530,496,965	\$46,748,878	\$6,480,853	\$-	\$(14,283,485)	\$1,569,443,211

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The Group's receivables

	Stage 1	Stage 2	Stage 3		2018.9.30	
	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses	Purchased or originated credit-impaired financial assets	Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	Total
Rating grade						
Consumer banking						
Excellent	\$ 354,708	\$ 1,305	\$ -	\$ -	\$ -	\$ 356,013
Good	421,470	4,046	-	-	-	425,516
General	22,226	13,890	-	-	-	36,116
Bad	-	-	20,022	-	-	20,022
Corporate banking						
Excellent	5,611,161	191,319	-	-	-	5,802,480
Good	1,326,530	115,944	-	-	-	1,442,474
General	98,411	7,374	-	-	-	105,785
Bad	-	-	26,254	-	-	26,254
Credit card						
Excellent	44,809,425	22,940	-	-	-	44,832,365
Good	20,537,562	74,077	-	-	-	20,611,639
General	1,267,946	955,292	-	-	-	2,223,238
Bad	-	-	1,695,696	-	-	1,695,696
Others	9,718,375	-	728,703	-	-	10,447,078
Total carrying amount	84,167,814	1,386,187	2,470,675	-	-	88,024,676
Less : Allowance impairment	(128,707)	(98,394)	(1,729,551)	-	-	(1,956,652)
Difference from impairment charged in accordance with Guidelines for Handling Assessment of Assets	-	-	-	-	(93,364)	(93,364)
Total	\$84,039,107	\$1,287,793	\$741,124	\$-	\$(93,364)	\$85,974,660

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The amounts of the financial assets maximum exposures to credit risk that the impairment regulations are invalid to the group are as follow:

	2018.9.30	2017.12.31 (Note)	2017.9.30 (Note)
Financial assets at fair value through profit or loss			
— Stocks	\$29,567		
— Short-term bills	176,279,574		
— Bonds	41,146,933		
— Derivative financial instruments	57,441,368		
Financial assets at fair value through other comprehensive income			
— equity instruments	16,818,015		

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

Without taking into account the collateral or other credit enhancement instrument, the maximum credit risk exposure of on-balance-sheet financial assets equals their carrying values. The maximum credit risk exposure of off-balance-sheet items (without considering the collaterals or other credit enhancement is irrevocable) are as follows:

a. The Bank

Off balance sheet items	Maximum exposure to credit risk		
	2018.09.30	2017.12.31	2017.09.30
Irrevocable loan commitments	\$197,550,766	\$211,222,089	\$163,638,252
Credit card commitments	653,775,721	626,829,201	613,949,899
Unused commercial letters of credit	4,639,987	3,765,996	3,519,231
Guarantees on duties and contracts	8,578,417	7,167,460	7,247,707
Total	\$864,544,891	\$848,984,746	\$788,355,089

b. Indovina Bank

Off balance sheet items	Maximum exposure to credit risk		
	2018.09.30	2017.12.31	2017.09.30
Unused commercial letters of credit	\$1,083,014	\$1,629,282	\$1,339,834
Financial guarantee contracts	2,840,524	2,587,848	2,606,744
Total	\$3,923,538	\$4,217,130	\$3,946,578

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c. CUBC Bank

Off balance sheet items	Maximum exposure to credit risk		
	2018.09.30	2017.12.31	2017.09.30
Irrevocable loan commitments	\$-	\$647,417	\$895,457
Credit card commitments	439,718	403,120	358,640
Financial guarantee contracts	61,878	60,673	45,292
Total	\$501,596	\$1,111,210	\$1,299,389

d. CUBCN Bank

Off balance sheet items	Maximum exposure to credit risk		
	2018.09.30	2017.12.31	2017.09.30
Irrevocable loan commitments	\$591,990	\$-	\$-
Unused commercial letters of credit	796,103	-	-
Financial guarantee contracts	283,329	-	-
Total	\$1,671,422	\$-	\$-

To reduce the risk from any businesses, the Bank conducts an overall assessment and takes appropriate risk reduction measures, such as obtaining collaterals and guarantors. For obtaining of collaterals, the Bank has *Collateral Management Guidelines*, to ensure that collaterals meet the specific criteria and has the effect of reducing the business risk.

