Mega International Commercial Bank

Annual Report 2018

Annual Report 2018

Notice

This English version annual report is a summary translation of the Chinese version and is not an official document of the shareholders' meeting. If there is any discrepancy between the English version and the Chinese version, the Chinese version shall prevail.

Head Office

No.100, Chi-lin Road, Taipei 10424, Taiwan
Tel: +886-2-2563-3156
Fax: +886-2-2356-8936
Website: www.megabank.com.tw
Email: megaservice@megabank.com.tw

Spokesperson

Chen-Shan Lee, Senior Executive Vice President
Tel: +886-2-2541-0015
Email: sandycslee@megabank.com.tw

First Deputy Spokesperson

Ruey-Yuan Fu, Senior Executive Vice President
Tel: +886-2-2537-8660
Email: icbcfury@megabank.com.tw

Second Deputy Spokesperson

Shiow Lin, Senior Executive Vice President
Tel: +886-2-2531-3756
Email: shiow@megabank.com.tw

Service Network

Refer to Service Network Section for details of domestic and overseas business units

Credit Rating Agency

Moody's Investors Service Hong Kong Limited
24/F One Pacific Place, 88 Queensway, Admiralty, Hong Kong
Tel: +852-3758-1300

S&P Global Ratings (Taiwan Office)
49F, Taipei 101 Tower, No. 7, Xinyi Road, Section 5, Taipei, Taiwan, R.O.C.
Tel: +886-2-8722-5800

Taiwan Ratings Corp.
49F, Taipei 101 Tower, No. 7, Xinyi Road, Section 5, Taipei, Taiwan, R.O.C.
Tel: +886-2-8722-5800

Auditor of Financial Report

PricewaterhouseCoopers, Taiwan
27F, 333, Keelung Rd., Sec. 1, Xinyi Dist., Taipei 11012, Taiwan
Tel: +886-2-2729-6666

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Head Office
Domestic Branches
Offshore Banking Branch, Overseas Branches & Representative Offices
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The Bank has experienced the huge penalty imposed on New York Branch in 2016. In recent years, the Bank has made efforts to promote organizational reform and optimization, strengthen anti-money laundering and anti-terrorism financing mechanisms, and construct management and institutional innovations in a full-line law-abiding culture. Now, concrete results have been gradually demonstrated and the improvement in various deficiencies is also underway in join hands. Although there is still a long way to go, our determination and commitment to reform are very firm. In the future, the Bank will continue to introduce globally consistent policies and standards to prevent money laundering and counter terrorism financing in accordance with the governance standards of international benchmarking.

Although the Bank was still in the difficult period of reform and transformation in 2018 and even faced the impact of rising operating costs in the short term, all colleagues had made concerted efforts to actively promote the development of various businesses. The operation volume of major businesses this year still takes a leading position in the domestic banking industry. In particular, the market shares of deposits and loans ranked 5th and 4th respectively, foreign exchange-related businesses firmly topped the list in the industry, and the ranking of market shares of syndicated loans with the Bank as the lead bank leapt from the 2nd in 2017 to the 1st place this year. In addition to brilliant performance in areas of expertise such as corporate finance, international finance, foreign exchange, financial operations and investment, the consumer finance business that has been actively innovated in the past two years, including credit card, wealth management and other businesses, has also continued to introduce unique products that refreshed the market and successfully expanded a wider customer base.

The Bank's total net revenue in 2018 reached NTD52 billion, representing an increase of 2,423 million (an annual growth rate of 4.89%) over 2017. Allowance for bad debts was also well controlled. Although the operating expenses of the Bank increased in the short run resulting from its efforts to greatly expand its manpower and strengthen the upgrading of its information system so as to implement the anti-money laundering and law-abiding mechanisms, it has still achieved a new high in profit in the past three years. The net profit after tax reached NTD24,172 million, representing an increase of 2,649 million (an annual growth rate of 12.31%) over 2017, and the earnings per share after tax hit NTD2.83. All profitability indicators are among the best in the domestic banks. Moreover, the Bank recorded non-performing loan at the end of 2018 of 0.14%, the coverage rate of allowance for bad debts of 1,121.78%, and the capital adequacy ratio of 13.86%. The control of relevant management indicators was better than the average of domestic banks with stable overall asset quality and appropriate capital adequacy.

Looking ahead to 2019, the Bank will continue to foster the law-abiding culture across the bank, refine anti-money laundering and anti-terrorism mechanisms, and implement various risk control measures based on a sound and strict corporate governance system and good faith management principles. In terms of business promotion, while expanding the deposit operation volume, the Bank will also improve the deposit structure, consolidate and give full play to the niche advantages of specialized businesses such as foreign exchange, corporate finance and financial operations, and expand various consumer finance businesses through comprehensive business innovation to improve the profit structure and increase the operating momentum. In addition, the Bank will continue to promote the follow-up optimization of organizational transformation, so as to effectively bring into full play the operating efficiency of the “business group structure”, stay abreast of trends of the financial industry in real time, develop various businesses with brand-new thinking, and meet future challenges by way of disruptive breakthroughs. Only in this way can the Bank's profits be based on a solid foundation and maintain sustainable operation.

Operation Results of 2018

I. Global & Domestic Economic Dynamics

1. Economic Growth

According to the IMF World Economic Outlook Reports, the global economic growth for 2018 was estimated at 3.7%, a slight decline from 3.8% in 2017. This is mainly due to the fact that although the economic growth in the United States has greatly increased to 2.9% driven by the fiscal stimulus, it was not enough to offset the decline in economic growth in the EU, Japan, China and other economies. The factors include the adverse effects of China's increased financial supervision to curb shadow banking, the production decline in Germany caused by its implementation of the new automobile emission standards, the natural disasters suffered by Japan several times, and the capital outflow pressure faced by emerging market countries due to the rising US interest rates. Looking ahead to 2019, the IMF forecasts that the global economic growth is projected to down to 3.5%, mainly reflecting that the adverse effects of the China-US trade war will gradually emerge, and the central banks of advanced economies no longer adopt accommodative monetary policies and other factors.

Chairman
Chao-Shun Chang

In terms of domestic economy, economic growth rate in 2018 was 2.63%, significantly slower than 3.08% in 2017 according to the Directorate General of Budget, Accounting and Statistics, Executive Yuan, R.O.C (DGBAS). Although the domestic economic growth of 3.22% in the first half of 2018 was still better than that of the same period in 2017, which was mainly due to the robust consuming resulted from the brisk employment market and stock market. However, consumer confidence declined in the second half of 2018 as a result of the intensifying financial market turmoil, pension reform effect and other factors. Coupled with the global economic downturn and trade momentum slowdown, the demand for electronic components of Taiwan's main exports declined, thus dragging down the economic growth rate to 2.08% in the second half of 2018. Looking ahead to 2019, based on the general forecast by international organizations that the growth of global economy and trade will slow down, it may not be conducive to the recovery of Taiwan's trade momentum and the growth of private consumption momentum. Despite the increase in forward-looking infrastructure and urban renewal projects, and the return of some Taiwanese businessmen contributes to the growth of investment, on the whole, DGBAS forecasts that Taiwan's economic growth rate will decrease to 2.27% in 2019.

2. Financial Market

In view of many uncertainties in the international economic prospect, which may affect the momentum of Taiwan's economic growth, and considering that the domestic inflation pressure is still moderate, and Taiwan's nominal and real interest rates are also in the middle level compared with those of major economies, the central bank still maintains a loose monetary policy, with sufficient domestic funds and relatively low interest rates. The average overnight borrowing rate in 2018 was 0.183%, slightly higher than 0.179% in 2017. Looking ahead to 2019, the central bank is expected to maintain the same tone of accommodative monetary policy in the context of slowing global economy and moderate domestic economic growth and inflation.

In terms of exchange rate, the NTD rose to NTD 29.12 to USD1 at the end of March due to the weak US dollar introduced by the US to facilitate trade performance in early 2018. After that, due to the US economic performance and differences in monetary policies with major countries, the China-US trade dispute intensified and China's economic growth slowed down resulting in a weak RMB and a drag on other Asian currencies, and at the end of October, the NTD depreciated to NTD30.968 to USD1. After November, against the backdrop of the resumption of China-US trade negotiations and the failure of the United States Federal Reserve to raise interest rates at the same pace as the previous hawks expected, the pressure on the devaluation of major Asian currencies was eased, with the NTD closing at NTD30.733 to USD1 at the end of the year. In 2018, the average exchange rate of NTD to USD was 30.19, up 0.76% from 30.42 in 2017.

II. Change in Organization Structure

In order to improve its operation and management efficiency, the Bank integrated the business group and administration group management models into the organizational structure of the Head Office in 2018. Upon the adjustment, in addition to the Planning Department, the Head Office also sets up Legal Compliance, four Business Groups (Corporate Banking Business Group, Corporate Banking Business Group, Financial Markets Business Group, and Consumer Banking Business Group) and three Administration Groups (Risk Management Administration Group, Information Technology Administration Group, and General Administration Group) according to service attributes, and manages to maintain the original five Business Centers for the promotion of various businesses and risk control.

III. Operating Results in 2018

Units: millions in N.T. dollars, except as indicated

Item \ Year	2018	2017	Change (%)
Deposits (including due to Chunghwa Post Co., Ltd)	2,354,393	2,261,201	4.12%
Loans	1,824,721	1,701,601	7.24%
Corporate Financing	1,405,758	1,309,372	7.36%
Consumers Financing (excluding credit card loans)	418,963	392,229	6.82%
Foreign Exchange Business (millions in US$)	893,678	845,753	5.67%
Securities Purchased	529,031	502,291	5.32%
Long-term Equity Investments	19,411	20,497	-5.30%
Credit Card Loans	1,140	1,131	0.80%

Note 1: All figures above are average balance, except foreign exchange business.

Note 2: At the end of 2018, the amount of the Bank's non-performing loans was NT$2,670 million, NPL ratio 0.14%, and coverage ratio was 1,121.78%.

IV. Budget Implementation

2018 Pretax Income (millions in NT dollars)	2018 Pretax Income Budget (millions in NT dollars)	Budget Achievement Rate (%)
26,637	26,244	101.50

President
Yong-Yi Tsai

Summary of Business Plan for 2019

I. Business Plan

- Ensuring the effectiveness of the law compliance system and continuing to improve the prevention of money laundering and terrorist financing.
- Implementing risk control mechanism to maintain sound asset quality and capital adequacy.
- Strengthening the niche advantages of corporate finance and international finance business to boost operational growth momentum.
- Enhancing the supervision and management functions of the Head Office to continuously improve the management of overseas business units.
- Conducting flexible financial operations in response to macroeconomic situation, expanding long-term investment and optimizing asset allocation.
- Exerting the comprehensive roles of organizational transformation and business groups to full play, and actively expanding consumer finance businesses.
- Developing customer-oriented digital financial services, strengthening information systems and balancing information security.
- Implementing the corporate governance system and the principle of ethical management, and fulfilling corporate social responsibility.

II. Business Objectives

With consideration of current economic and financial developments, the Bank has set up the following business targets based on competitive strategies for the year of 2019: total deposits of NT$2,442,924 million, total loans of NT$1,896,353 million and foreign exchange business of US$912,930 million.

Development Strategies

The Bank's medium-and long-term development strategy, detailed implementation plan, various businesses and financial objectives are based on the nine outlines of the conglomerate's medium-and long-term development strategy disclosed by the Bank's parent company Mega Financial Holding Company.

- Promote corporate governance standards and deepen corporate social responsibility.
- Grasp the business opportunities in Asia-Pacific regions and innovate the model of growing operation.
- Increase the foreign exchange advantages and invest in potential star industries.
- Deepen the wealth management business and develop digital service channels.
- Accelerate the reform of business channels and expand the integration of digital platforms.
- Strengthen business integration and enhance joint marketing's comprehensive efficiency.
- Enrich the international talent pool, encourage and enhance employees' value.
- Expand the scale of capital assets and improve the efficiency of capital utilization.
- Adjust the global operating framework and improve risk management skills.

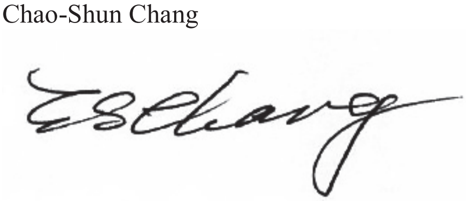
Major Regulatory Changes and Influences

- In 2015, FSC has formulated the "Financial Services Enterprise Treating Customers Fairly Principle" to enhance the protection for financial consumers, and will implement an evaluation mechanism for relevant institutions from 2019 to understand the implementation in the industry.
- Taiwan's "Money Laundering Control Act" and "Counter-Terrorism Financing Act" completed amendments to some provisions in November 2018 to strengthen relevant laws and regulations, which helps financial institutions to pay more attention to compliance with laws and regulations, prevention of money laundering and the fight against terrorism financing.
- In response to the transfer of the regional supply chain due to China-US trade friction, Executive Yuan has promoted the "Action Plan for Welcoming Overseas Taiwanese Business to Return to Invest in Taiwan" in 2019 with a three year implementation period. It is oriented to the needs of enterprises and actively assists Taiwan businessmen to return to Taiwan for investment, thus promoting the common development of local industries and hopefully improving the momentum of domestic investment.
- In December 2018, the Legislative Yuan passed the third reading of the "The Amendment to the Urban Renewal Act". In August of the same year, the FSC relaxed the criteria and exclusions for granting loans to residential and corporate buildings in the banking sector, which is expected to enhance the momentum of domestic construction investment.

Credit Rating

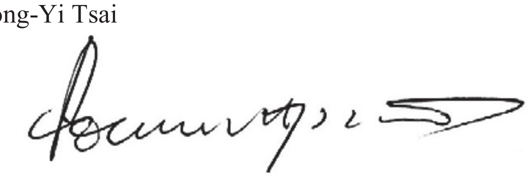
Credit Rating Institute	Credit Rating		Outlook	Publication Date (Year/Month)
	Long-term	Short-term		
Moody's	A1	P-1	Stable	2019/1
S&P	A	A-1	Stable	2018/10
Taiwan Ratings Corp.	twAA+	twA-1+	Stable	2018/10

Chao-Shun Chang



Chairman

Yong-Yi Tsai



President

Historical Overview

Mega International Commercial Bank Co., Ltd. (Mega Bank) has come into being as a result of the merger of The International Commercial Bank of China and Chiao Tung Bank, effective on August 21, 2006. Both banks have been proud of their longtime histories of outstanding track records in our country.

In 1971, The Bank of China was privatized to become The International Commercial Bank of China Co., Ltd. (ICBC), whose origin dates back to the Ta Ching Bank and its predecessor, the Hupu Bank (the bank under the finance arm of the imperial court in the Ching Dynasty). The Bank of China had been entrusted with the mission to serve as an agent of the Treasury and a note-issuing bank before the establishment of the Central Bank of China in 1928. The Bank of China was designated as a licensed specialized bank for international trade and foreign exchange thereafter. Taking advantage of its specialization in foreign exchange, worldwide network of outlets and correspondence banks, superb bank assets, and excellent business performance, ICBC has become a top-notch bank in the Republic of China.