The management deems the Group is able to control and minimize the credit risk exposures in off-balance-sheet items as the Group uses more strict rating procedures when extending credits and conduct reviews regularly.

E. Credit concentration risk of the Group

When the counterparties are obviously the same party, or there are several counterparties but engaging in similar business activities and sharing similar economic characteristics, and vulnerable to the same economic impacts or other changes, the credit concentration risk is apparent.

Credit concentration risk of the Group derives from the assets, liabilities and off-balance-sheet items, and arise from performing obligations or engaging in transactions or cross-line portfolio of risk exposures including credit extension, due from and call loans to other banks, securities investment, receivables and derivatives. The Group does not significantly concentrate on a single client or counterparty, and the transaction amount with a single client or counterparty accounted for the Bank's total bills discounts and loans and overdue receivables is not significant. Discounts and loans, guarantees, bills purchased, and acceptances receivable of the Group according to industry and country are listed below:

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Item	2018.09.30		2017.12.31		2017.09.30	
	Amount	%	Amount	%	Amount	%
Industry type						
Manufacturing	\$115,206,571	7.18	\$98,481,993	6.72	\$89,729,631	5.94
Financial institutions and insurance	86,524,195	5.39	67,599,101	4.61	63,005,854	4.17
Leasing and real estate	132,515,369	8.26	122,798,794	8.38	118,316,563	7.83
Individuals	885,591,064	55.19	822,631,846	56.14	801,070,350	53.00
Others	384,833,345	23.98	353,911,306	24.15	439,285,029	29.06
Total	\$1,604,670,544	100.00	\$1,465,423,040	100.00	\$1,511,407,427	100.00

Item	2018.09.30		2017.12.31		2017.09.30	
	Amount	%	Amount	%	Amount	%
Geographic Region						
Domestic	\$1,332,878,578	83.06	\$1,223,249,877	83.47	\$1,277,199,665	84.50
Asia	138,490,695	8.63	130,593,968	8.91	131,129,260	8.68
America	49,987,173	3.12	28,077,424	1.92	28,666,148	1.90
Others	83,314,098	5.19	83,501,771	5.70	74,412,354	4.92
Total	\$1,604,670,544	100.00	\$1,465,423,040	100.00	\$1,511,407,427	100.00

F. Credit quality analysis of the financial assets

Some of the financial assets held by the Bank, such as cash and cash equivalents, due from the Central Bank and call loans to banks, financial assets at fair value through profit and loss, securities purchased under agreements to resell, refundable deposits, operating deposits and settlement fund, are excluded from this analysis since the counterparty is normally with good credit quality and is considered as low credit risk.

In addition to all of the above, the credit quality analysis of the financial assets was shown as follows:

(A) Credit quality analysis to loans and receivables of the Bank

2018.09.30: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)-(D)
	Excellent	Good	Average	Subtotal (A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
2017.12.31										
Receivables										
Credit card business	\$49,329,442	\$10,191,113	\$3,585,181	\$63,105,736	\$170,565	\$161,634	\$63,437,935	\$130,938	\$1,238,855	\$62,068,142
Others	13,169,520	2,658,060	64,064	15,891,644	6,803	52,462	15,950,909	12,657	1,042,859	14,895,393
Discounts and loans	941,240,553	413,585,185	48,456,790	1,403,282,528	868,799	17,579,331	1,421,730,658	4,239,528	18,313,706	1,399,177,424

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2017.09.30	Neither past due nor impaired				Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Impairment allowances (D)		Net balance (A)+(B)+(C)+(D)
	Excellent	Good	Average	Subtotal (A)				With objective evidence of impairment individual	Without objective evidence of impairment individual	
Receivables										
Credit card business	\$48,158,500	\$9,735,482	\$3,242,637	\$61,136,619	\$157,718	\$165,548	\$61,459,885	\$133,775	\$1,243,959	\$60,082,151
Others	22,575,256	2,808,632	52,605	25,436,493	7,024	47,472	25,490,989	16,175	1,336,579	24,138,235
Discounts and loans	987,499,404	422,940,424	37,854,323	1,448,294,151	1,037,396	17,386,573	1,466,718,120	3,677,322	18,306,525	1,444,734,273

(B) The credit quality analysis on neither past due nor impaired discounts and loans of the Bank

2018.09.30: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

2017.12.31	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$288,306,859	\$61,393,161	\$9,757,389	\$359,457,409
Unsecured personal loans	33,796,775	19,384,730	5,789,780	58,971,285
Other	362,886,985	68,568,088	9,065,468	440,520,541
Corporate banking				
Secured	41,310,306	162,034,535	20,899,707	224,244,548
Unsecured	214,939,628	102,204,671	2,944,446	320,088,745
Total	\$941,240,553	\$413,585,185	\$48,456,790	\$1,403,282,528
<hr/>				
2017.09.30	Excellent	Good	Average	Total
Consumer banking				
Residential mortgage loans	\$288,876,665	\$62,340,946	\$9,354,736	\$360,572,347
Unsecured personal loans	31,713,729	17,506,818	5,179,439	54,399,986
Other	344,557,929	68,018,306	7,972,328	420,548,563
Corporate banking				
Secured	39,862,397	175,830,543	12,123,730	227,816,670
Unsecured	282,488,684	99,243,811	3,224,090	384,956,585
Total	\$987,499,404	\$422,940,424	\$37,854,323	\$1,448,294,151

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(C) Credit quality analysis on securities investment of the Bank

2018.09.30: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

2017.12.31	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$124,014,858	\$1,824,503	\$125,839,361	\$-	\$-	\$125,839,361	\$-	\$125,839,361
Stocks	1,512,618	14,319,641	15,832,259	-	146,379	15,978,638	146,379	15,832,259
Others	-	541,355	541,355	-	-	541,355	-	541,355
Held-to-maturity financial assets								
Bonds	24,522,472	2,109,403	26,631,875	-	-	26,631,875	-	26,631,875
Others	5,221,668	-	5,221,668	-	-	5,221,668	-	5,221,668
Investments in debt securities with no active market								
Bonds	69,662,593	-	69,662,593	-	-	69,662,593	-	69,662,593
Others	318,625,000	-	318,625,000	-	-	318,625,000	-	318,625,000

2017.09.30	Neither past due nor impaired			Past due but not impaired (B)	Impaired (C)	Total (A)+(B)+(C)	Accumulated impairment (D)	Net balance (A)+(B)+(C)-(D)
	Investment grade	Non-investment grade or non-credit rating	Subtotal (A)					
Available-for-sale financial assets								
Bonds	\$121,199,751	\$1,602,505	\$122,802,256	\$-	\$-	\$122,802,256	\$-	\$122,802,256
Stocks	1,503,200	12,789,019	14,292,219	-	146,379	14,438,598	146,379	14,292,219
Others	15,273	259,325	274,598	-	-	274,598	-	274,598
Held-to-maturity financial assets								
Bonds	25,629,398	2,241,555	27,870,953	-	-	27,870,953	-	27,870,953
Others	5,904,657	-	5,904,657	-	-	5,904,657	-	5,904,657
Investments in debt securities with no active market								
Bonds	68,099,563	-	68,099,563	-	224,817	68,324,380	224,817	68,099,563
Others	292,815,000	-	292,815,000	-	-	292,815,000	-	292,815,000

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(D) Aging analysis on past due but not impaired financial assets of the Bank

Past due but not impaired loans might result from some temporary administration reasons so the customers is in the early stages of delinquency but no actual impairment has occurred yet. Unless there is other objective evidence shown otherwise, according to internal credit risk assets impairment evaluation guideline, a loan that is past due for no more than 30 days is typically not to be treated as impairment.

2018.09.30: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

2017.12.31	Less than 60 days	61-90 days	Total
Receivables			
Credit card business	\$98,072	\$72,493	\$170,565
Others	4,299	2,504	6,803
Discounts and loans			
Consumer banking			
Residential mortgage loans	273,792	50,936	324,728
Unsecured personal loans	91,079	76,553	167,632
Others	255,977	45,463	301,440
Corporate banking			
Secured	60,166	-	60,166
Unsecured	14,833	-	14,833

2017.09.30	Less than 60 days	61-90 days	Total
Receivables			
Credit card business	\$95,626	\$62,092	\$157,718
Others	3,789	3,235	7,024
Discounts and loans			
Consumer banking			
Residential mortgage loans	262,474	146,817	409,291
Unsecured personal loans	82,355	53,043	135,398
Others	223,754	93,311	317,065
Corporate banking			
Secured	99,414	63,538	162,952
Unsecured	689	12,001	12,690