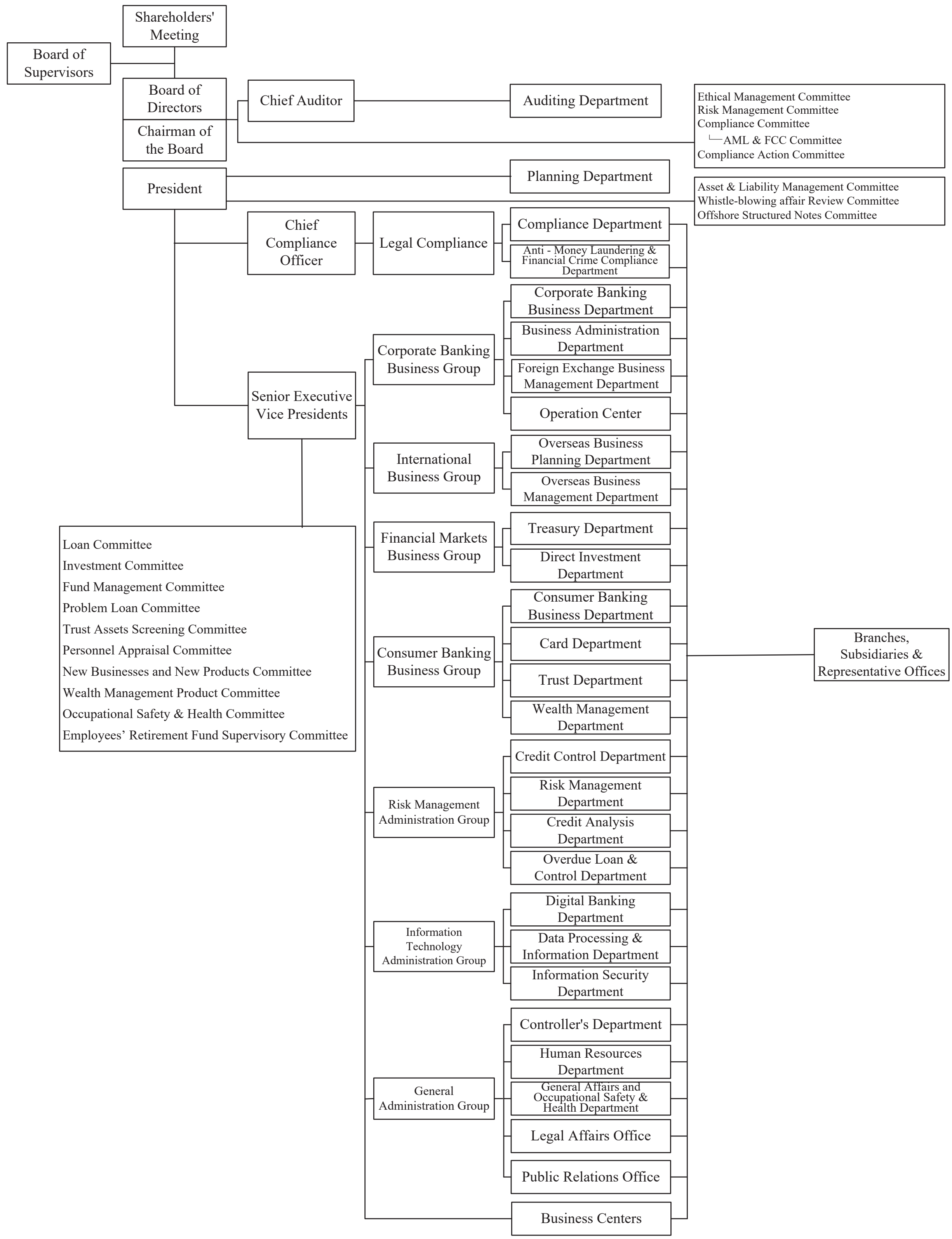
Set up five years before the founding of the Republic of China, Chiao Tung Bank Co., Ltd. (CTB) had also been delegated to act as an agent of the government coffer and a note-issuing bank in concert with the Bank of China at the outset of the Republic. Transforming from a licensed bank for industries in 1928, an industrial bank in 1975, and a development bank in 1979, CTB turned from a state-controlled bank into a privately–owned one in 1999. It has engaged in loan extensions for medium- and long-term development, innovation and guidance investment (equity investment), and venture capital ever since. For years, CTB has made significant contributions to the improvement of industrial structure and the promotion of the upgrading of industry by assisting in the development of strategic and vital industries in line with the economic policy and the economic development plan of the government.

CTB and International Securities Company formed the CTB Financial Holding Company in 2002. Late on, Chung Hsing Bills Finance Corporation and Barits International Securities Company came under the financial umbrella. On December 31, 2002, Chung Kuo Insurance Company and ICBC joined forces with the Company to form a conglomerate named Mega Financial Holding Company.

With a view to enlarging the business scale and increasing the market share, ICBC and CTB formally merged into one bank under the name of Mega International Commercial Bank Co., Ltd. on August 21, 2006. By the end of 2018, the Bank has 108 branches (including Foreign Department) at home, and 23 branches, 5 sub-branches, and 3 representative offices (including marketing office) abroad. Together with the network are wholly-owned bank subsidiaries in Thailand, along with their branches, bringing the number of overseas outposts to 36 in total. It has manpower 6,366 and an aggregate paid-in capital of NT$85.362 billion.

As of April, 2019

Organization Chart



Directors, Supervisors & Major Shareholders of the Institutional Shareholders

I. Board of Directors and Supervisors

As of December 31, 2018

Title	Name	Current Position / Occupation
Chairman of the Board	Chao-Shun Chang	Chairman of the Board Mega Financial Holding Company and Mega Bank
Managing Director	Kuang-Hua Hu	President Mega Financial Holding Company
Managing Director& President	Yong-Yi Tsai(Note1)	President Mega Bank
Managing Director	Chien-Liang Chiu	Professor Department of Banking and Finance, Tamkang University
Independent Managing Director	Fu-Long Chen	
Independent Director	Shyue-Shing Liao	President Reason Law Office
Independent Director	Chih-Jen Hsu	Chairman of the Board Spring House Entertainment Tech. Inc.
Director	Ching-Wen Lin	Professor CTBC Business School
Director	Shao-Pin Lin	Associate Professor Department of Finance and Banking, Shih Chien University
Director	Chao-Huang Kuo	President TAIWAN-CA Inc.
Director	Sui-Chang Liang	Principal Attorney Liang & Associates, Attorneys-At-Law
Director	Jhy-Yuan Shieh(Note2)	Professor Department of Economics, Soochow University
Director	Wen-Ling Hung	Professor Department of Administration Police, Central Police University
Director	Chuen-Wen Jung	Associate Professor Department of International Business, Soochow University
Director	Cheng-Chiang Hsu	Assistant Vice President Mega Bank
Resident Supervisor	Sheng-Chang Liu	Director C.H. CHANG & Co. Certified Public Accountants
Supervisor	Tai-long Lee	Chief Counselor Fidelity Law Partners
Supervisor	Tzyy-Jane Lai	
Supervisor	Yu-ling Hung	CPA Earnest & Co., CPAs
Supervisor	Jiin-Feng Chen	Associate Professor Department of Accounting, Shih-Chien University

Note1: Yong-Yi Tsai acted as Director from September 10, 2016 to September 30, 2018, and acted as Managing Director from October 1, 2018.

Note2: Jhy-Yuan Shieh resigned the position of Director on January 31, 2019. Chia-feng Leou assigned as Director from March 27, 2019.

II. Professional Qualifications and Independence Analysis of Directors and Supervisors

As of December 31, 2018

Criteria / Name	Meet One of the Following Professional Qualification Requirements, Together with at Least Five Years Work Experience			Independence Criteria (Note)										Number of other public companies in which the individual is concurrently serving as an Independent Director
	An instructor or higher position in a Department of Commerce, Law, Finance, Accounting, or other academic department related to the business needs of the bank in a public or private Junior College, College, or University	A judge, public prosecutor, attorney, certified public accountant, or other professional or technical specialist, who has passed a national examination and been awarded a certificate in a profession necessary for the business of the bank	Have work experience in the areas of commerce, law, finance, accounting, or otherwise necessary for the business needs of the bank	1	2	3	4	5	6	7	8	9	10	
Chao-Shun Chang	✓	✓	✓	✓		✓	✓			✓	✓	✓		
Kuang-Hua Hu			✓	✓		✓	✓			✓	✓	✓		
Yong-Yi Tsai			✓			✓	✓	✓		✓	✓	✓		
Chien-Liang Chiu	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		1
Fu-Long Chen			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Shyue-Shing Liao		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Chih-Jen Hsu			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		2
Ching-Wen Lin	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Shao-Pin Lin	✓		✓	✓		✓	✓	✓	✓	✓	✓	✓		
Chao-Huang Kuo			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Sui-Chang Liang		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Jhy-Yuan Shieh	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Wen-Ling Hung	✓		✓	✓		✓	✓			✓	✓	✓		
Chuen-Wen Jung	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Cheng-Chiang Hsu			✓		✓	✓	✓	✓	✓	✓	✓	✓		
Sheng-Chang Liu		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Tai-long Lee			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Tzyy-Jane Lai	✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Yu-ling Hung	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		
Jiin-Feng Chen	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓		1

Note: Check ("✓") the corresponding boxes if directors or supervisors have been any of the following during the two years prior to being elected or during the term of office.

1. Not an employee of the Bank or any of its affiliates.
2. Not a director or supervisor of the Bank's affiliates. The same does not apply, however, in cases where the person is an independent director of the Bank's parent company, or any subsidiary in which the Bank holds, directly or indirectly, more than 50% of the voting shares.
3. Not a natural-person shareholder who holds shares, together with those held by the person's spouse, minor children, or held by the person under others' names, in an aggregate amount of 1% or more of the total number of outstanding shares of the Bank or ranking in the top 10 in holdings.
4. Not a spouse, relative within the second degree of kinship, or lineal relative within the third degree of kinship, of any of the persons in the preceding three subparagraphs.
5. Not a director, supervisor, or employee of a Bank shareholder that directly holds 5% or more of the total number of outstanding shares of the Bank or that holds shares ranking in the top five in holdings.
6. Not a director, supervisor, officer, or shareholder holding 5% or more of the shares, of a specified company or institution that has a financial or business relationship with the Bank.
7. Not a professional individual who, or an owner, partner, director, supervisor, or officer of a sole proprietorship, partnership, company, or institution that, provides commercial, legal, financial, accounting services or consultation to the Bank or to any affiliate of the Company, or a spouse thereof. These restrictions do not apply to any member of the remuneration committee who exercises powers pursuant to Article 7 of the "Regulations Governing the Establishment and Exercise of Powers of Remuneration Committees of Companies whose Stock is Listed on the TWSE or Traded on the TPEx".
8. Not having a marital relationship, or a relative within the second degree of kinship to any other director of the Bank.
9. Not been a person of any conditions defined in Article 30 of the Company Law.
10. Not a governmental, juridical person or its representative as defined in Article 27 of the Company Law.

III. Major Shareholders of the Institutional Shareholders

As of December 31, 2018

Name of the Institutional Shareholders	Top Shareholders (Percentage of Shares Ownership)
Mega Financial Holding Co., Ltd.	Ministry of Finance, R.O.C. (8.40%)
	National Development Fund, Executive Yuan, R.O.C. (6.11%)
	Chunghwa Post Co., Ltd. (3.61%)
	Fubon Life Insurance Co., Ltd. (3.06%)
	Bank of Taiwan Co., Ltd. (2.46%)
	Taiwan Life Insurance Co., Ltd. (2.04%)
	Shin Kong Life Insurance Co., Ltd. (1.68%)
	Cathay Life Insurance Co., Ltd. (1.58%)
	Pou Chen Corporation (1.41%)
	China Life Insurance Co., Ltd. (1.31%)

IV. Policies for Employees’ compensation and directors’ and supervisors’ remuneration

Employees’ compensation and directors’ and supervisors’ remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Bank and subsidiaries calculate the number of shares based on the closing price at the previous day of the Board of Directors’ resolution day.

Execution of Corporate Governance

I. Attendance Record

A total of forty-five meetings of the Board of Directors were held in 2018. The attendance of directors and supervisors was as follows:

Title	Name	Attendance in Person	By Proxy	Attendance rate (%)	Remarks
Chairman of the Board	Chao-Shun Chang	43	2	95.6	Re-elected on Oct. 1, 2018
Managing Director	Li-Yen Yang	4	0	100	Resigned on Feb. 7, 2018
Managing Director	Kuang-Hua Hu	41	0	100	Re-elected on Oct. 1, 2018
Managing Director	Ming-Chuan Ko	28	3	90.3	Relieved on Sep. 30, 2018
Managing Director(Note2)	Yong-Yi Tsai	13	1	92.9	Assumed on Oct. 1, 2018
Managing Director	Chien-Liang Chiu	42	3	93.3	Re-elected on Oct. 1, 2018
Independent Managing Director	Fu-Long Chen	43	2	95.6	Re-elected on Oct. 1, 2018
Independent Director	Shyue-Shing Liao	14	0	100	Re-elected on Oct. 1, 2018
Independent Director	Chih-Jen Hsu	14	0	100	Re-elected on Oct. 1, 2018
Director	Ching-Wen Lin	9	2	64.3	Re-elected on Oct. 1, 2018
Director	Shao-Pin Lin	4	0	100	Assumed on Oct. 1, 2018
Director	Tsung-Hsun Lu	7	0	100	Resigned on Jun. 30, 2018
Director	Chao-Huang Kuo	4	0	100	Assumed on Oct. 1, 2018
Director	Sui-Chang Liang	14	0	100	Re-elected on Oct. 1, 2018
Director	Jhy-Yuan Shieh	13	1	92.9	Re-elected on Oct. 1, 2018
Director	Wen-Ling Hung	14	0	100	Re-elected on Oct. 1, 2018
Director(Note2)	Yong-Yi Tsai	10	0	100	Relieved on Sep. 30, 2018
Director	Chuen-Wen Jung	4	0	100	Assumed on Oct. 1, 2018
Director	Chi-Hsu Lin	10	0	100	Relieved on Sep. 30, 2018
Director	Cheng-Chiang Hsu	4	0	100	Assumed on Oct. 1, 2018
Resident Supervisor	Sheng-Chang Liu	43	0	95.6	Re-elected on Oct. 1, 2018
Supervisor	Tai-long Lee	14	0	100	Re-elected on Oct. 1, 2018
Supervisor	Chia-Chi Hsiao	11	0	100	Resigned on Oct. 3, 2018
Supervisor	Tzyy-Jane Lai	1	0	100	Assumed on Nov. 28, 2018
Supervisor	Juan-Chi Weng	8	0	80	Relieved on Sep. 30, 2018
Supervisor	Yu-ling Hung	4	0	100	Assumed on Oct. 1, 2018
Supervisor	Jiin-Feng Chen	13	0	92.9	Re-elected on Oct. 1, 2018

Note: 1. The Bank’s directors and supervisors are appointed by the Mega Financial Holding Company. The term in office for 15th Board of Directors is from Sep. 1, 2015 to Sep. 30, 2018, and the term in office for 16th Board of Directors is from Oct. 1, 2018 to Sep. 30, 2021.

2. Yong-Yi Tsai acted as Director from September 10, 2016 to September 30, 2018, and acted as Managing Director from October 1, 2018.

3. None of the independent directors has a dissenting opinion or qualified opinion on the resolutions.

4. The attendance rate is calculated as the ratio of the number of Board of Directors meetings attended to the number held during the term in office.

5. The Board of Directors has performed its duties in compliance with the related laws and regulations.

II. Corporate Governance Implementation Status and Deviations from "Corporate Governance Best-Practice Principles for Banks"

As of December 31, 2018

Evaluation Item	Implementation Status		
	Yes	No	Abstract Illustration
A. Ownership Structure and Shareholders' Equity			
1. Does the Bank establish an internal operating procedure to deal with shareholders' suggestions, doubts, disputes and litigations, and implement based on the procedure?	✓		■ The Bank is a 100% owned subsidiary of Mega Financial Holding Company ("Mega FHC"). The Bank's operation and management, financial business information and audit management are handled in accordance with the "Regulations on Supervision of Mega FHC's Subsidiaries". Recommendations or questions regarding the Bank's operations may be conveyed through formal letters, telephones, emails, etc. The Bank's business supervisory units will handle or explain the case, in accordance to the internal operating procedures. ■ Mega FHC is the Bank's sole shareholder. Any shareholders' dispute or litigation shall be handled by the supervisory units. However, if due to complexity of the case or other special factors, where it is necessary to engage a lawyer, the units, according to the Bank's Directions for Handling Legal Cases, shall request for approval from the authorized level before engaging a lawyer.
2. Does the Bank possess the identities of its major shareholders as well as the ultimate owners of those shares?	✓		■ Mega FHC is the Bank's sole shareholder and ultimate controller.
3. Does the Bank establish and execute the risk management and firewall system within its conglomerate structure?	✓		■ The responsibilities for the management and risk control mechanism of personnels, assets and financial matters of the Bank and affiliated companies are completely independent; and tight firewall mechanisms are established and executed. ● Information security: The internet between the Bank and affiliated companies is connected directly through peer-to-peer which is the safest way of internet connection, and controlled by Firewall to avoid unauthorized connection. ● Client confidentiality: An internal control process has been set for person in charge of processing, using customer information and entering and removing customers' personal particulars, and a post-execution supervision mechanism is in place to ensure the appropriateness of authorization. ● Stakeholder transactions: The Bank has established "Rules on Handling Stakeholder Transaction". Also, in accordance with the relevant laws and regulations, the stakeholder transaction balance is submitted to the parent company, Mega FHC, regularly. Mega FHC then discloses the related information and submits it to the competent authority.
B. Composition and Responsibilities of the Board of Directors			
1. Does the Bank voluntarily establish other functional committees in addition to the Remuneration Committee and the Audit Committee?		✓	■ After joining Mega FHC, the Bank is delisted from the stock market and is not mandatory to set up a Remuneration Committee. The design and adjustment of the Bank's remuneration is submitted to Mega FHC for approval. ■ Mega FHC has set up an Audit Committee. According to the regulations issued by Financial Supervisory Commission, a company 100% owned by a financial holding company may choose