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G. Impairment analysis of financial assets of the Group

- (A) The Group has recognized accumulated impairment loss for available-for-sale financial assets in the amount of \$146,379 thousand and \$146,379 thousand as of 31 December 2017 and 30 September 2017, due to the existence of objective impairment evidence.
- (B) The Group has recognized accumulated impairment loss for investments in debt securities with no active market in the amount of \$0 thousand and \$224,817 thousand as of 31 December 2017 and 30 September 2017, respectively, due to credit deterioration of securitization products and financial debentures.
- (C) The Group's impairment assessment of discounts and loans and receivables, please refer to Note 6.(6) and Note 6.(7).

H. Impairment analysis of non-financial assets of the Group

Foreclosed properties management policy

Foreclosed properties will be sold when are available to sell. The proceeds are used to reduce or repay the outstanding claim. Foreclosed properties are classified under other assets in the consolidated balance sheets.

The Bank and Indovina Bank and CUBCN Bank have no foreclosed properties. The foreclosed properties in CUBC Bank has no recognized impairment loss for foreclosed properties for the nine-month periods ended 30 September 2018 and 2017, respectively, due to the existence of objective impairment evidence. The accumulated impairment loss in the amount of \$49,362 thousand, \$53,726 thousand and \$54,549 thousand as of 30 September 2018, 31 December 2017 and 30 September 2017, respectively.

(8) Liquidity risk

The purpose of liquidity risk management is to ensure the availability of funds to meet present and future financial obligations. Liquidity risk is also managed by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Bank believes it can generate within that period. The management systems and systems includes the measurement of liquidity risk, Interest rate sensitivity analysis, scenario analysis and emergency response plan. And adopt quantitative management to adjust the liquidity gap in order to ensure proper liquidity in response to changes in daily capital flows and market conditions. The strategic planning of the Bank's liquidity management is under the responsibility of the Asset and Liability Management Committee, and the daily operation and execution are the responsibility of the Treasury Marketing Unit Department. As part of our liquidity risk management, the Group focuses on a number of components, including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

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A. Analysis of financial assets and non-derivative financial liabilities by remaining contractual maturities

(A) Financial assets were held to manage liquidity risk

The Group holds highly marketable and diverse financial assets that are assumed to be easily liquidated in the event of an unforeseen interruption of cash flow. The financial assets were held to manage liquidity risk including cash and cash equivalents, due from the Central Bank and call loans to other banks, financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income, debt instrument investment measured at amortized cost, and discounts and loans.

(B) Maturity analysis of non-derivative financial liabilities of the Bank

The table below shows the analysis of the cash outflow of non-derivative financial liabilities on time remaining until the contractual maturity date. The amount disclosed is based on the contractual cash flows and may be different from that included in the consolidated balance sheets.

2018.09.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$45,817,577	\$18,119,833	\$10,382,145	\$137,889	\$74,457,444
Non-derivative financial liabilities at fair value through profit or loss	495,239	-	257,087	50,867,415	51,619,741
Securities sold under agreements to repurchase	33,960,130	12,673,582	-	15,422,289	62,056,001
Payables	17,350,310	1,935,316	7,119,765	517,035	26,922,426
Deposits and remittances	326,043,642	930,338,638	776,493,354	112,200,434	2,145,076,068
Financial debentures payable	14,303	1,060	2,035,811	53,900,000	55,951,174
Other capital outflow at maturity	24,680,826	39,402,504	11,918,792	965,428	76,967,550

2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$39,789,043	\$23,513,092	\$18,408,292	\$2,851,614	\$84,562,041
Non-derivative financial liabilities at fair value through profit or loss	49,914	-	593,179	49,696,920	50,340,013
Securities sold under agreements to repurchase	97,261,840	9,954,474	-	2,896,151	110,112,465
Payables	11,947,054	7,208,487	70,925	372,275	19,598,741
Deposits and remittances	326,857,503	809,442,125	815,158,881	106,700,709	2,058,159,218
Financial debentures payable	3,850,000	3,900,000	-	56,190,661	63,940,661
Other capital outflow at maturity	20,427,101	37,656,749	7,500,761	729,552	66,314,163

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2017.09.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Due to the Central Bank and call loans from banks	\$47,382,165	\$25,757,443	\$10,232,440	\$2,716,558	\$86,088,606
Non-derivative financial liabilities at fair value through profit or loss	691,731	-	255,017	41,366,325	42,313,073
Securities sold under agreements to repurchase	91,009,719	2,028,943	-	5,902,202	98,940,864
Payables	17,128,923	9,806,455	1,805,477	775,989	29,516,844
Deposits and remittances	293,972,103	891,444,815	750,263,556	112,524,781	2,048,205,255
Financial debentures payable	7,800	2,892	8,085,740	55,600,000	63,696,432
Other capital outflow at maturity	20,392,828	35,582,395	5,300,375	886,650	62,162,248

B. Maturity analysis of derivative financial liabilities

(A) Net settled derivative financial instruments

Net settled derivatives engaged by the Bank include:

- a. Foreign exchange derivative instruments: foreign exchange options, non-delivery forwards;
- b. Interest rate derivative instruments: swaptions, net settled interest rate swaps and other interest rate agreements.

The table below shows the net settled derivative financial instruments on time remaining until the contractual maturity date. Analysis of contractual maturity date helps to illustrate all derivative financial instruments listed in the consolidated balance sheet. The amount disclosed is based on contractual cash flow and may be different from that included in the consolidated balance sheet. Maturity analysis of net settled derivative financial liabilities was as follows:

2018.09.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$21,006	\$14,655	\$83,498	\$220	\$119,379
- Interest rate derivative instruments	4,086,278	121,146	498,815	20,333,274	25,039,513
Total	\$4,107,284	\$135,801	\$582,313	\$20,333,494	\$25,158,892

2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$98,475	\$14,663	\$213,193	\$463	\$326,794
- Interest rate derivative instruments	3,061,667	292,540	147,564	11,944,700	15,446,471
Total	\$3,160,142	\$307,203	\$360,757	\$11,945,163	\$15,773,265

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2017.09.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments	\$(125,398)	\$17,582	\$242,635	\$21,301	\$156,120
- Interest rate derivative instruments	1,431,173	274,064	212,704	16,855,633	18,773,574
Total	\$1,305,775	\$291,646	\$455,339	\$16,876,934	\$18,929,694

(B) Maturity analysis of gross settled derivative financial instruments

Gross settled derivatives engaged by the Bank include:

- a. Foreign exchange derivative instruments: currency futures and swaps;
- b. Interest rate derivative instruments: cross currency swaps;
- c. Credit derivative instruments: all derivatives shown in gross pay a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of such a credit event.

The contract maturity date is the basic element to understand the Bank's gross settled derivative instruments as at balance sheet dates. The disclosed amounts are based on contract cash flows and part of the disclosed are not in conformity with related items on consolidated balance sheet. Maturity analysis of gross settled derivative financial liabilities was as follows:

2018.09.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(4,086,601)	\$(7,283,600)	\$(1,415,226)	\$(177,717)	\$(12,963,144)
-Cash inflow	7,524	16,173	562	-	24,259
- Interest rate derivative instruments					
-Cash outflow	(16,195)	(33,398)	(67,786)	(318,952)	(436,331)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(4,102,796)	(7,316,998)	(1,483,012)	(496,669)	(13,399,475)
Cash inflow subtotal	7,524	16,173	562	-	24,259
Net cash flow	\$(4,095,272)	\$(7,300,825)	\$(1,482,450)	\$(496,669)	\$(13,375,216)

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2017.12.31	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(2,282,100)	\$(4,014,702)	\$(744,683)	\$(111,439)	\$(7,152,924)
-Cash inflow	11,422	7,488	-	-	18,910
- Interest rate derivative instruments					
-Cash outflow	(59,474)	(233,906)	(130,287)	(205,167)	(628,834)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,341,574)	(4,248,608)	(874,970)	(316,606)	(7,781,758)
Cash inflow subtotal	11,422	7,488	-	-	18,910
Net cash flow	\$(2,330,152)	\$(4,241,120)	\$(874,970)	\$(316,606)	\$(7,762,848)