Evaluation Item	Implementation Status		
	Yes	No	Abstract Illustration
			to set up an audit committee or appoint supervisors, and the Bank has adopted the latter. The Bank's supervisors may communicate with the Bank's employees, head of internal audit and shareholders at any time, and convene supervisors meetings from time to time, with the attendance of a CPA where necessary. ■ The Bank has set up the committees under the Board of Directors, including the Risk Management Committee, Compliance Committee, Compliance Action Committee, and Ethical Management Committee to enhance the supervision and management mechanism of the Board of Directors.
2. Does the Bank regularly evaluate the independence of CPAs?	✓		■ When appointing a CPA, the Bank shall assess its independence and request it to provide "Independence Declaration on the Auditing and Attestation of Financial Report by the Certified Public Accountant".
C. If the Bank is a listed or OTC company, is it required to set up dedicated (non-dedicated) unit or personnel in charge of matters related to corporate governance?		✓	■ The Bank is a 100% owned subsidiary of Mega FHC, and is not listed on Taiwan Stock Exchange or Taipei Exchange. However, the Bank's General Affairs and Occupational Safety & Health Department is in charge of matters related to company registration and registration change. The office of the board of directors is in charge of matters related to the board of directors meetings, and providing information regarding professional practice to directors and supervisors. ■ The Bank plans to set up personnel in charge of matters related to corporate governance in year 2019.
D. Does the Bank establish a communication channel with interested parties?	✓		■ The Bank has diverse communication channels with interested parties such as customers, employees, suppliers, community residents, etc. These parties may contact the Bank through the 24-hour customer hotline or public website; or may communicate with the Bank through letter or meeting. Also, a labor union bulletin in the Bank's intranet allows employees to express their opinions. ■ In terms of communicating with interested parties defined in The Banking Act and Financial Holding Company Act, the Bank's Head Office request all unites to provide the interested parties list according to The Banking Act of The Republic of China and Financial Holding Company Act to related interested parties for confirmation. Upon confirmation by the related interested parties, the interested parties profile shall be maintained in the Bank's e-Loan System and Mega Financial Holding Company's network information system. Should there be any change in the duties of the interested parties, the person concerned shall be communicated, and the profile updated immediately.
E. Information Disclosure 1. Does the Bank have a corporate website to disclose both financial standings and the status of corporate governance?	✓		■ The Bank's official website (https://www.megabank.com.tw) is maintained by dedicated personnels regularly to disclose information regarding the Bank's business, financials and corporate governance.
2. Does the Bank have other information disclosure channels (e.g. building an English website, appointing designated people to handle	✓		■ The Bank's official website has an English version, https://www.megabank.com.tw/en/. If there's information needed to be made public in accordance with the relevant laws and regulations, the Bank shall, within the legal time limit, designate a personnel to report and disclose immediately. ■ The Bank has established "Procedures for Releasing Information by

Evaluation Item	Implementation Status		
	Yes	No	Abstract Illustration
information collection and disclosure, creating a spokesman system, webcasting investor conferences)?			Spokesperson and Acting Spokesperson". The Spokesperson and Deputy Spokesperson speak publicly on behalf of the Bank by means of press release, website disclosure or disclosure of information. ■ The investor conference is handled by the parent company, Mega FHC.
F. Is there any other important information to facilitate a better understanding of the Bank's corporate governance practices (e.g., including but not limited to employee rights, employee wellness, investor relations, rights of stakeholders, directors' and supervisors' training records, the implementation of risk management policies and risk evaluation measures, the implementation of customer relations policies, and purchasing insurance for directors and supervisors, and donations to political parties, stakeholders, and charity organizations)?	✓		■ Employees' rights: The Bank shall inform the employees in advance of any job relocation. If the change of business nature results in no suitable jobs for the employee, or the employee is incompetent in taking up the job, the Bank shall, according to the Labor Standards Act, inform the employee in advance of the termination of employment contract at least 10 to 30 days. In addition, the Bank and the Union have established a collective agreement. The Bank has set up the Personnel Appraisal Committee, formed by the Bank and union representatives, responsible for the review of awards and penalties of the employees. It has also established the Occupational Safety & Health Committee, responsible for the planning and handling, review and supervision of matters related to labor safety, hygiene and health. Employees' Retirement Fund Supervisory Committee is also set up to safeguard employees' pension. ■ Employee welfare: The Bank has set up the Employee Welfare Committee, responsible for the review and planning of employee welfare services and fund allocation. In addition, the Bank conducts regular employees' health checkup and seminars. Employees can also obtain health knowledge through e-learning to achieve the objective of preventive health care. ■ Investor relationship: The Bank is fully answerable to its parent company, Mega FHC, for its business performance. ■ Directors to recuse themselves from cases in which they have a material interest: As per Rules and Procedures of shareholders meeting of the Bank, interested parties with respect to proposals shall recuse themselves from discussions or voting to avoid the conflict of interest. ■ Advanced studies of directors and supervisors: the Bank provides directors and supervisors with opportunities enhancing their professional competency. ■ Execution of customer policies: According to the various regulations of the competent authority and bank union, the Bank shall state in the contract, regulations to be complied, whereby customers can claim the right based on the contracts. ■ Purchasing liability insurance for directors and supervisors: The Bank purchases "Directors and Key Employees Liability Insurance" for all directors and supervisors. ■ Donations: The Bank has, over the years, organized various activities and donated to charities and non-profit organizations. The donation process strictly complies with the various internal and external laws and regulations.

The above mentioned corporate governance implementation status of the Bank has no deviation from the "Corporate Governance Best-Practice Principles for Banks".

Capital & Shares

I. Source of Capital Stock

Unit: NT$; share

Year/Month	Par Value (NT$)	Authorized Capital		Paid-in Capital		Remark
		Shares	Amount (NT$)	Shares	Amount (NT$)	Source of Capital
2002/12	10	3,726,100,000	37,261,000,000	3,726,100,000	37,261,000,000	Public offering
2006/08	10	2,684,887,838	26,848,878,380	2,684,887,838	26,848,878,380	Issuance of new shares for merger
2011/10	10	389,012,162	3,890,121,620	389,012,162	3,890,121,620	Transference of un-appropriated earnings
2012/09	10	300,000,000	3,000,000,000	300,000,000	3,000,000,000	Issuance of common stock (Private placement)
2013/12	10	600,000,000	6,000,000,000	600,000,000	6,000,000,000	Issuance of common stock (Private placement)
2015/06	10	300,000,000	3,000,000,000	300,000,000	3,000,000,000	Issuance of common stock (Private placement)
2015/12	10	536,233,631	5,362,336,310	536,233,631	5,362,336,310	Issuance of common stock (Private placement)

II. Type of Stock

Unit: share

Type	Authorized Capital			Remark
	Outstanding Shares	Unissued Shares	Total Shares	
Common Shares	8,536,233,631	0	8,536,233,631	Public offering

Note: Shares have been stopped listed since the Bank joined Mega Financial Holding Company on December 31, 2002.

III. Structure of Shareholders

As of December 31, 2018

	Government Agencies	Financial Institutions	Other Institutional Investors	Individuals	Foreign Institutional Investors & Foreigners	Total
Number of Shareholders		1				1
Shareholding (shares)		8,536,233,631				8,536,233,631
Percentage		100.00%				100.00%

Note: 100% shares are held by Mega Financial Holding Company.

IV. List of Major Shareholders

As of December 31, 2018

Shareholder's Name	Shareholding	
	Shares	Percentage
Mega Financial Holding Co., Ltd.	8,536,233,631	100.00%

Other Fund-Raising Activities

Issuance of preferred shares, global depository receipts, and employee share subscription warrants: None.

Business Activities

I. Business Scope: Commercial banking, including a wide range of services indicated as following:

1. Domestic Branches
   - Deposits
   - Loans & Guarantees
   - Documentary Credits
   - Remittance & Bill Purchase
   - Offshore Banking
   - Trust Business
   - Foreign Exchange Trading
   - Safety Boxes Services
   - Consumer Banking
   - U Card, VISA Card, MasterCard, JCB Card
   - Consignment Securities
   - Agency Services
   - Money Market Securities
   - Agency for selling gold, silver, gold/silver coins, Gold Deposit Account
   - Electronic Banking
   - Direct Investment Business
2. Overseas Branches
   - Deposits
   - Loans & Guarantees
   - Documentary Credits
   - Remittance & Bill Purchase
   - Foreign Exchange Trading
   - Loans Backed by the Overseas Chinese Credit Guarantee Fund
   - Trading Consulting Services
   - Warehousing Services

II. Distribution of Mega Bank's Net Operating Revenue

As of December 31, 2018

Item	Amount (thousands in NT$)	As percentage of Net Operating Income (%)
NET INTEREST INCOME	36,002,845	69.23
NET REVENUE OTHER THAN INTEREST	16,002,923	30.77
Net service fee revenue	6,877,209	13.22
Gains on financial assets or liabilities measured at fair value through profit or loss	4,707,750	9.05
Realized gains on financial assets at fair value through other comprehensive income	955,315	1.84
Gains arising from derecognition of financial assets measured at amortised cost	1,064	0.00
Foreign exchange gains	2,561,956	4.93
Rreversal of impairment losses on assets	82,888	0.16
Share of profit of associates and joint ventures accounted for using equity method	470,429	0.90
Net other revenue other than interest income	177,284	0.34
Other miscellaneous revenue	169,028	0.33
NET REVENUE	**52,005,768**	**100.00**

Taiwanese Banking Industry & Market Overview

- **Competition in the domestic banking industry is intense, and amplifying deposit spreads is not easy.**

  Due to the abundant domestic bankers and excessive hot money, the importance of overseas markets is increasing day by day. Under the circumstance of continuous interest rate hike in the US in 2018, this interest margin advantage is further expanded. On the other hand, the growth rate of loans of all monetary institutions in Taiwan in 2018 is greater than that of deposits for two consecutive years, indicating that the pressure of excessive funds is slightly reduced.

- **The impact of financial technology development on financial business models is increasing.**

  In 2018, the number of branches of domestic banks decreased by 14 to a seven-year low, reflecting the rise of financial technology and online banking which replaced some functions of physical branches. On the other hand, the continuous optimization of the user experience, consideration of the usage habits of different customer base and increasing the adhesion of existing customers by financiers are helpful to enhance the competitiveness of digital financial services.

- **Spillover Effect of China-US Trade Friction.**

  As China-US trade friction has not been eased, this uncertainty will cause enterprises to postpone investment, thus reducing the opportunities for banks to grant loans. The momentum of international trade slows down accordingly and the volume of trade financing will also be affected. However, some supply chains have been moved to Southeast Asia or returned to Taiwan, which is expected to increase the domestic banks' service opportunities outside China.

- **External Demand Slows, Domestic Demand Continues to Drive Growth.**

  Due to the weakening of global economic and trade momentum, the contribution of foreign demand to Taiwan's economic growth is inhibited. However, thanks to the government's policies of promoting forward-looking infrastructure plans, improving the domestic investment environment, lowering the income tax burden and increasing basic wages, domestic demand is expected to be driven.

I. Positive Factors

- China-US trade tensions may affect supply chain movement. Apart from the gains from the transfer of orders, some Taiwanese businessmen are expected to return to Taiwan to invest or transfer to Southeast Asian countries, increase the use of channels for domestic banks' funds, and improve lending opportunities to emerging Asian countries other than China, which will help to spread operational risks in overseas markets.
- In 2019, the government's public construction, science and technology budget and urban renewal projects continued to increase. In addition, major semiconductor manufacturers to maintain leading manufacturing processes and the development of emerging technologies such as 5G will help drive the growth momentum of investment in Taiwan and will be conducive to the expansion of bank loan and other businesses.
- In November 2018, the Asia/Pacific Group on Money Laundering conducted an evaluation of Taiwan's financial institutions. The preliminary evaluation report confirmed Taiwan's efforts and substantial progress in the past two years. With the gradual implementation of money laundering prevention and fighting against terrorism financing, risk control is expected to improve accordingly and contribute to overseas business development.

II. Negative Factors

- China-US trade frictions have yet to be eased, and the atmosphere of international trade protectionism still exists. The weakening of global economic momentum may inhibit manufacturers' willingness to invest, which is not conducive to long-term economic development.
- China is facing the pressure of downward economic growth. If it sees a sharp economic slowdown, negative spillover effects will undermine regional economic stability.
- New Southbound countries still has great potential for growth. However, most countries are financially fragile and vulnerable to the impact of the international financial situation, and some countries will hold elections in the first half of 2019. Future economic policies in such countries will affect their investment performance.

III. Winning Strategies

- As there are still many variables in the global economy, the Bank will strengthen various relevant risk control and compliance mechanisms and pay attention to principles of risk diversification while laying out overseas markets and developing businesses.
- Asia/Pacific Group on Money Laundering pointed out that there are still shortcomings in Taiwan's money laundering prevention system, and gave specific suggestions to help improve the image of Taiwan's financial industry and enhance its competitiveness through continuous improvement of operation procedures and integration with international standards.
- Due to the increasing attention paid to the issue of information security, and extensive room for growth in digital financial services, recruiting relevant talents and strengthening on-the-job training of employees are helpful to optimize the overall operation mode.

Business Plan

The Bank's main operating volume and work centrality for the year 2019 will focus on the following six major aspects:

- **Business**
  - Expand deposit operation volume and improve deposit structure. In addition to strengthening the absorption of demand deposits and foreign exchange deposits, the Bank will also give consideration to increasing the proportion of deposits of natural persons and small enterprises.
  - Consolidate and give full play to the niche advantages of enterprise finance, OBU international finance and foreign exchange specialty, expand the overall credit operation volume and market shares, especially regard expanding foreign currency lending and small-and medium-sized enterprise lending as the work priorities.
  - Grasp the international financial situation such as US dollar interest rate rise and exchange rate fluctuation, and improve financial operation performance through flexible operation; also stay abreast of trends of industrial fluctuation, expand long-term investment positions and optimize asset allocation.
  - Actively expand various consumer finance businesses to improve the profit structure and inject momentum into operational growth; In particular, six "flagship branches of wealth management business" and four "branches focusing on consumer finance loan business" will be promoted in 2019, with the aim of promoting business innovation and bringing into full play the comprehensive effects of transformation through the implementation of various key projects.
- **Management**
  - In order to maintain the sound quality of assets, in addition to closely controlling the non-performing loan ratio and the coverage ratio, the Bank will strengthen the post-lending management mechanism for credit cases, and pay attention to the impact of changes in the overall economy and market sentiment on the Bank's risk assets at any time and respond appropriately.
  - In order to achieve a balance between the pursuit of profits and the undertaking of risks, advanced information systems will be used to refine and implement the risk control mechanism for various businesses through a management framework with clear powers and responsibilities.

Human Resources Profile

Item		As of December 31,	
		2018	2017
Number of Employees	Domestic	5,586	5,317
	Overseas	780	688
	Total	6,366	6,005
Average Age		40.84	41.29
Average Years of Services		14.37	15.20
Education	Ph.D.	4	3
	Master's Degree	1,601	1,450
	Bachelor's Degree	4,532	4,311
	Senior High School	208	219
	Below Senior High School	21	22

Social Responsibility

In addition to strengthening the operation, the Bank, adhering to the concept of "Contributing to Society", actively participated in various social public welfare activities, and set up the International Commercial Bank of China Cultural and Educational Foundation (now renamed Mega Bank C&E Foundation) as a financial group with NTD200 million in 1992 to handle various public welfare activities with its yields. From 2006 to 2018, a total of NTD144.7 million was donated to facilitate the operation of the Foundation. The aim of the Foundation is to engage in cultural, educational and public welfare undertakings and care for social education of the disadvantaged. In 2018, the Bank participated in sponsoring various activities, including education, sports, arts and culture, and public welfare.

The related marketing and advertisements of the previous sponsorship activities all listed the Bank as the sponsor, which has significant benefits for the Bank's overall image promotion and academic and cultural contribution, and also helps to create intangible value for the Bank's shareholders. Therefore, the Bank will continue to support Mega Bank C&E Foundation in handling various public welfare activities in order to fulfill corporate social responsibilities.

Credit Risk Management System

Year 2018

<table>
<tr><th>Item</th><th>Content</th></tr>
<tr><td>A. Credit Risk Strategies, Goals, Policies, and Procedures</td><td>1. When developing the Bank's credit and investment businesses, besides complying with the relevant laws and regulations such as the Banking Act of the Republic of China, the business supervisory units shall set risk management targets (capital adequacy ratio, non-performing loans ratio, NPL coverage ratio, etc.), and the Risk Management Department compiles and submits reports to the Bank's Risk Management Committee, Risk Management Committee of Mega Financial Holding Company and the Bank's Board of Directors for approval. The Bank also sets its risk appetite by establishing various credit and investment regulations, maintaining a sound credit risk management framework and standard.
2. In response to the implementation of New Basel Capital Accord, the Bank has been gradually developing models and evaluation mechanisms for estimating various credit risk component, such as implementation of internal rating system linked to probability of default (PD), to predict customer's PD with quantitative analysis tools, etc., so as to strengthen the existing credit rating system of credit analysis procedures, and thereby enhance the management efficiency of credit risk.
3. Before engaging in credit and investment businesses, the Bank shall ensure thorough credit investigation and review with clear authorization limits by a hierarchical delegation framework to enhance service efficiency and shorten operating processes. Regular review is also conducted by establishing a reporting mechanism to report irregular or emergent incidents within the stipulated time.
4. The Overdue Loan & Control Department is in charge of non-performing/non-accrual loans management. Proper guidelines, rules and procedures have been set to ensure effective monitoring and collection of NPLs.</td></tr>
<tr><td>B. Organization of Credit Risk Management</td><td>1. The Board of Directors has the ultimate responsibility for the Bank's credit risk management, in charge of approval of entire Bank's credit risk policies, framework, strategies/goals and important credit risk management regulations of the Bank. The Risk Management Committee is delegated by the Board of Directors and is convened by Chairman of the Board with the responsibility to review and discuss risk management policies, regulations, etc.
2. The Loan Committee and Investment Committee are in charge of reviewing credit and investment cases, related policies and implementation status in this regard. The Problem Loan Committee manages problem loans and debt collection, and reviews related policies of non-performing/non-accrual loans.
3. Each Head Office department in charge of credit risk shall, according to their duties, implement credit risk management procedures such as identification, measurement, monitoring, reporting, etc., and continue to enhance risk management mechanism.
4. The Risk Management Department shall coordinate and supervise the various units in establishing the credit risk management mechanism, and gradually develop tools such as internal rating system to enhance credit risk management, and submits risk management report to the Board of Directors and Mega Financial Holding Company regularly.</td></tr>
<tr><td>C. Scope and Characteristics of the Credit Risk, Reporting and Measuring System</td><td>1. The Bank's credit risk management objectives are set annually using a bottom-up method, and are submitted to the Board of Directors for approval. The implementation progress and status are evaluated regularly according to economic conditions, the Bank's financial status and risk exposure, etc., so as to strengthen the Bank's overall risk management. Meanwhile, in accordance with the regulations of the competent authority, related credit risk information is disclosed on the Bank's website.
2. To control the same concerned party (groups of related counterparties), industries, country risk, etc., and prevent over-concentration of risk, the Bank has set various credit and investment limits for the same concerned party (groups of related counterparties), industries, etc., according to economic performance, industry outlook and credit risk level, and reports</td></tr>
</table>

Item	Content
	to the senior management regularly on the implementation status and compliance status of the laws and regulations, such as the Banking Act of the Republic of China, and internal credit and investment related regulations of the Bank. 3. Conducts regular credit review to better understand customers, increases the frequency of review for loan customers with high and abnormal credit risk, and reports the review status to the senior management after annual analysis and review. 4. Visits the invested enterprises at least once per year, and takes note of their operation, capital flow and execution of business plan, helps solve various problems, analyzes the operations, and reports to the Board of Managing Directors. 5. Different units are responsible for the investment and evaluation of long-term equity, and the fair value of investment positions is regularly evaluated by appropriate methods according to the characteristics of investment objects. 6. Irregularity reporting system: if loan or investment customers encounter irregular operation, financial difficulty or other unexpected material incident that would affect the company's operation, the business unit shall immediately report to the senior management through the departments in charge, and to Mega Financial Holding Company through the Risk Management Department, so that related information can be relayed and necessary measures carried out immediately. 7. Asset evaluation: for the various credit assets, investments, other assets and contingent assets, business supervisory units shall base on the Bank's historical loss experience on bad debts write-off, provision, bad debt recovery, etc., current non-performing loans ratio, collection status and the competent authority's regulations, generally accepted accounting principles, etc., to evaluate the possible loss and provide for bad debts or cumulative impairment.
D. Credit Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	Through prudent credit investigation and review mechanism with fully understanding of customers' financial and operation status, the following countermeasures are adopted: 1. When the probability of loss occurrence of loans or transactions is high, and the severity of expected losses is significant, e.g. a newly incorporated company with low credit rating and with credit risk higher than profit, the Bank does not undertake such business. 2. When the probability of loss occurrence of loans or transactions is low, but the severity of expected losses is high, such business can be undertaken by self-liquidating trade finance, account receivable finance, etc., and strengthen foreign exchange transactions, and manage cash flow to further reduce risk. Major credit exposures, housing loans, etc., may be undertaken by requesting for collateral or guarantor, or through a syndicated loan, or selling off part of positions in the secondary market after undertaking, or engaging in debt securitization, so as to reduce or transfer risk. 3. When the probability of loss occurrence of loans or transactions is high, but the severity of expected losses is minor, the Bank shall sign agreements with the clauses such as financial or non-financial covenants and prohibition on sale of assets or mortgage so as to control the credit risk of the borrower or counterparty. 4. When the probability of loss occurrence of loans or transactions is low, and the severity of expected losses is minor, the Bank shall undertake such business if upon assessment, the profit is higher than risk borne. 5. For collaterals such as securities, real estates, etc., the Bank regularly monitor loan-to-value ratios for each case. For guarantors' creditworthiness, the Bank monitor through measures such as credit review to ensure the effectiveness of risk mitigation tools.
E. Method of Legal Capital Allocation	1. The Bank currently adopts the Standardized Approach for credit risk regulatory capital charge. 2. In order to quantify risk so as to effectively measure risk and enhance management, the Bank has progressively developed various credit rating models, introduced aforementioned models linked to probability of default into credit investigation process, and gradually developing a system complied with the credit risk Internal Ratings-Based Approach under the New Basel Capital Accord.

Operational Risk Management System

Year 2018

Item	Content
A. Operational Risk Management Strategies and Procedures	1. Strategies ■ Establish an effective framework and formulate internal control procedures for each level. ■ Enhance employee training in laws, regulations and business. ■ Strengthen control of operating procedures. ■ Implement internal and external audit and supervision measures to reduce the entire bank’s operational risk loss. 2. Procedures ■ Conduct risk identification and assessment, suitability analysis and planning of information system, before launching new products or businesses or establishing new overseas branches, and hold a review council, in accordance with the Bank’s "Operating Guidelines for Establishing New Business, New Products and Overseas Branches". ■ Formulate business management regulations, operational specifications, and establish them in the computer system to allow staff to inquire timely and to comply with, when performing their duties. ■ Conduct self-assessment of operational risk to identify and measure the degree of operational risk exposure, strengthen risk management awareness, and improve current control mechanism. ■ Conduct self-reviews to understand the implementation of various business control mechanism, and rectify the deficiencies immediately. ■ Submit and compile operational risk loss incidents based on the 8 major industry types and 7 major loss incident types stipulated in Basel II, and conduct reviews on the factors of occurrence of the loss and improve them. ■ Establish key indicators for operational risk to monitor potential risk, and apply appropriate management measures where necessary.
B. Organization of Operational Risk Management	1. Board of Directors: approve operational risk management policies. 2. Auditing Department: conduct regular reviews on the effectiveness of operational risk management mechanism to each unit. 3. Risk Management Department: formulate operational risk management policies and concrete targets, design and implement operational risk assessment and management mechanism, summarize and submit reports on the operational risk loss regularly. 4. Head Office’s business supervisory units: identify operational risk, formulate respective business management regulations and operational specification, as well as establish control mechanism. 5. All units of the Bank: perform various operations according to the various control mechanisms, conduct regular self-reviews and self-assessment of operational risk, and submit reports on loss incidents.
C. Scope and Characteristics of the Operational Risk Reporting and Measurement System	1. The Bank submits a report to the Board of Directors regularly on the results of self-assessment of operational risk, occurrence of operational risk loss incidents, implementation of regulatory compliance system, and audit and self-review status. 2. The Bank’s reporting on operational risk loss incidents, the implementation of law compliance system and the performance of audit system apply to each unit of the Bank. Self-review system is conducted by General Affairs and Occupational Safety & Health Department, Data Processing & Information Department, all business units and subsidiary banks. 3. When deficiencies are discovered, the units shall review and improve immediately, and make regular reports to Head Office.

<table>
<tr><th>Item</th><th>Content</th></tr>
<tr><td></td><td>4. Related units of the Bank conduct annual operational risk self-assessment to measure the Bank’s operational risk exposure and, based on the recommendations from the various units, validate the improvement of the existing control mechanism for preventing the occurrence of operational risk.</td></tr>
<tr><td>D. Operational Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments</td><td>1. The Bank transfers the possible operational risk loss from the Bank’s employees, financial affairs and equipment through insuring on banker’s blanket bond insurance, fire insurance, earthquake insurance, third-party liability insurance, group personal accident insurance, etc. The Bank also reviews and renews annually to maintain the effectiveness of risk transfer.
2. The contract that the Bank signs with contractors for outsourced operations shall specify the scope of outsourced operations and the relevant regulations so as to clarify the attributions of responsibilities and transfer possible operational risk. Also, regular evaluations are conducted on the contractors for outsourced operations to ensure that the outsourced operations are in compliance with the relevant regulations of the competent authority.</td></tr>
<tr><td>E. Method of Legal Capital Allocation</td><td>The Bank currently adopts the Basic Indicator Approach (BIA) for operational risk regulatory capital charge.</td></tr>
</table>

Market Risk Management System

Year 2018

<table>
<tr><th>Item</th><th>Content</th></tr>
<tr><td>A. Market Risk Management Strategies and Procedures</td><td>1. Strategies:
■ According to the risk management objectives and risk limits approved by the Board of Directors, supervise the entire bank’s market risk position and tolerable loss.
■ According to the Bank’s "Market Risk Management Guidelines" and other relevant regulations, implement market risk management in order to attain operational objectives and maintain a healthy capital adequacy ratio.
■ Establish market risk information system to enable effective monitoring of limit management, profit and loss assessment, sensitivity factor analysis, execution of stress test, etc., of the financial products’ position, and compile a risk report to be submitted to the head for review and use as reference for decision-making.
2. Procedures:
Set different types of risk management rules for financial products based on their different business natures and include the process for risk identification, measurement, monitoring and reporting into the regulations. The Risk Management Department monitors the compliance status of the transaction unit.
■ Daily transactions: Prepare daily market risk position and income statement, compile and analyze domestic and overseas transaction unit data, summarize and analyze various financial products’ position, assess profit and loss, sensitivity risk factor analysis, and submit monthly stress test results to enable the top management to understand the entire bank’s market risk exposure; and regularly compile the balances, gains and losses, and market assessments of investments in securities and trades of derivative financial products and submit to the (Managing) Board of Directors for the Board of Directors to understand the market risk control of the Bank.
■ Exception management: Each transaction has limits and stop-loss rules. If the transaction reaches the stop-loss limit, action shall be taken immediately. If stop-loss is not executed, the transaction unit shall state the reason for not executing stop-loss and the contingency plan, submit to top management for approval, and report to the Risk Management Committee and Board of Directors based on the type of financial products.</td></tr>
</table>

Item	Content
B. Organization of Market Risk Management	1. The Board of Directors is the Bank's highest supervisory unit for market risk, in charge of the approval of risk strategies and various risk limits, and of the Risk Management Committee which supervises market risk. 2. Conduct Risk Management Committee council regularly, and the Risk Management Department shall submit a report on the management of the Bank's various financial products position for reference by the committee. Besides submitting report on the Bank's management status such as market risk and liquidity risk, the business supervising unit shall submit a special report on the current period's major extraordinary event. 3. Risk Management Department is in charge of establishing risk control mechanism and formulating internal regulations. It compiles and analyzes data such as position, assesses the profit and loss, sensitivity risk factor analysis and stress test of various financial products regularly, and reports to the supervisory top management and Mega Financial Holding Company. 4. Stress test is conducted on market risk factor changes on a monthly basis. Also, the Risk Management Department shall, according to market conditions, set the stress scenario every half a year and submit this to the top management for approval for execution of the stress test. The results are then submitted to the top management for review, and then to the competent authority according to the regulations of the competent authority. 5. Risk Management Department compiles and submits the balances, gains and losses, and market assessments of securities investments and derivative financial products to the (Managing) Board of Directors regularly to enable them to understand the Bank's market risk management status. 6. The Treasury Department, the Direct Investment Department, Offshore Banking Branch, and overseas branches (including subsidiary banks) shall comply with relevant regulations and operating rules on market risks of the Bank and execute risk control based on business characteristics and scales; overseas branches (including subsidiary banks) shall also comply with the regulations of local supervisory authorities.
C. Scope and Characteristics of Market Risk Reporting and Measurement	1. The content of the Bank's market risk report includes exchange rate, interest rate, as well as the position, profit and loss assessment and sensitivity factor analysis of financial products such as equity securities, credit default swap, etc. 2. The domestic transaction units shall submit the financial products' positions and gain or loss to the management on a daily basis. When positions are near to stop-loss alert indicator, close monitoring of market changes will be carried out. 3. The risk management unit conducts monthly stress test and submits reports to the Risk Management Committee meetings regularly. 4. For non-hedging transactions of derivative financial products, the risk is assessed based on daily market price; for hedging transactions, the risk is assessed twice per month. 5. When stop-loss limits for loss assessment of securities such as shares, mutual funds, bonds, etc. and derivative financial products are reached, stop-loss shall be executed immediately. The transaction unit shall state the reasons for not executing stop-loss and the response measures, and submit the status to the management or the top management for approval. When these products exceeded a certain amount of loss, such incident shall be reported to the Risk Management Committee and Board of Directors based on the type of financial product.
D. Market Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the	1. The hedging strategy of the Bank is to use spot or derivative financial products as hedging tools to avoid market risk. Targeting the financial products to be hedged and the tools used to hedge, the Bank combines positions and profit/loss stop limits of both and evaluates whether if they are within acceptable range and whether the currently used risk management measures are appropriate. 2. If the assessed risk is too high, the Bank will transfer the risk by reducing the exposure or adopting other approved hedging methods to reduce the risk to a tolerable range.

Item	Content
Continuing Effectiveness of Hedging and Mitigation Instruments	
E. Method of Legal Capital Allocation	1. The Bank adopts the Standardized Approach for market risk capital charge. 2. In terms of risk management, SUMMIT Market Risk Information System provides limit management, profit and loss assessment, sensitivity factor analysis, stress test, and risk value calculation. The Bank is gradually managing market risk through information generated from SUMMIT. In the future, it shall decide whether to adopt Internal Models Approach for capital charge based on business requirements and complexity of the financial products.

Liquidity Risk Management System

Year 2018

Item	Content
A. Liquidity Risk Management Strategies and Procedures	1. Strategies: ■ Monitor the Bank's overall liquidity risk limit according to the risk management objectives approved by the Board of Directors. ■ According to the regulations of the Bank's "Liquidity Risk Management Guidelines", "Operational Directions for Contingency Funding Plan", and "Operational Directions for Liquidity Stress Tests", implement liquidity risk management to ensure the Bank's payment ability. ■ Conduct stress test regularly to ensure that when the Bank's internal operation or external financial environment suffers severe impact, under any circumstance whether at present or in the future, the Bank's liquid funds are sufficient to meet asset increase requirements or fulfill due obligations, so that the Bank can attain sustainable operation. 2. Process: ■ According to the Bank's "Liquidity Risk Management Guidelines", Treasury Department shall control intra-day liquidity positions and risks of NTD and foreign currencies held by domestic units on a daily basis, set aside deposit reserves and maintain liquidity reserves as per the regulations of the Central Bank of the Republic of China (Taiwan), and adjust the liquidity gap based on changes in daily cash flows and market status to ensure the proper liquidity. Overseas branches shall abide by the rules of the home country and the competent authority and hold proper liquid assets to maintain the sufficient liquidity. ■ Risk Management Department monitors the liquidity risk management indicators of major currencies, inspects regulatory compliance regularly, and reports to the Fund Management Committee, Risk Management Committee and the Board of Directors. ■ Risk Management Department sets stress scenario for specific event crisis for individual organizations or overall market environmental crisis. When setting stress scenarios, it takes into consideration the impact on intraday liquidity position due to liquidity risks, collateral multiplier effect, and breach of contract by customer or counterparty due to liquidity shortage. Stress tests shall be conducted regularly, and the results submitted to the Asset & Liability Management Committee and the Board of Directors.

Item	Content
B. Organization of Liquidity Risk Management	1. The Board of Directors is the Bank's highest supervisory unit for liquidity risk, and is in charge of the approval of risk strategies and limits. 2. Treasury Department is the executive unit for managing liquidity risk. 3. Risk Management Department is the supervising unit responsible for monitoring all risk limits and reviewing the appropriateness of the implementation procedures by the implementing units on a regular basis. It shall, on a regular basis, report the monitoring results of the liquidity risk to the Fund Management Committee, the Asset & Liability Management Committee and the Board of Directors.
C. Scope and Characteristics of Liquidity Risk Reporting and Measurement	1. The main purpose of the Bank's liquidity risk report is to estimate the impact of various businesses' future cash flow on the Bank's capital movement, and control the cash flow gap or ratio under a tolerable risk limit. 2. When the liquidity indicator reaches an alert level, the Risk Management Department shall immediately report to the Chairman of the Fund Management Committee, and report at the meeting of the Fund Management Committee. 3. When the level for activating contingency plan is reached, the Risk Management Department shall immediately request the Chairman of the Fund Management Committee to convene a special meeting to review the liquidity contingency plan and implement it upon approval by the President. 4. Upon approval of the plan, the Treasury Department shall immediately implement liquidity contingency plan and the Risk Management Department shall request overseas branches to cooperate according to the plan, so as to fill the funding gap. 5. The Bank conducts stress test regularly and analyzes test results from the perspective of cash flow, liquidity position, repayment ability, etc. If the test results are not up to expectation, and if the liquidity gap is mild, adjust the fund structure as a response measure within stipulated time. In case of high liquidity gap or difficulty in raising short-term funds in the market, activate fund emergency contingency plan to reduce the impact of liquidity risk.
D. Liquidity Risk Hedging or Mitigation Policy, and Strategies and Procedures for Monitoring the Continuing Effectiveness of Hedging and Mitigation Instruments	In response to liquidity crisis such as abnormal deposit withdrawal, huge drain of funds, other serious shortage of liquidity, etc., the Bank has formulated "Operational Directions for Contingency Funding Plan" to fill the funding gap, reduce liquidity risk, maintain normal operation of the entire Bank and the goal of sustainable operation.