2017.09.30	0-30 days	31-180 days	181 days - 1 year	Over 1 year	Total
Derivative financial liabilities at fair value through profit or loss					
- Foreign exchange derivative instruments					
-Cash outflow	\$(1,562,008)	\$(4,087,503)	\$(457,325)	\$(29,691)	\$(6,136,527)
-Cash inflow	-	-	31,937	3,941	35,878
- Interest rate derivative instruments					
-Cash outflow	(1,152,365)	(285,033)	(159,171)	(120,759)	(1,717,328)
-Cash inflow	-	-	-	-	-
Cash outflow subtotal	(2,714,373)	(4,372,536)	(616,496)	(150,450)	(7,853,855)
Cash inflow subtotal	-	-	31,937	3,941	35,878
Net cash flow	\$(2,714,373)	\$(4,372,536)	\$(584,559)	\$(146,509)	\$(7,817,977)

C. Maturity analysis of off-balance sheet items

(A) Irrevocable commitments: include the Bank's irrevocable loan commitments and credit card commitments.

(B) Financial guarantee contracts: the Bank acts as a guarantor or an issuer of credit line in a financing guarantee agreement.

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(C) Leasing commitments: the Bank acts as a lessor/lessee in an irrevocable operating lease agreement and the minimum lease payments are shown as follows:

2018.09.30	Not later than		Later than	Total
	1 year	1~5 years	5 years	
Irrevocable loan commitments	\$160,921,261	\$31,518,574	\$5,110,931	\$197,550,766
Credit card commitments	41,687,388	235,099,978	376,988,355	653,775,721
Financial guarantee contracts	10,160,216	3,006,156	52,032	13,218,404
Leasing commitments				
- Non-cancellable operating lease payments	1,388,649	3,129,407	231,835	4,749,891
Total	\$214,157,514	\$272,754,115	\$382,383,153	\$869,294,782

2017.12.31	Not later than		Later than	Total
	1 year	1~5 years	5 years	
Irrevocable loan commitments	\$191,776,099	\$18,595,520	\$850,470	\$211,222,089
Credit card commitments	52,188,926	285,821,408	288,818,867	626,829,201
Financial guarantee contracts	9,933,790	940,456	59,210	10,933,456
Leasing commitments				
- Non-cancellable operating lease payments	1,666,530	2,938,921	75,995	4,681,446
Total	\$255,565,345	\$308,296,305	\$289,804,542	\$853,666,192

2017.09.30	Not later than		Later than	Total
	1 year	1~5 years	5 years	
Irrevocable loan commitments	\$112,892,404	\$49,463,355	\$1,282,493	\$163,638,252
Credit card commitments	39,883,138	285,489,714	288,577,047	613,949,899
Financial guarantee contracts	9,673,605	1,031,178	62,155	10,766,938
Leasing commitments				
- Non-cancellable operating lease payments	1,640,310	3,026,012	66,441	4,732,763
Total	\$164,089,457	\$339,010,259	\$289,988,136	\$793,087,852

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(9) Capital management

A. Overview

(A) The capital management objectives of the Group are as follows:

- a. The eligible capital of the Group must conform to the regulatory capital requirements and achieve the minimum adequacy ratio. The calculation of the eligible capital and regulatory capital should follow the rules issued by the competent authority.
- b. To ensure the Group possesses sufficient capital to assume various risk, the Group assesses required capital for the portfolios and characteristics of risk and execute risk management through capital allocation to realize optimization of resources.

B. Capital management procedures

(A) The Group follows the guides and the spirit established by the Basel Committee on Banking Supervision, “The Banking Act of The Republic of China” and the local regulations governing the foreign operations to assess and monitoring the capital adequacy ratio monthly. The information about capital adequacy ratio is reported to the competent authority quarterly.

(B) The Group maintains the BIS (Bank for International Settlement) capital adequacy ratio at 8%, the minimum standard set by the competent authority. To implement capital management, the Group considers not only the business development but also the revised regulation from the competent authority, significant fund operations and capital increase plans to evaluate the capital adequacy ratio. To enhance internal monitoring efficiency, the Group established an early-warning mechanism to reduce the impact of significant events, to maintain the capital adequacy ratio and to ensure the integrity of the capital structures.

(C) The risk management team is responsible for monitoring the regulatory capital of the Group. The regulatory capital is divided into net Tier 1 Capital and net Tier 2 Capital listed as follows:

- a. Net Tier 1 Capital: The aggregate amount of net Common Equity Tier 1 and net additional Tier 1 Capital.