Condensed Consolidated Balance Sheets

Unit: Thousands in NT dollars

Item	As of December 31,	
	2018	2017
Cash and cash equivalents, and due from the central bank and call loans to banks	643,497,316	706,479,013
Financial assets at fair value through profit or loss	63,084,629	41,616,462
Financial assets at fair value through other comprehensive income	263,821,804	
Investment in debt instruments at amortised cost	269,663,886	
Securities purchased under resell agreements	3,994,470	1,697,586
Receivable, net	60,754,166	59,206,809
Current income tax assets	98,117	99,432
Discounts and loans, net	1,864,447,103	1,762,160,756
Available-for-sale financial assets, net		278,090,000
Held-to-maturity financial assets, net		282,443,736
Investments measured by equity method, net	3,085,560	3,108,324
Other financial assets, net	30,662	9,337,686
Property and equipment, net	14,956,947	14,909,527
Investment property, net	584,291	584,646
Deferred income tax assets	6,744,130	5,563,351
Other assets, net	2,821,698	2,890,767
Total assets	3,197,584,779	3,168,188,095
Due to the Central Bank and banks	394,662,026	374,814,216
Funds borrowed from the Central Bank and other banks	53,920,881	29,632,968
Financial liabilities at fair value through profit or loss	26,692,987	8,775,326
Securities sold under repurchase agreements	26,921,643	848,125
Payables	34,307,027	35,538,952
Current income tax liabilities	7,824,532	7,132,566
Deposits and remittances	2,322,578,994	2,389,236,241
Financial bonds payable	13,300,000	25,900,000
Other financial liabilities	10,529,402	8,969,641
Provisions	15,424,809	14,820,870
Deferred income tax liabilities	2,436,593	2,216,847
Other liabilities	6,125,151	6,419,470
Total liabilities	2,914,724,045	2,904,305,222
Equity attributable to owners of the parent company	282,860,734	263,882,873
Capital	85,362,336	85,362,336
Capital surplus	62,219,540	62,219,540
Retained earnings	130,016,615	118,719,341
Other equity interest	5,262,243	(2,418,344)
Total equity	282,860,734	263,882,873

Condensed Consolidated Statements of Comprehensive Income

Unit: Thousands in NT dollars

Item	2018	2017
Interest income	64,961,286	53,854,147
Less: interest expense	28,422,899	19,770,044
Net interest income	36,538,387	34,084,103
Net revenue other than interest	15,875,614	15,892,500
Net revenue	52,414,001	49,976,603
Bad debts expense, commitment and guarantee liability provisions	2,045,773	4,344,809
Operating expenses	23,649,277	21,328,752
Consolidated income from continuing operations before tax	26,718,951	24,303,042
Income tax expense	(2,546,739)	(2,779,632)
Consolidated income from continuing operations, net of tax	24,172,212	21,523,410
Other comprehensive income (losses), net of tax	632,746	(2,400,434)
Consolidated comprehensive income attributable to owners of the parent	24,804,958	19,122,976

Major Financial Analysis

Item		Consolidated		Standalone	
		2018	2017	2018	2017
Financial Structure	Total Liabilities to Total Assets (%)	91.05	91.56	91.01	91.51
	Property and Equipment to Total Equity (%)	5.29	5.65	5.27	5.63
Solvency	Liquidity Reserve Ratio (%)	29.47	30.29	29.47	30.29
Operating Performance Analysis	Loans to Deposits Ratio (%)	82.08	75.14	81.73	74.90
	NPL Ratio (%)	0.15	0.13	0.14	0.12
	Total Assets Turnover (Number of Times)	0.02	0.02	0.02	0.02
	Average Profit per Employee (Thousands in NT Dollars)	3,685	3,470	3,778	3,572
Profitability Analysis	Return on Tier 1 Capital (%)	10.18	9.62	10.27	9.70
	ROA (%)	0.76	0.70	0.76	0.70
	ROE (%)	8.73	8.26	8.73	8.26
	Net Income to Net Operating Income (%)	46.12	43.07	46.48	43.41
	Earnings per Share (NT Dollars)	2.83	2.52	2.83	2.52
	Cash Dividends per Share (NT Dollars)	1.96	1.50	1.96	1.50
	Equity per Share Before Appropriation (NT Dollars)	33.14	30.91	33.14	30.91
Capital Adequacy Ratio (%)		14.03	14.48	13.86	14.30

Note：The 2018 earnings distribution will be resolved in the 2019 Board of Directors on the stockholders' behalf.

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Report of Independent Accountants Translated From Chinese

PWCR18002956

To the Board of Directors and Shareholders of Mega International Commercial Bank Co., Ltd.

Opinion

We have audited the accompanying consolidated balance sheets of Mega International Commercial Bank Co., Ltd. and subsidiaries (collectively the "Bank and subsidiaries") as at December 31, 2018 and 2017, and the related consolidated statements of comprehensive income, of changes in equity and of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Bank and subsidiaries as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks", and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission.

Basis for opinion

We conducted our audits in accordance with the "Rules Governing the Audit of Financial Statements of Financial Institution by Certified Public Accountants" and generally accepted auditing standards in the Republic of China (ROC GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Bank and its subsidiaries in accordance with the Code of Professional Ethics for Certified Public Accountants in the Republic of China (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

The Bank and subsidiaries' key audit matters for the year ended December 31, 2018 are addressed as follows:

Recognition and measurement of expected credit losses on discounts and loans

Description

The recognition and measurement of expected credit losses on discounts and loans complies with the regulations under IFRS 9 "Financial Instruments" and relevant regulations issued by the competent authority. For the accounting policy of recognition and measurement of expected credit losses on discounts and loans, please refer to Note 4(9); for critical accounting judgements, estimates, and assumption uncertainty of the recognition and measurement of expected credit losses on discounts and loans, please refer to Note 5(2). For information on gross discounts and loans and allowance for bad debts, which amounted to NT$1,894,706,350 thousand and NT$30,259,247 thousand, respectively, as at December 31, 2018, please refer to Note 6(7); for disclosures of related credit risks, please refer to Note 8(3).

資誠聯合會計師事務所 PricewaterhouseCoopers, Taiwan
11012 臺北市信義區基隆路一段 333 號 27 樓
27F, No.333, Sec.1, Keelung Rd., Xinyi Dist., Taipei 11012, Taiwan
T: +886 (2) 2729 6666, F: +886 (2) 2729 6686, www.pwc.tw

The Bank and subsidiaries assesses the impairment of its discounts and loans based on the expected credit loss model. At each financial reporting date, financial instruments are categorized into three stages based on the degree of change in its credit risk since initial recognition. Provision for impairment loss is measured either using 12-month expected credit losses (i.e. stage 1, there has been no significant increase in credit risk since initial recognition) or lifetime expected credit losses (i.e. stage 2, there has been a significant increase in credit risk since initial recognition; or stage 3, the credit has impaired). The measurement of expected credit losses is based on a complex model, which includes various parameters and assumptions and reflects reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. For example, the probability of default and loss given default are estimated using grouping and historical data and subsequently calibrated according to forward-looking information.

The aforementioned recognition and measurement of expected credit losses on discounts and loans use a complex model, which involves various assumptions, estimates, and judgements, as well as predictions and assessments of future economic conditions and credit behavior of debtors. The amounts, recognized in a manner consistent with regulations and interpretations, are directly subject to the measurement results. Thus, we have included recognition and measurement of expected credit losses on discounts and loans as one of the key audit matters in our audit.

How our audit addressed the matter

We performed the following audit procedures on the key audit matter mentioned above:

1. Obtained an understanding and assessed the related written policies and internal control system of discounts and loans, the expected credit loss impairment model and methodology (including various parameters and assumptions, reasonableness of the measurement criteria for the three stages of credit risk, and the relevancy of future economic condition criteria in forward-looking information), and the approval process.
2. Sampled and tested the implementation effectiveness of internal controls related to the recognition and measurement of expected credit losses, including management of collateral and its value assessment, controls for changes in parameters, and approval for provisioning of expected credit losses.
3. Sampled and tested the consistency of measurement criteria for the samples in the three stages of expected credit loss with the judgement results of the system.
4. Sampled and tested probability of default, loss given default, exposure at default, and the discount rate
   (1) Sampled and tested assumptions for the parameters of the expected credit loss model, including the reasonableness of historical data on probability of default, loss given default, and exposure at default
   (2) Sampled and tested whether the calculation method of the discount rate of loss given default is in accordance with existing policy
5. Sampled and tested forward-looking information
   (1) Sampled and tested the reliability of data on historical economic conditions (economic growth rate, annual inflation rate, etc.) adopted by management to measure expected credit losses under IFRS 9.
   (2) Assessed the reasonableness of the forward-looking scenarios and their respective weights adopted by the management.
6. Assessed cases in stage 3 (credit impaired) with material amounts that were previously assessed individually.

   Assessed the reasonableness and calculation accuracy of the various assumed parameter values (including the borrower's time of past due, financial and operational conditions, guarantees by external parties and historical data) adopted in the estimation of future cash flows.

資誠聯合會計師事務所 PricewaterhouseCoopers, Taiwan
11012 臺北市信義區基隆路一段 333 號 27 樓
27F, No.333, Sec.1, Keelung Rd., Xinyi Dist., Taipei 11012, Taiwan
T: +886 (2) 2729 6666, F: +886 (2) 2729 6686, www.pwc.tw

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Fair value measurement of unlisted stocks without an active market

Description

For the accounting policy for unlisted stocks without an active market (included financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income), please refer to Note 4(7) ; for critical accounting judgements, estimates, and assumption uncertainty of unlisted stocks without an active market, please refer to Note 5(1); for details on financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income, please refer to Notes 6(3) and (4). The fair values of unlisted stocks without an active market were classified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income as at December 31, 2018, and amounted to NT$5,524,770 thousand and NT$10,774,464 thousand, respectively.

The fair value of unlisted stocks is determined by valuation methods since these financial instruments have no quoted prices from active market. Management uses the market approach and net asset approach to measure the fair value. The market approach is based on the fair value of comparable listed companies in similar industries or recently published price-to-book ratios of industries in which the valuation target operates, and incorporates discounting according to market liquidity or specified risk.

The aforementioned fair value measurement involves various assumptions and significant inputs that are not observable. This leads to estimates that are highly uncertain and rely on the subjective judgement of management. Any changes to the judgements and estimates will affect the final measurement results, and in turn affect the financial condition of the Bank and subsidiaries. Thus, we have included the fair value measurement of unlisted stock without active market as one of the key audit matters in our audit.

How our audit addressed the matter

We performed the following audit procedures on the key audit matter mentioned above:

1. Obtained an understanding and assessed the related written policies, internal control system, fair value measurement models, and approval process of the fair value measurement of stocks of unlisted companies.
2. Ascertained whether the measurement used by the management is commonly utilized by the industry.
3. Assessed the reasonableness of similar and comparable companies used by management.
4. Examined inputs and calculation formulas used in valuation methods and agreed such data to their supporting documents.

Other matter – Parent company only financial report

We have audited and expressed an unqualified opinion on the parent company only financial statements as at and for the years ended December 31, 2018 and 2017, prepared by the Bank.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair representation of the consolidated financial statements in accordance with "Regulations Governing the Preparation of Financial Reports by Public Banks", and the International Financial Reporting Standards, International Accounting Standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the Financial Supervisory Commission, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

資誠聯合會計師事務所 PricewaterhouseCoopers, Taiwan
11012 臺北市信義區基隆路一段 333 號 27 樓
27F, No.333, Sec.1, Keelung Rd., Xinyi Dist., Taipei 11012, Taiwan
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In preparing the consolidated financial statements, management is responsible for assessing the Bank and subsidiaries' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank and subsidiaries or to cease operations, or has no realistic alternative but to do so.

Those charged with governance is responsible for overseeing the Bank and subsidiaries' financial reporting process.

Auditor's responsibilities for the audit of the consolidated financial statements

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

As part of an audit in accordance with ROC GAAS, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank and subsidiaries' internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank and subsidiaries' ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank and subsidiaries to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank and subsidiaries to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

資誠聯合會計師事務所 PricewaterhouseCoopers, Taiwan
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27F, No.333, Sec.1, Keelung Rd., Xinyi Dist., Taipei 11012, Taiwan
T: +886 (2) 2729 6666, F: +886 (2) 2729 6686, www.pwc.tw

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

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

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

The consolidated financial statements as at and for the year ended December 31, 2018 expressed in US dollars were translated from the New Taiwan dollar consolidated financial statements using the exchange rate of US$1：NT$30.733 at December 31, 2018 solely for the convenience of the readers. This basis of translation is not in accordance with generally accepted accounting principles in the Republic of China.

Chi, Shu-Mei

Lai, Chung-Hsi

For and on behalf of PricewaterhouseCoopers, Taiwan
March 15, 2019

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.
As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation

資誠聯合會計師事務所 PricewaterhouseCoopers, Taiwan
11012 臺北市信義區基隆路一段 333 號 27 樓
27F, No.333, Sec.1, Keelung Rd., Xinyi Dist., Taipei 11012, Taiwan
T: +886 (2) 2729 6666, F: +886 (2) 2729 6686, www.pwc.tw

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Assets	Notes	December 31, 2018 NT$	December 31, 2018 US$ (Unaudited-Note 4)	(Adjusted) December 31, 2017 NT$	(Adjusted) January 1, 2017 NT$
Assets					
Cash and cash equivalents	6(1)	$ 123,184,884	$ 4,008,228	$ 137,710,247	$ 90,426,546
Due from the central bank and call loans to banks	6(2) and 11(3)	520,312,432	16,930,089	568,768,766	540,011,742
Financial assets at fair value through profit or loss	6(3) and 16(11)	63,084,629	2,052,667	41,616,462	45,316,653
Financial assets at fair value through other comprehensive income	6(4)	263,821,804	8,584,317	-	-
Investment in debt instruments at amortised cost	6(5)	269,663,886	8,774,408	-	-
Securities purchased under resell agreements	11(3) and 13(2)	3,994,470	129,973	1,697,586	4,255,968
Receivables, net	6(6) and 16(11)	60,754,166	1,976,838	59,206,809	59,425,191
Current income tax assets		98,117	3,193	99,432	122,108
Discounts and loans, net	6(7) and 16(11)	1,864,447,103	60,665,965	1,762,160,756	1,715,278,766
Available-for-sale financial assets, net	16(11)	-	-	278,090,000	205,720,937
Held-to-maturity financial assets, net	16(11)	-	-	282,443,736	279,291,168
Investments measured by equity method, net	6(8)	3,085,560	100,399	3,108,324	3,033,753
Other financial assets, net	6(9) and 16(11)	30,662	998	9,337,686	9,670,797
Property and equipment, net	6(10)	14,956,947	486,674	14,909,527	14,322,434
Investment property, net	6(11)	584,291	19,012	584,646	865,039
Deferred income tax assets	6(35)	6,744,130	219,443	5,563,351	5,088,804
Other assets, net	6(12)	2,821,698	91,813	2,890,767	1,621,685
Total assets		$ 3,197,584,779	$ 104,044,017	$ 3,168,188,095	$ 2,974,451,591
Liabilities and equity					
Liabilities					
Due to the Central Bank and banks	6(13) and 11(3)	$ 394,662,026	$ 12,841,637	$ 374,814,216	$ 390,300,405
Funds borrowed from the Central Bank and other banks	6(14) and 11(3)	53,920,881	1,754,495	29,632,968	35,691,029
Financial liabilities at fair value through profit or loss	6(15) (18)	26,692,987	868,545	8,775,326	11,394,240
Securities sold under repurchase agreements	6(3)(4) and 13(2)	26,921,643	875,984	848,125	444,678
Payables	6(16)	34,307,027	1,116,293	35,538,952	32,149,539
Current income tax liabilities	11(3)	7,824,532	254,597	7,132,566	8,134,367
Deposits and remittances	6(17) and 11(3)	2,322,578,994	75,572,804	2,389,236,241	2,173,615,665
Financial bonds payable	6(18)(37)	13,300,000	432,760	25,900,000	36,200,000
Other financial liabilities	6(20)	10,529,402	342,609	8,969,641	8,583,989
Provisions	6(19) and 16(11)	15,424,809	501,897	14,820,870	12,953,433
Deferred income tax liabilities	6(35)	2,436,593	79,283	2,216,847	2,161,652
Other liabilities	6(21)	6,125,151	199,302	6,419,470	5,258,347
Total liabilities		2,914,724,045	94,840,206	2,904,305,222	2,716,887,344
Equity attributable to owners of parent					
Capital					
Common stock	6(22)	85,362,336	2,777,546	85,362,336	85,362,336
Capital surplus	6(22)	62,219,540	2,024,519	62,219,540	62,219,540
Retained earnings					
Legal reserve	6(22)	86,147,870	2,803,106	79,690,847	73,987,859
Special reserve	6(22)	4,535,074	147,564	4,000,055	3,873,832
Unappropriated earnings		39,333,671	1,279,851	35,028,439	33,582,479
Other equity interest	6(24) and16(11)	5,262,243	171,225	(2,418,344)	(1,461,799)
Total equity		282,860,734	9,203,811	263,882,873	257,564,247
Total liabilities and equity		$ 3,197,584,779	$ 104,044,017	$ 3,168,188,095	$ 2,974,451,591