Net common equity tier 1 capital: Primarily consists of common equity minus intangible assets (including goodwill), unamortized losses on sales of non-performing loans, deferred tax assets due to losses from the previous year and other statutory adjustments.

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Net additional tier 1 capital: Consists of the aggregate amount of non-cumulative perpetual preferred stocks and non-cumulative perpetual subordinated debts, etc.

- b. Net Tier 2 Capital: Consists of cumulative perpetual preferred stocks, cumulative perpetual subordinated debts, revaluation increments, convertible bonds, operating reserves and allowance for uncollectible accounts.

(D) According to “Regulations Governing the Capital Adequacy and Capital Category of Banks”, terms of risk-weighted assets are defined as follows:

- a. Total Risk-weighted Assets: The sum of the risk-weighted assets and the capital requirements for market risk and operational risk multiplied by 12.5. Those assets already deducted from the regulatory capital, however, shall be deducted from the total risk-weighted assets.
- b. Risk-weighted Assets for Credit Risk: The measurement of the risk of loss caused by the counterparty’s default. This risk measurement is expressed as the total of each of the bank’s transaction items on and off the balance sheet times a risk weight.
- c. The Capital Requirement for Market Risk: The capital required for assessed losses from the bank’s transaction items on and off the balance sheet arising from movements in market prices (interest rates, exchange rates, and stock prices, etc.).
- d. The Capital Requirement for Operational Risk: The capital required for the risk of loss resulting from inadequate or failed internal process, people and systems or external events.

C. Regulatory capital ratio

Pursuant to of the Banking Act, the ratio of a bank’s eligible capital to its risk-weighted assets must not be lower than a certain ratio; if such ratio is lower than the prescribed ratio, the Bank’s ability to distribute cash earnings or repurchase its shares may be restricted by the regulatory.

As of 30 June 2018, 31 December 2017 and 30 June 2017, the ratio of the Group eligible capital to its consolidated risk-weighted assets were 14.69%, 15.78% and 14.75%, respectively.

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(10) Structured entities

Unconsolidated structured entities

A. The Group does not provide financial support or other support to the unconsolidated structured entities. The Group's maximum exposure to loss from its interests in these structured entities is limited to the carrying amount of assets the Group recognized. The information of the recognized unconsolidated structured entities is disclosed as follows:

<u>Types of structured entity</u>	<u>Nature and purpose</u>	<u>Interests owned</u>
Securitization vehicle	Investment in asset-backed securities to receive returns	Investment in securitization vehicles issued by the entity

B. As of 30 September 2018, 31 December 2017 and 30 September 2017, the carrying amount of assets recognized by Group relating to its interests in unconsolidated structured entities is disclosed as follows:

	<u>2018.09.30</u>	<u>2017.12.31</u>	<u>2017.09.30</u>
Financial assets at fair value through other comprehensive income	\$5,436,017	(Note)	(Note)
Debt instrument investment measured at amortized cost	44,438,687	(Note)	(Note)
Available-for-sale financial assets-net	(Note)	\$581,533	\$653,526
Held-to maturity financial assets-net	(Note)	9,843,981	10,355,378
Investments in debt securities with no active market-net	(Note)	27,141,758	23,441,759
Total	<u>\$49,874,704</u>	<u>\$37,567,272</u>	<u>\$34,450,663</u>

Notes: The Group has adopted IFRS 9 from 1 January 2018, and prefers not to restate comparative periods under the transitional requirements in IFRS 9.

(11) The assets and liabilities managed under the Bank's trust in accordance with the Trust Enterprise Act

As of 30 September 2018, 31 December 2017 and 30 September 2017 the trust assets (liabilities) were in the amount of \$473,741,664 thousand, \$470,514,339 thousand and \$475,668,879 thousand, respectively.

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	2017.09.30		
	Foreign Currency	Exchange Rate	NTD
<u>Financial Assets</u>			
<u>Monetary Items</u>			
USD	\$12,781,028	30.305	\$387,329,054
CNY	15,129,070	4.559	68,965,866
SGD	731,584	22.325	16,332,540
<u>Financial liabilities</u>			
<u>Monetary Items</u>			
USD	11,978,780	30.305	363,016,928
CNY	7,644,981	4.559	34,849,646
AUD	1,352,776	23.741	32,116,120

As the Group has a large variety of foreign currencies, it is not possible to disclose foreign currency exchange gain or loss based on each foreign currency's exposure to major impact. The foreign currency exchange for the three-month periods ended 30 September 2018 and 2017, and for nine-month periods ended 30 September 2018 and 2017 were gains \$483,503 thousand and losses \$423,418 thousand, gains \$1,297,736 thousand and gains \$111,159 thousand, respectively.