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

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)

		For the years ended December 31,			Changes
		2018		2017	Percentage
	Notes	NT$	US$ (Unaudited-Note 4)	NT$	(%)
Interest income	6(25) and 11(3)	$ 64,961,286	$ 2,113,731	$ 53,854,147	21
Less: interest expense	6(25) and 11(3)	(28,422,899)	(924,833)	(19,770,044)	44
Net interest income		36,538,387	1,188,898	34,084,103	7
Net revenue other than interest					
Net service fee revenue	6(26) and 11(3)	6,930,097	225,494	6,929,515	-
Gains (losses) on financial assets or liabilities measured at fair value through profit or loss	6(27)	4,721,819	153,640	5,422,840	(13)
Realized gains (losses) on available-for-sale financial assets	16(11)	-	-	1,484,447	(100)
Realized gains on financial assets at fair value through other comprehensive income	6(28)	955,315	31,084	-	-
Gains (losses) arising from derecognition of financial assets measured at amortised cost	6(5)	1,064	35	-	-
Foreign exchange gains (losses)		2,652,330	86,302	1,926,016	38
(Impairment losses on assets) reversal of impairment losses on assets	6(29)	82,888	2,697	(205,179)	-
Share of profit of associates and joint ventures accounted for using equity method	6(8)	179,679	5,846	208,567	(14)
Net other revenue other than interest income	6(30)	178,030	5,793	235,497	(24)
Gains (losses) on financial assets at cost	16(11)	-	-	619,151	(100)
Other miscellaneous revenue (expense)	6(31)	174,392	5,674	(728,354)	-
Net revenue		52,414,001	1,705,463	49,976,603	5
Bad debts expense, commitment and guarantee liability provisions	8(3) and 16(11)	(2,045,773)	(66,566)	(4,344,809)	(53)
Operating expenses					
Employee benefits expenses	6(32) and 11(3)	(14,763,337)	(480,374)	(13,649,035)	8
Depreciation and amortization expenses	6(33)	(627,254)	(20,410)	(541,720)	16
Other general and administrative expenses	6(34) and 11(3)	(8,258,686)	(268,723)	(7,137,997)	16
Consolidated income from continuing operations before tax		26,718,951	869,390	24,303,042	10
Income tax expense	6(35)	(2,546,739)	(82,867)	(2,779,632)	(8)
Consolidated income from continuing operations, net of tax		24,172,212	786,523	21,523,410	12
Other comprehensive income (losses)					
Components of other comprehensive income that will not be reclassified to profit or loss					
Gains (losses) on remeasurements of defined benefit plans	6(19)	(757,090)	(24,634)	(1,739,625)	(56)
Revaluation gains (losses) on investments in equity instruments measured at fair value through other comprehensive income	6(4)(24)	66,523	2,165	-	-
Share of other comprehensive income of associates and joint ventures accounted for using equity method	6(8)(24) and 16(11)	(2,634)	(86)	-	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(35)	325,670	10,597	295,736	10
Components of other comprehensive income that will be reclassified to profit or loss					
Exchange differences on translation	6(24) and 16(11)	1,100,821	35,819	(1,777,256)	-
Unrealized gains (losses) on valuation of available-for-sale financial assets	16(11)	-	-	799,586	(100)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	6(8)(24) and 16(11)	(33,551)	(1,092)	21,125	(259)
Revaluation gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	6(4)(24)	(71,641)	(2,331)	-	-
(Impairment losses) reversal of impairment losses from investments in debt instruments measured at fair value through other comprehensive income	6(4)(24)	(27,161)	(884)	-	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	6(35)	31,809	1,035	-	-
Other comprehensive income (losses), net of tax		632,746	20,589	(2,400,434)	-
Total comprehensive income		$ 24,804,958	$ 807,112	$ 19,122,976	30
Consolidated net income attributable to:					
Owners of the parent		$ 24,172,212	$ 786,523	$ 21,523,410	12
Consolidated comprehensive income attributable to:					
Owners of the parent		$ 24,804,958	$ 807,112	$ 19,122,976	30
Consolidated earnings per share					
Basic and diluted earnings per share (in dollars)	6(35)	$ 2.83	$ 0.09	$ 2.52	

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

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN THOUSANDS OF DOLLARS)

	Equity attributable to owners of the parent									
			Retained earnings			Other equity interest				
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated Earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Unrealised gains (losses) on financial assets measured at fair value through other comprehensive income	Others	Total
For the year ended December 31, 2018(NT Dollars)										
Balance, January 1, 2018	$ 85,362,336	$ 62,219,540	$ 79,690,847	$ 4,000,055	$ 35,028,439	($ 2,713,370)	$ 295,026	$ -	$ -	$ 263,882,873
Effects of retrospective application and retrospective restatement	-	-	-	-	533,042	-	(295,026)	6,771,816	(32,579)	6,977,253
Balance at January 1 after adjustments	85,362,336	62,219,540	79,690,847	4,000,055	35,561,481	(2,713,370)	-	6,771,816	(32,579)	270,860,126
Net income for the year of 2018	-	-	-	-	24,172,212	-	-	-	-	24,172,212
Other comprehensive income (loss) for the year of 2018	-	-	-	-	(431,420)	1,105,348	-	(22,093)	(19,089)	632,746
Total comprehensive income (loss)	-	-	-	-	23,740,792	1,105,348	-	(22,093)	(19,089)	24,804,958
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(172,210)	-	-	172,210	-	-
Earnings distribution for 2017										
Cash dividends	-	-	-	-	(12,804,350)	-	-	-	-	(12,804,350)
Legal reserve	-	-	6,457,023	-	(6,457,023)	-	-	-	-	-
Special reserve	-	-	-	535,745	(535,745)	-	-	-	-	-
Reversal of special reserve	-	-	-	(726)	726	-	-	-	-	-
Balance, December 31, 2018	$ 85,362,336	$ 62,219,540	$ 86,147,870	$ 4,535,074	$ 39,333,671	($ 1,608,022)	$ -	$ 6,921,933	($ 51,668)	$ 282,860,734
For the year ended December 31, 2018 (US Dollars - Unaudited-Note 4)										
Balance, January 1, 2018	$ 2,777,546	$ 2,024,519	$ 2,593,006	$ 130,155	$ 1,139,766	($ 88,288)	$ 9,600			$ 8,586,304
Effects of retrospective application and retrospective restatement	-	-	-	-	17,344	-	(9,600)	220,343	(1,060)	227,027
Balance at January 1 after adjustments	2,777,546	2,024,519	2,593,006	130,155	1,157,110	(88,288)	-	220,343	(1,060)	8,813,331
Net income for the year of 2018	-	-	-	-	786,523	-	-	-	-	786,523
Other comprehensive income (loss) for the year of 2018	-	-	-	-	(14,037)	35,966	-	(719)	(621)	20,589
Total comprehensive income (loss)	-	-	-	-	772,486	35,966	-	(719)	(621)	807,112
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(5,604)	-	-	5,604	-	-
Earnings distribution for 2017										
Cash dividends	-	-	-	-	(416,632)	-	-	-	-	(416,632)
Legal reserve	-	-	210,100	-	(210,100)	-	-	-	-	-
Special reserve	-	-	-	17,432	(17,432)	-	-	-	-	-
Reversal of special reserve	-	-	-	(23)	23	-	-	-	-	-
Balance, December 31, 2018	$ 2,777,546	$ 2,024,519	$ 2,803,106	$ 147,564	$ 1,279,851	($ 52,322)	$ -	$ 225,228	($ 1,681)	$ 9,203,811

(Continued)

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN THOUSANDS OF DOLLARS)

	Equity attributable to owners of the parent									
			Retained earnings			Other equity interest				
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated Earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Unrealised gains (losses) on financial assets measured at fair value through other comprehensive income	Others	Total
For the year ended December 31, 2017(NT Dollars)										
Balance, January 1, 2017	$ 85,362,336	$ 62,219,540	$ 73,987,859	$ 3,873,832	$ 33,582,479	($ 926,233)	($ 535,566)	$ -	$ -	$ 257,564,247
Net income for the year of 2017	-	-	-	-	21,523,410	-	-	-	-	21,523,410
Other comprehensive income (loss) for the year of 2017	-	-	-	-	(1,443,889)	(1,787,137)	830,592	-	-	(2,400,434)
Total comprehensive income (loss)	-	-	-	-	20,079,521	(1,787,137)	830,592	-	-	19,122,976
Earnings distribution for 2016										
Cash dividends	-	-	-	-	(12,804,350)	-	-	-	-	(12,804,350)
Legal reserve	-	-	5,702,988	-	(5,702,988)	-	-	-	-	-
Special reserve	-	-	-	126,223	(126,223)	-	-	-	-	-
Balance, December 31, 2017	$ 85,362,336	$ 62,219,540	$ 79,690,847	$ 4,000,055	$ 35,028,439	($ 2,713,370)	$ 295,026	$ -	$ -	$ 263,882,873

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

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF DOLLARS)

	For the years ended December 31, 2018 NT$	2018 US$ (Unaudited -Note 4)	2017 NT$
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax	$ 26,718,951	$ 869,390	$ 24,303,042
Adjustments			
Adjustments to reconcile profit (loss)			
Bad debts expense, commitment and guarantee liability provisions	2,045,773	66,566	4,344,809
Depreciation expense	621,657	20,228	535,681
Amortization expense	5,597	182	6,039
Interest income	(64,961,286)	(2,113,731)	(53,854,147)
Dividend income	(1,296,312)	(42,180)	(962,590)
Interest expense	28,422,899	924,833	19,770,044
Share of profit of associates and joint ventures accounted for using equity method	(179,679)	(5,846)	(208,567)
Gain on disposal of property and equipment	(1,498)	(49)	(1,262)
(Reversal of impairment loss) impairment loss on assets	(82,888)	(2,697)	205,179
Loss on retirement of property and equipment	3,965	129	32
Changes in operating assets and liabilities			
Decrease in due from the central bank and call loans to banks	17,384,939	565,677	34,914,999
(Increase) decrease in financial assets at fair value through profit or loss	(10,298,745)	(335,104)	3,700,191
Increase in financial assets at fair value through other comprehensive income	(20,685,498)	(673,071)	-
Decrease in investments in debt instruments measured at amortised cost	52,939,587	1,722,565	-
(Increase) decrease in receivables	(991,330)	(32,256)	756,477
Increase in discounts and loans	(104,662,417)	(3,405,539)	(50,940,398)
Increase in available-for-sale financial assets	-	-	(71,282,208)
Increase in held-to-maturity financial assets	-	-	(3,152,568)
Increase in other financial assets	(24,850)	(809)	(569,362)
Decrease (increase) in other assets	121,251	3,945	(1,258,431)
Increase (decrease) in due to the Central Bank and banks	19,847,810	645,814	(15,486,189)
Increase (decrease) in financial liabilities at fair value through profit or loss	17,917,661	583,010	(2,618,914)
Increase in securities sold under repurchase agreements	26,073,518	848,388	403,447
(Decrease) increase in payable	(2,210,072)	(71,912)	2,769,707
(Decrease) increase in deposits and remittances	(66,657,247)	(2,168,914)	215,620,576
Increase in other financial liabilities	1,559,761	50,752	385,652
Increase in provisions for employee benefits	154,544	5,029	159,054
Decrease in other liabilities	(604,549)	(19,671)	(37,890)
Interest received	64,352,866	2,093,934	53,001,824
Dividends received	1,462,571	47,590	1,117,711
Interest paid	(27,444,752)	(893,006)	(19,150,338)
Income taxes paid	(2,443,050)	(79,493)	(3,882,373)
Net cash flows from operating activities	(42,910,823)	(1,396,246)	138,589,227
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from capital reduction of financial assets at cost	-	-	387,056
Proceeds from disposal of property and equipment	9,519	309	6,621
Acquisitions of property and equipment	(677,172)	(22,034)	(867,567)
Net cash used in investing activities	(667,653)	(21,725)	(473,890)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in guarantee deposits received	310,294	10,096	1,199,013
Increase (decrease) in due to the central bank and banks	24,287,913	790,288	(6,058,061)
Cash dividends paid	(12,804,350)	(416,632)	(12,804,350)
Decrease in financial bonds payable	(12,600,000)	(409,982)	(10,300,000)
Net cash flows used in financing activities	(806,143)	(26,230)	(27,963,398)
EFFECT OF EXCHANGE RATE CHANGES	1,083,967	35,271	(1,754,597)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(43,300,652)	(1,408,930)	108,397,342
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	531,433,417	17,291,947	423,036,592
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 488,132,765	$ 15,883,017	$ 531,433,934
CASH AND CASH EQUIVALENTS COMPOSITION:			
Cash and cash equivalents reported in the statement of financial position	$ 123,184,884	$ 4,008,228	$ 137,710,247
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	360,953,411	11,744,816	392,026,101
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	3,994,470	129,973	1,697,586
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 488,132,765	$ 15,883,017	$ 531,433,934

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

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD. AND SUBSIDIARIES

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

(EXPRESSED IN THOUSANDS OF NEW TAIWAN DOLLARS, EXCEPT AS OTHERWISE INDICATED)

1. HISTORY AND ORGANISATION

(1) Mega International Commercial Bank Co., Ltd. (the "Bank"; formerly The International Commercial Bank of China Co., Ltd.) was reorganized on December 15, 1971 in accordance with the "Law for International Commercial Bank of China" as announced by the President of the Republic of China (R.O.C.) (which was then abolished in December, 2005) and other related regulations. As of December 31, 2002, the Bank became an unlisted wholly owned subsidiary of Mega Financial Holding Co. Ltd., through a share swap transaction. With the view to enlarging business scale and increasing market share, the Bank entered into a merger agreement with Chiao Tung Bank Co., Ltd. on August 21, 2006, the effective date of the merger. The Bank was later renamed Mega International Commercial Bank Co., Ltd. Mega Financial Holding Co., Ltd. holds 100% equity interest in the Bank and is the Bank's ultimate parent company.

(2) The Bank engages in the following operations: (a) commercial banking operations authorized by the R.O.C. Banking Law; (b) foreign exchange and related operations; (c) import and export financing and guarantees; (d) financial operations related to international trade; (e) trust operations; (f) investment services on consignments by clients; (g) loan operations, including mid-term to long-term development loan and guarantee operations; (h) venture capital activities; and (i) other related operations approved by the R.O.C. government.

(3) The Bank's business and operations are widely managed by the head office. The Bank expands its network by opening branches at key locations in both domestic and foreign markets. The Bank was incorporated as company limited by shares under the provisions of the Company Law of the Republic of China (R.O.C.). As of December 31, 2018 the Bank had 109 domestic branches, 23 overseas branches, 1 oversea subsidiary (Please refer to Note 16 for detailed information on the conversion of Mega International Commercial Bank (Canada) on April 16, 2018), 5 overseas sub-branches, 2 overseas representative offices, and 1 marketing office.

(4) The Trust Department of the Bank is primarily responsible for planning, management and operation of trust investment businesses regulated by the R.O.C. Banking Law.

(5) As of December 31, 2018 and 2017, the Bank and subsidiaries had 6,560 and 6,202 employees, respectively.

2. THE DATE OF AUTHORIZATION FOR ISSUANCE OF THE CONSOLIDATED FINANCIAL STATEMENTS AND PROCEDURES FOR AUTHORIZATION

These consolidated financial statements were authorized for issuance by the Board of Directors on March 15, 2019.

3. APPLICATION OF NEW STANDARDS, AMENDMENTS AND INTERPRETATIONS

(1) Effect of the adoption of new issuances of or amendments to International Financial Reporting Standards ("IFRS") as endorsed by the Financial Supervisory Commission ("FSC")

New standards, interpretations and amendments endorsed by the FSC effective from 2018 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendments to IFRS 2, 'Classification and measurement of share-based payment transactions'	January 1, 2018
Amendments to IFRS 4, 'Applying IFRS 9 Financial instruments with IFRS 4 Insurance contracts'	January 1, 2018
IFRS 9, 'Financial instruments'	January 1, 2018
IFRS 15, 'Revenue from contracts with customers'	January 1, 2018
Amendments to IFRS 15, 'Clarifications to IFRS 15 Revenue from contracts with customers'	January 1, 2018
Amendments to IAS 7, 'Disclosure initiative'	January 1, 2017
Amendments to IAS 12, 'Recognition of deferred tax assets for unrealised losses'	January 1, 2017
Amendments to IAS 40, 'Transfers of investment property'	January 1, 2018
IFRIC 22, 'Foreign currency transactions and advance consideration'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 1, 'First-time adoption of International Financial Reporting Standards'	January 1, 2018
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IFRS 12, 'Disclosure of interests in other entities'	January 1, 2017
Annual improvements to IFRSs 2014-2016 cycle-Amendments to IAS 28, 'Investments in associates and joint ventures'	January 1, 2018

Except for the following, the above standards and interpretations have no significant impact to the Bank and subsidiaries' financial condition and financial performance based on the Bank and subsidiaries assessment.

IFRS 9, 'Financial instruments'

(a) Classification of debt instruments is driven by the entity's business model and the contractual cash flow characteristics of the financial assets, which would be classified as financial assets at fair value through profit or loss, financial assets measured at fair value through other comprehensive income or financial assets measured at amortised cost. Equity instruments would be classified as financial assets at fair value through profit or loss, unless an entity makes an irrevocable election at inception to present subsequent changes in the fair value of an investment in an equity instrument that is not held for trading in other comprehensive income.

(b) The impairment losses of debt instruments are assessed using an 'expected credit loss' approach. An entity assesses at each balance sheet date whether there has been a significant increase in credit risk on that instrument since initial recognition to recognize 12-month expected credit losses or lifetime expected credit losses (interest revenue would be calculated on the gross carrying amount of the asset before impairment losses occurred); or if the instrument that has objective evidence of impairment, interest revenue after the impairment would be calculated on the book value of net carrying amount (i.e. net of credit allowance). The Company shall always measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain a significant financing component.

(c) The amended general hedge accounting requirements align hedge accounting more closely with an entity's risk management strategy. Risk components of non-financial items and a group of items can be designated as hedged items. The standard relaxes the requirements for hedge effectiveness, removing the 80-125% bright line, and introduces the concept of 'rebalancing'; while its risk management objective remains unchanged, an entity shall rebalance the hedged item or the hedging instrument for the purpose of maintaining the hedge ratio.

(d) The Bank and subsidiaries has elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 16(11) B and C.

Please refer to Note 8(3) for detailed information on credit risk related to the application of IFRS 9 on January 1, 2018. Please refer to Note 16(11) for detailed information on credit risk related to the application of IAS 39 for the periods before December 31, 2017.

Information on the first application of IFRS 9 on December 31, 2018 and for the year ended December 31, 2018 are disclosed in Note 6. Information on December 31, 2017 and for the year ended December 31, 2017, is provided in Note 16(11).

(2) Effect of new issuances of or amendments to IFRSs as endorsed by the FSC but not yet adopted by the Bank and subsidiaries

New standards, interpretations and amendments endorsed by the FSC effective from 2019 are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendments to IFRS 9, 'Prepayment features with negative compensation'	January 1, 2019
IFRS 16, 'Leases'	January 1, 2019
Amendments to IAS 19, 'Plan amendment, curtailment or settlement'	January 1, 2019
Amendments to IAS 28, 'Long-term interests in associates and joint ventures'	January 1, 2019
IFRIC 23, 'Uncertainty over income tax treatments'	January 1, 2019
Annual improvements to IFRSs 2015-2017 cycle	January 1, 2019

Except for the following, the above standards and interpretations have no significant impact to the Bank and subsidiaries' financial condition and financial performance based on the Bank and subsidiaries' assessment.

IFRS 16, 'Leases'

IFRS 16, 'Leases', replaces IAS 17, 'Leases' and related interpretations and SICs. The standard requires lessees to recognise a 'right-of-use asset' and a lease liability (except for those leases with terms of 12 months or less and leases of low-value assets). The accounting stays the same for lessors, which is to classify their leases as either finance leases or operating leases and account for those two types of leases differently. IFRS 16 only requires enhanced disclosures to be provided by lessors.

The Bank and subsidiaries expects to recognise the lease contract of lessees in line with IFRS 16. However, the Bank and subsidiaries does not intend to restate the financial statements of prior period (collectively referred herein as the "modified retrospective approach"), on January 1, 2019, it is expected that 'right-of-use asset' and lease liability will be increased by NT$1,782,562 thousand and NT$1,782,562 thousand.

(3) IFRSs issued by IASB but not yet endorsed by the FSC

New standards, interpretations and amendments issued by IASB but not yet included in the IFRSs as endorsed by the FSC are as follows:

New Standards, Interpretations and Amendments	Effective Date by International Accounting Standards Board
Amendment to IAS 1 and IAS 8, 'Disclosure Initiative-Definition of Material'	January 1, 2020
Amendments to IFRS 3, 'Definition of a business'	January 1, 2020
Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an investor and its associate or joint venture'	To be determined by International Accounting Standards Board
IFRS 17, 'Insurance contracts'	January 1, 2021

The above standards and interpretations have no significant impact to the Bank and subsidiaries' financial condition and financial performance based on the Bank and subsidiaries' assessment.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

(1) Compliance statement

The consolidated financial statements of the Bank and subsidiaries have been prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks", International Financial Reporting Standards, International Accounting standards, IFRIC Interpretations, and SIC Interpretations as endorsed by the FSC (collectively referred herein as the "IFRSs").

(2) Basis for preparation

A. Except for financial assets and financial liabilities (including derivative instruments) recognised at fair value, financial assets at fair value through other comprehensive income, and defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation, and these consolidated financial statements have been prepared under the historical cost convention.

B. The analysis of expense is classified based on the nature of expenses.

C. The management has to make certain significant accounting estimates based on their professional judgment and decide the accounting policy according to the IFRSs as endorsed by the FSC. Any change in the assumption could result in a significant change in the financial statements. The management of the Bank and subsidiaries believes that the assumptions used in the consolidated statements are appropriate. For highly complicated matters, matters requiring high level of judgments, significant judgments that could have an impact on the consolidated financial statements and estimates and key sources of assumption uncertainty, please refer to Note 5 for further details.

D. In adopting IFRS 9 effective January 1, 2018, the Bank and subsidiaries have applied the rules retrospectively whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the financial statements for the year ended December 31, 2017 was not restated. The financial statements for the year ended December 31, 2017 were prepared in compliance with IAS 39 and related financial reporting interpretations. Please refer to Note 16(11) for details of significant accounting policies.

(3) Basis for preparation of consolidated financial statements

A. All subsidiaries are included in the Bank and subsidiaries' consolidated financial statements. Subsidiaries are all entities controlled by the Bank. The Bank controls an entity when the Bank is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Consolidation of subsidiaries begins from the date the Bank obtains control of the subsidiaries and ceases when the Bank loses control of the subsidiaries.

Inter-company transactions, balances and unrealized gains or losses on transactions between companies within the Bank and subsidiaries are eliminated. Accounting policies of subsidiaries have been adjusted where necessary to ensure consistency with the policies adopted by the Bank.

Profit or loss and each component of other comprehensive income are attributed to the owners of the parent. Total comprehensive income is also attributed to the owners of the parent.

B. Subsidiaries included in the consolidated financial statements:

Name of investor	Name of subsidiaries	Major business activities	Percentage of holding shares (%)	
			December 31, 2018	December 31, 2017
The Bank	Mega International Commercial Bank (Canada) (Note)	Commercial Banking	100.00	100.00
The Bank	Mega International Commercial Public Co., Ltd.(Thailand)	Commercial Banking	100.00	100.00

Note: Please refer to Note 16(2) for detailed information on the conversion of Mega International Commercial Bank (Canada) on April 16, 2018.

C. Subsidiaries not included in the consolidated financial statements:

Name of investor	Name of subsidiaries	Major business activities	Percentage of holding shares (%)	
			December 31, 2018	December 31, 2017
The Bank	Cathay Investment & Development Corporation (Bahamas)	International Investment & Exploration	100.00	100.00
The Bank	Mega Management Consulting Co., Ltd.	Venture capital and management consulting etc.	100.00	100.00
The Bank	Cathay Investment & Warehousing Co., S.A.	1.Storage and warehousing of imported commodities 2.Manage and make the investment for the business in foreign trade business	100.00	100.00
The Bank	Ramlett Finance Holdings Inc.	Real estate investment industry	100.00	100.00
The Bank	Yung-Shing Industries Co.	Packaging, printing and agency of manpower service	99.56	99.56
The Bank	China Products Trading Company	Investments in products businesses, storage businesses and other businesses	68.27	68.27
Yung-Shing Industries Co.	Win Card Co., Ltd	Corporate management consulting, data processing business and general advertising services	100.00	100.00
Yung-Shing Industries Co.	ICBC Asset Management & Consulting Co., Ltd	Investment consulting, corporate management consulting and venture investment management consulting	100.00	100.00

As the individual total assets or operating revenue amounts of the above subsidiaries are immaterial, the accounts of these subsidiaries are not included in the Bank's consolidated financial statements although the Bank holds more than 50% equity interest in these subsidiaries. The investments of certain subsidiaries are accounted for using equity method.

D. Adjustments for subsidiaries with different balance sheet dates：None.

E. Nature and extent of the restrictions on fund remittance from subsidiaries to the parent company：None.

(4) Foreign currency translations

A. Functional and presentation currency
Items included in the financial statements of each of the Bank and subsidiaries' entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars, which is the Bank's functional and the Bank and subsidiaries' presentation currency.

B. Transactions and balances

The transactions denominated in foreign currency or to be settled in foreign currency are translated into a functional currency at the spot exchange rate between the functional currency and the underlying foreign currency on the date of the transaction.

Foreign currency monetary items should be reported using the closing rate (market exchange rate) at the date of each balance sheet. When multiple exchange rates are available for use, they should be reported using the rate that would be used to settle the future cash flows of the foreign currency transactions or balances at the measurement date. Foreign currency non-monetary items measured at historical cost should be reported using the exchange rate at the date of the transaction. Foreign currency non-monetary items measured at fair value should be reported at the rate that existed when the fair values were determined.

Exchange differences arising when foreign currency transactions are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized or in previous financial statements are reported in profit or loss in the period.

If a gain or loss on a non-monetary item is recognized in other comprehensive income, any foreign exchange component of that gain or loss is also recognized in other comprehensive income. Conversely, if a gain or loss on a non-monetary item is recognized in profit or loss, any foreign exchange component of that gain or loss is also recognized in profit or loss.

C. Translation of foreign operations

The operating results and financial position of the entire Bank and subsidiaries' entities in the consolidated financial statements that have a functional currency (which is not the currency of a hyperinflationary economy) different from the presentation currency are translated into the presentation currency as follows:

(A) Assets and liabilities presented are translated at the Bank and subsidiaries' closing exchange rate at the date of that balance sheet;

(B) The profit and loss presented is translated by the average exchange rate in the period (except for the situation that the exchange rate on the trade date shall be adopted when the exchange rate fluctuate rapidly); and

(C) All resulting exchange differences are recognized in other comprehensive income.

The translation differences arising from above processes are recognized as 'Cumulative translation differences of foreign operations' under equity items.

(5) Cash and cash equivalents

"Cash and cash equivalents" in the consolidated balance sheet includes cash on hand, due from other banks, short-term highly liquid investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. In respect of the consolidated statements of cash flows, cash and cash equivalents include cash and cash equivalents in the consolidated balance sheet, due from the central bank and call loans to banks meeting the definition of cash and cash equivalents as stated in IAS No.7 "Cash Flow Statements", and securities purchased under resell agreements meeting the definition of cash and cash equivalents as stated in IAS No. 7 "Cash Flow Statements" as endorsed by the FSC.

(6) Securities sold under repurchase or resell agreements

The transactions of bills and bonds with a condition of repurchase agreement or resell agreement are accounted for under the financing method. The interest expense and interest income are recognized as incurred at the date of sale and purchase and the agreed period of sale and purchase. The repo trade liabilities, bond liabilities, reverse repo trade bills and bond investments are recognized at the date of sale or purchase.

(7) Financial assets or liabilities

A. Financial assets

Financial assets owned by the Bank and subsidiaries are classified based on both the Bank and subsidiaries' business model for managing the financial assets and the contractual cash flow characteristics of the financial asset into 'discounts and loans', 'receivables', 'financial assets at fair value through profit or loss', 'financial assets at fair value through comprehensive income', and 'investments in debt instrument at amortised cost'.

Business model refers to the method by which the Bank and subsidiaries manages the financial assets to generate cash flows, which originates from collecting contractual cash flows, selling financial assets, or both. When determining whether the contractual cash flows of the asset are solely payments of principal and interest on principal amount outstanding, the Bank and subsidiaries assesses whether the contractual cash flows are consistent with those required in a basic loan agreement. In other words, the Bank and subsidiaries determines whether interest is solely based on the time value of money, credit risk related to the principal amount outstanding on specified dates, other risks and costs associated with the basic loan agreement, and marginal profits consideration.

(A) A regular way purchase or sale

The Bank and subsidiaries recognises a regular way purchase or sale of financial assets using trade date accounting based on their category and accounting classification.

(B) Discounts and loans

Discounts and loans consist of export bills negotiation, export bills discount, loans, and overdue receivables arising from loans. Discounts and loans are measured at amortised cost using the effective interest rate method. Measurement at initial investment amount is allowed if effect of discounting is immaterial.

If a discount and loan held by the Bank and subsidiaries is renegotiated or has its terms modified due to financial difficulties of the borrower, so that it is required to be derecognised, entirely or partially, in accordance with IFRS 9, the old financial asset is derecognised, and a new financial asset and related gains or losses are recognised.

If a discounts and loans held by the Bank and subsidiaries is renegotiated or has its terms modified due to financial difficulties of the borrower, but is not required to be derecognised, or if renegotiations or modification of terms are for reasons other than financial difficulties, which rarely results in the derecognition of the asset, the carrying amount of the asset is recalculated and resulting gains or losses are recognised in profit or loss.

Interest arising from discounts and loans is recognised as ‘interest income’.

(C) Receivables, net

Receivables include receivables originated and not originated by the Bank and subsidiaries. Receivables originated by the entity arising from a direct provision of money, goods or services to debtors while receivables not originated by the Bank and subsidiaries include otherwise.

Receivables are measured at amortised cost using the effective interest method. However, short-term accounts receivable without bearing interest are subsequently measured at initial invoice amount as the effect of discounting is immaterial.

The Bank and subsidiaries determines whether the receivables that has been discounted or transferred qualify derecognition under IFRS 9 based on how much control over the risks and rewards of the receivables it has retained.

Significant amounts of receivables due from related parties are shown separately.

Interest arising from receivables are recognised as ‘interest income’.

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

Financial assets at fair value through profit or loss are financial assets that are not measured at amortised cost or fair value through other comprehensive income. Financial assets at amortised cost or fair value through other comprehensive income are designated as at fair value through profit or loss at initial recognition when they eliminate or significantly reduce a measurement or recognition inconsistency.

At initial recognition, the Bank and subsidiaries measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Bank and subsidiaries subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

Dividends are recognised as gain (loss) on financial assets or liabilities at fair value through profit or loss - dividend revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Company and its subsidiaries and the amount of the dividend can be measured reliably.

(E) Investments in debt instruments at amortised cost

a. Financial assets at amortised cost are those that meet all of the following criteria:

(a) The objective of the Bank and subsidiaries’ business model is achieved by collecting contractual cash flows.

(b) The assets’ contractual cash flows represent solely payments of principal and interest.

b. At initial recognition, the Bank and subsidiaries measure the financial assets at fair value plus transaction costs. Interest income from these financial assets is included in finance income using the effective interest method. A gain or loss is recognised in derecognition designated as gain (loss) on financial assets at amortised cost when the asset is derecognised or impaired.

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

a. Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and for which the Bank and subsidiaries has made an irrevocable election at initial recognition to recognise changes in fair value in other comprehensive income and debt instruments which meet all of the following criteria:

(a) The objective of the Bank and subsidiaries’ business model is achieved both by collecting contractual cash flows and selling financial assets; and

(b) The assets’ contractual cash flows represent solely payments of principal and interest.

b. At initial recognition, the Bank and subsidiaries measures the financial assets at fair value plus transaction costs. The Bank and subsidiaries subsequently measures the financial assets at fair value:

(a) The changes in fair value of equity investments that were recognised in other comprehensive income are reclassified to retained earnings and are not reclassified to profit or loss following the derecognition of the investment. Dividends are recognised as realised gains (losses) on financial assets at fair value through other comprehensive income-dividend revenue when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Bank and subsidiaries and the amount of the dividend can be measured reliably.

(b) Except for the recognition of impairment loss, interest income and gain or loss on foreign exchange which are recognised in profit or loss, the changes in fair value of debt instruments are taken through other comprehensive income. When the financial asset is derecognised, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss.

(G) Reclassification of financial assets

When, and only when, the Bank and subsidiaries changes its business model for managing financial assets it reclassifies all affected financial assets except for equity instruments and financial assets designated as at fair value through profit or loss. The Bank and subsidiaries applies the reclassification prospectively from the reclassification date and does not restate any previously recognised gains, losses or interest.

B. Financial liabilities

Financial liabilities held by the Bank and subsidiaries comprise financial liabilities at fair value through profit or loss and financial liabilities measured at amortized cost.