(14) The reconciliation of liabilities arising from financing activities

The reconciliation of liabilities arising from financing activities for the nine-month periods ended 30 September 2018:

	<u>Financial bond payable</u>
1 January 2018	\$63,350,000
Cash flows	(7,750,000)
Non-cash changes	-
30 September 2018	<u>\$55,600,000</u>

The reconciliation of liabilities arising from financing activities for the nine-month periods ended 30 September 2017:

Not applied.

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13. Segment information

For management purposes, the Group is organized into business units based on products and services and have four reportable segments as follows:

- (1) Corporate banking segment - syndication loans, large-sized loans, group loans and general loans, etc.
- (2) Retail banking segment - deposits and consumer loans, foreign exchange services, endorsement guarantees business, note discounting, disbursements and receipts, safe deposit boxes, credit card-related products, and trust business, etc.
- (3) Offshore banking segment, offshore banking unit, overseas branches and representative office, etc.
- (4) Other segments - these parts contain the Bank's assets, liabilities, revenues and expenses that cannot be attributed to or allocated reasonably to certain operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessments. Segment performance is evaluated based on operating profit or loss. Segments' accounting policies are the same as Note 4 mentioned above.

Segment information

	Corporate Banking Segment	Retail Banking Segment	Offshore Banking Segment	Other Segment	Consolidated
2018.07.01-2018.09.30					
Net interest income					
(from external customer)	\$2,297,861	\$3,252,621	\$1,754,053	\$1,321,217	\$8,625,752
Inter-segment revenues (expense)	\$(916,243)	\$3,149,545	\$(63,227)	\$(2,170,075)	\$-
Segment net income	\$1,564,402	\$5,140,358	\$962,458	\$681,805	\$8,349,023
Income tax expense					(1,104,997)
Net income after income taxes					\$7,244,026

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	Corporate Banking Segment	Retail Banking Segment	Offshore Banking Segment	Other Segment	Consolidated
2017.07.01-2017.09.30					
Net interest income					
(from external customer)	\$1,958,654	\$2,941,325	\$1,495,724	\$1,256,533	\$7,652,236
Inter-segment revenues (expense)	\$(621,708)	\$2,425,957	\$(7,140)	\$(1,797,109)	\$-
Segment net income	\$1,347,184	\$4,110,611	\$1,265,324	\$504,296	\$7,227,415
Income tax expense					(930,918)
Net income after income taxes					\$6,296,497
2018.01.01-2018.09.30					
Net interest income					
(from external customer)	\$6,514,199	\$9,517,326	\$4,978,993	\$3,587,478	\$24,597,996
Inter-segment revenues (expense)	\$(2,518,789)	\$8,774,477	\$(103,266)	\$(6,152,422)	\$-
Segment net income	\$3,792,862	\$15,126,993	\$2,823,726	\$(284,271)	\$21,459,310
Income tax expense					(3,056,163)
Net income after income taxes					\$18,403,147
2017.01.01-2017.09.30					
Net interest income					
(from external customer)	\$5,826,157	\$8,298,520	\$4,379,356	\$3,588,680	\$22,092,713
Inter-segment revenues (expense)	\$(2,048,491)	\$7,135,133	\$(35,113)	\$(5,051,529)	\$-
Segment net income	\$3,684,160	\$12,116,846	\$3,072,674	\$626,822	\$19,500,502
Income tax expense					(2,483,061)
Net income after income taxes					\$17,017,441

Note:

- A. No revenue from transactions with a single external customer amounted to 10% or more of the Group total revenue for the nine-month periods ended 30 September 2018 and 2017.
- B. Operating segments' profit are measured at pre-tax income basis, the income taxes are not allocated to reporting segments for the purpose of making decisions about resource allocation and performance assessment.
- C. The Group provide the average of deposits and loans to assess the performance, the disclosed measure amounts of assets and liabilities are zero.