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

Financial liabilities are classified in this category of held for trading if acquired principally for the purpose of repurchasing in the short-term. Derivatives are also categorised as financial liabilities held for trading unless they are designated as hedges. Or financial liabilities at fair value through profit or loss. Financial liabilities that meet one of the following criteria are designated as at fair value through profit or loss at initial recognition:

a. Hybrid (combined) contracts; or

b. They eliminate or significantly reduce a measurement or recognition inconsistency; or

c. They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management policy.

At initial recognition, the Bank and subsidiaries measures the financial liabilities at fair value. All related transaction costs are recognised in profit or loss. The Bank and subsidiaries subsequently measures these financial liabilities at fair value with any gain or loss recognised in profit or loss.

If the credit risk results in fair value changes in financial liabilities designated as at fair value through profit or loss, they are recognised in other comprehensive income in the circumstances other than avoiding accounting mismatch or recognising in profit or loss for loan commitments or financial guarantee contracts.

(B) Financial liabilities measured at amortized cost

Liabilities not classified as financial liabilities at fair value through profit or loss and financial guarantee contracts are all included in financial liabilities carried at amortised cost.

C. Decision of fair value

Fair value and level information of financial instruments are provided in Note 7.

D. Derecognition of financial instruments

(A) The Bank and subsidiaries derecognize a financial asset when one of the following conditions is met:

a. The contractual rights to receive cash flows from the financial asset expire.

b. The contractual rights to receive cash flows from the financial asset have been transferred and the Bank and subsidiaries have transferred substantially all risks and rewards of ownership of the financial asset.

c. The contractual rights to receive cash flows from the financial asset have been transferred; however, it has not retained control of the financial asset.

(B) A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(C) In case of securities lending or borrowing by the Bank and subsidiaries or provision of bonds or stocks as security for repo trading, the Bank and subsidiaries does not derecognize the financial asset, because substantially all risks and rewards of ownership of the financial asset are still retained in the Bank and subsidiaries.

(8) Offsetting financial instruments

Financial assets and liabilities are offset and reported in the net amount in the consolidated balance sheet when (A) there is a legally enforceable right to offset the recognized amounts and (B) there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

(9) Impairment of financial assets

For debt instruments measured at fair value through other comprehensive income and financial assets at amortised cost, at each reporting date, the Bank and subsidiaries recognises the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognises the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition after taking into consideration all reasonable and verifiable information that includes forecasts.

The Bank and subsidiaries measures expected credit losses 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 about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date.

For loan assets, the Bank and subsidiaries assesses the loss allowance at the balance sheet date in accordance with “Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” as issued by the FSC, “Financial-Supervisory-Banks Letter No. 10300329440” issued on December 4, 2014 relating to the strengthening of domestic banks’ risk endurance to real estate loans, “Financial-Supervisory-Banks Letter No. 10410001840” issued on April 23, 2015 relating to the strengthening of domestic banks’ risk endurance to management of exposures in China as well as IFRS 9 requirements. The loss allowance is provisioned at the higher of the amounts assessed in compliance with the aforementioned domestic regulations and IFRS 9 and then presented at net value.

(10) Non-hedging and embedded derivatives

A. Non-hedging derivatives are initially recognised at fair value on the date a derivative contract is entered into and recorded as financial assets or financial liabilities at fair value through profit or loss. They are subsequently remeasured at fair value and the gains or losses are recognised in profit or loss.

B. Under the financial assets, the hybrid contracts embedded with derivatives are initially recognized as financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and financial assets at amortised cost based on the contract terms.

C. Under the non-financial assets, whether the hybrid contracts embedded with derivatives are accounted for separately at initial recognition is based on whether the economic characteristics and risks of an embedded derivative are closely related in the host contract. When they are closely related, the entire hybrid instrument is accounted for by its nature in accordance with the applicable standard. When they are not closely related, the derivative is accounted for differently from the host contract as derivative while the host contract is accounted for by its nature in accordance with the applicable standard. Alternatively, the entire hybrid instrument is designated as a derivative instrument included in financial liabilities at fair value through profit or loss upon initial recognition, and no separate accounting is required.

(11) Investments measured by equity method

A. Associates are all entities over which the Bank and subsidiaries have significant influence but not control. In general, it is presumed that the investor has significant influence, if an investor holds, directly or indirectly 20 percent or more of the voting power of the investee. Investments in associates are accounted for using equity method and are initially recognized at cost.

B. The Bank and subsidiaries' share of its associates' post-acquisition profits or losses is recognized in profits or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income. When the Bank and subsidiaries' share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank and subsidiaries do not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

C. Unrealized gains on transactions between the Bank and subsidiaries and its associates are eliminated to the extent of the Bank and subsidiaries' interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been adjusted where necessary to ensure consistency with the policies adopted by the Bank and subsidiaries.

D. When changes in an associate's equity that are not recognized in profit or loss or other comprehensive income of the associates and such changes not affecting the Bank and subsidiaries' ownership percentage of the associate, the Bank and subsidiaries recognized the Bank and subsidiaries' share of change in equity of the associate in 'capital reserve' in proportion to its ownership.

E. When the Bank and subsidiaries disposes its investment in an associate, if it loses significant influence over this associate, the amounts previously recognized as other comprehensive income in relation to the associate are transferred to profit or loss. If it still retains significant influence over this associate, then the amounts previously recognized as other comprehensive income in relation to the associate are transferred to profit or loss proportionately.

(12) Property and equipment

The property and equipment of the Bank and subsidiaries are recognized on the basis of the historical cost less accumulated depreciation. Historical cost includes all costs directly attributable to the acquisition of the assets.

Such assets are subsequently measured using the cost model. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and subsidiaries and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Land is not affected by depreciation. Depreciation for other assets is provided on a straight-line basis over the estimated useful lives of the assets till residual value. If each part of an item of property and equipment with a cost that is significant in relation to the total cost of the item must be depreciated separately.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each balance sheet date. If expectations for the assets' residual values and useful lives differ from previous estimates or the patterns of consumption of the assets' future economic benefits embodied in the assets have changed significantly, any change is accounted for as a change in estimate under IAS 8, 'Accounting Policies, Changes in Accounting Estimates and Errors', from the date of the change. The estimated useful lives of property, plant and equipment are as follows:

Item	Year
Buildings and accessory equipment	1~60
Machinery and computer equipment	1~20
Transportation equipment	1~10
Other equipment	3~10

(13) Investment property

The properties held by the Bank and subsidiaries, with an intention to obtain long-term rental profit or capital increase or both and not being used by any other enterprises of the consolidated entities, are classified as investment property. Investment property includes the office building and land leased out in a form of operating lease.

Part of the property may be held by the Bank and subsidiaries and the remaining will be used to generate rental income or capital appreciation. If the property held by the Bank and subsidiaries can be sold individually, then the accounting treatment should be made respectively.

When the future economic benefit related to the investment property is highly likely to flow into the Bank and subsidiaries and the costs can be reliably measured, the investment property shall be recognized as assets. When the future economic benefit generated from subsequent costs is highly likely to flow into the entity and the costs can be reliably measured, the subsequent expenses of the assets shall be capitalized. All maintenance cost are recognized as incurred in the consolidated statement of comprehensive income.

An investment property is stated initially at its cost and measured subsequently using the cost model. The depreciation method, remaining useful life and residual value should apply the same rules as applicable for property and equipment.

(14) Foreclosed properties

Foreclosed properties are stated at the lower of carrying amount or fair value less selling cost on the financial reporting date.

(15) Impairment of non-financial assets

The Bank and subsidiaries assess at each balance sheet date the recoverable amounts of those assets where there is an indication that they are impaired. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell or value in use. When the circumstances or reasons for recognizing impairment loss for an asset in prior years no longer exist or diminish, the impairment loss shall be reversed. The increased carrying amount due to reversal should not be more than what the depreciated or amortized historical cost would have been if the impairment had not been recognized.

(16) Provisions for liabilities, contingent liabilities and contingent assets

When all the following criteria are met, the Bank and subsidiaries shall recognize a provision:

A. A present obligation (legal or constructive) as a result of a past event;

B. It is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and

C. The amount of the obligation can be reliably estimated.

If there are several similar obligations, the outflow of economic benefit as a result of settlement is determined based on the overall obligation. Provisions for liabilities should be recognized when the outflow of economic benefits is probable in order to settle the obligation as a whole even if the outflow of economic benefits from any one of the obligation is remote.

Provisions are measured by the present value of expense which is required for settling the anticipated obligation. The pre-tax discount rate is used with timely adjustment that reflects the current market assessments on the time value of money and the risks specific to the obligation.

Contingent liability is a possible obligation that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank and subsidiaries. Or it could be a present obligation as a result of past event but the payment is not probable or the amount cannot be measured reliably. The Bank and subsidiaries did not recognize any contingent liabilities but made appropriate disclosure in compliance with relevant regulations.

Contingent asset is a possible asset that arises from past event, whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank and subsidiaries. The Bank and subsidiaries did not recognize any contingent assets and made appropriate disclosure in compliance with relevant regulations when the economic inflow is probable.

(17) Financial guarantee contracts and loan commitments

A financial guarantee contract is a contract that requires the Bank and subsidiaries to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A loan commitment is an agreement to provide credit under predetermined terms and conditions.

The Bank and subsidiaries initially recognize financial guarantee contracts at fair value on the date of issuance. The Bank and subsidiaries charge a service fee when the contract is signed and therefore the service fee income charged is the fair value at the date that the financial guarantee contract is signed. Service fee received in advance is recognized in deferred accounts and amortized through straight-line method during the contract term.

Loss provisions are recognised for financial guarantee contracts and loan commitments, and the amounts of loss allowance are determined by expected credit losses.

Subsequently, the Bank and subsidiaries should measure the financial guarantee contract issued at the higher of:

A. The amount of loss allowance is determined by using an expected-credit-loss model; and

B. The initially recognised amount less the cumulative gains that were recognised under IFRS 15'Revenue from contracts with customers'.

Loss allowance for the aforementioned reserve for guarantee liabilities is assessed in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" as issued by the FSC and IFRS 9 requirements. A provision is then recognised at the higher of the amounts assessed in compliance with the aforementioned domestic regulations and IFRS 9.

The Bank and subsidiaries determines loss allowance for the loan commitments based on expected credit loss.

The loss allowance is recognized as provision for loan commitments and financial guarantee contracts. If the financial instrument contains both a loan (i.e. financial asset) and an undrawn commitment (i.e. loan commitment) component and the Bank and subsidiaries is unable to identify the expected credit losses (ECLs) of the financial asset and loan commitment component, the ECLs of loan commitment is recognised together with the loss allowance for financial asset. A provision is recognised for the aggregate ECLs exceeding the carrying amount of the financial asset.

The increase in liabilities due to financial guarantee contracts and loan commitments is recognised in 'bad debts expense, commitment and guarantee liability provision'.

(18) Employee benefits

A. Short-term employee benefits

The Bank and subsidiaries should recognize the undiscounted amount of the short-term benefits expected to be paid in the future as expenses in the period when the employees render service.

B. Employee preferential savings

The Bank provides preferential interest rate for employees, including flat preferential savings for current employees and flat preferential savings for retired employees and current employees. The difference gap compared to market interest rate is deemed as employee benefits.

According to Regulation Governing the Preparation of Financial Statements by Public Banks, the preferential monthly interest paid to current employees is calculated based on accrual basis, and the difference between the preferential interest rate and the market interest rate is recognized under "employee benefit expense". According to Article 30 of "Regulation Governing the Preparation of Financial

Statements by Public Banks", the excessive interest arising from the interest rate upon retirement agreed with the employees in excess of general market interest rate should be recognized in accordance with IAS 19, "Employee Benefits", as endorsed by the FSC. However, various parameters should be in compliance with competent authorities if indicated otherwise.

C. Termination benefits

Termination benefits are employee benefits provided in exchange for the termination of employment as a result from either the decisions of the Bank and subsidiaries to terminate an employee's employment before the normal retirement date, or an employee's decision to accept an offer of redundancy benefits in exchange for the termination of employment. The Bank and subsidiaries recognizes expense as it can no longer withdraw an offer of termination benefits or it recognizes relating restructuring costs, whichever is earlier.

Benefits that are expected to be due more than 12 months after balance sheet date shall be discounted to their present value.

D. Post-employment benefit

The pension plan of the Bank and subsidiaries includes both Defined Benefit Plan and Defined Contribution Plan. In addition, defined contribution plan is adopted for employees working overseas according to the local regulations.

(A) Defined Contribution Plan

The contributions are recognized as pension expenses when they are due on an accrual basis. Prepaid contributions are recognized as an asset to the extent of a cash refund or a reduction in the future payments.

(B) Defined Benefit Plan

a. Net obligation under a defined benefit plan is defined as the present value of an amount of pension benefits that employees will receive on retirement for their services with the Bank and subsidiaries in current period or prior periods. The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit net obligation is calculated annually by independent actuaries using the projected unit credit method. The rate used to discount is determined by using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability; when there is no deep market in high-quality corporate bonds, the Bank and subsidiaries uses interest rates of government bonds (at the balance sheet date) instead.

b. Remeasurement arising on defined benefit plans are recognized in other comprehensive income in the period in which they arise and are recorded as retained earnings.

c. Past service costs are recognized immediately in profit or loss.

E. Employees' compensation and directors' and supervisors' remuneration

Employees' compensation and directors' and supervisors' remuneration are recognized as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. Any difference between the resolved amounts and the subsequently actual distributed amounts is accounted for as changes in estimates. If employee compensation is distributed by shares, the Bank and subsidiaries calculate the number of shares based on the closing price at the previous day of the Board of Directors' resolution day.

(19) Employee share-based payment

For the equity-settled share-based payment arrangements, the employee services received are measured at the fair value of the equity instruments granted at the grant date, and are recognized as compensation cost over the vesting period, with a corresponding adjustment to equity. The fair value of the equity instruments granted shall reflect the impact of market vesting conditions and non-market vesting conditions. Compensation cost is subject to adjustment based on the service conditions that are expected to be satisfied and the estimates of the number of equity instruments that are expected to vest under the non-market vesting conditions at each balance sheet date. And ultimately, the amount of compensation cost recognized is based on the number of equity instruments that eventually vest.

(20) Revenue and expense

Income and expense of the Bank and subsidiaries are recognized as incurred. Expenses consist of employee benefit expense, depreciation and amortization expense and other business and administration expenses. Dividend revenues are recognized within 'financial assets and liabilities at fair value through profit or loss' and 'financial assets and liabilities at fair value through other comprehensive income' in the consolidated statement of comprehensive income when the right to receive dividends is assured.

A. Other than those classified as financial assets and liabilities at fair value through profit and loss, all the interest income and interest expense generated from interest-bearing financial assets are calculated by effective interest rate according to relevant regulations and recognized as "interest income" and "interest expense" in the consolidated statement of comprehensive income.

B. Service fee income and expense are recognised upon the completion of services of loans or other services; service fee earned from performing significant items shall be recognised upon the completion of the service, such as syndication loan service fee received from sponsor, service fee income and expense of subsequent services of loans are amortized or included in the calculation of effective interest rate of loans and receivables during the service period.

(21) Income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or items recognized directly in equity, in which cases the tax is recognized in other comprehensive income or equity.

The current income tax expense is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Bank and subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in accordance with applicable tax regulations. It establishes provisions where appropriate based on the amounts expected to be paid to the tax authorities. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the following year after the Board of Directors make resolution in respect of earnings appropriation proposal on behalf of stockholders.

The earnings appropriation from 2018 is imposed with an additional 5% tax on unappropriated retained earnings in accordance with the amendments to the Income Tax Act enacted on February 7, 2018.

Deferred income tax is recognized, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated balance sheet. However, the deferred income tax is not accounted for if it arises from initial recognition of goodwill or of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference is controlled by the Bank and subsidiaries and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each balance sheet date, unrecognized and recognized deferred income tax assets are reassessed.

Current income tax assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. Deferred income tax assets and liabilities are offset on the balance sheet when the entity has the legally enforceable right to offset current tax assets against current tax liabilities and they are levied by the same taxation authority on either the same entity or different entities that intend to settle on a net basis or realize the asset and settle the liability simultaneously.

(22) Share capital and dividends

Dividends on ordinary shares are recognized in the financial statements in the period in which they are approved by the shareholders. Cash dividends are recorded as liabilities. Stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance; they are not recognized and only disclosed as subsequent event in the notes if the dividend declaration date is later than the consolidated balance sheet date.

(23) Operating segments

Information of operating segments of the Bank and subsidiaries is reported in the same method as the internal management report provided to the chief operating decision-maker (CODM). The CODM is the person or group in charge of allocating resources to operating segments and evaluating their performance. The CODM of the Bank and subsidiaries is the Board of Directors.

5. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND KEY SOURCES OF ASSUMPTION UNCERTAINTY

The preparation of these consolidated financial statements requires management to make critical judgements in applying the Bank and subsidiaries' accounting policies and make critical assumptions and estimates concerning future events. Assumptions and estimates may differ from the actual results and are continually evaluated and adjusted based on historical experience and other factors.

Management's critical judgements in applying the Bank and subsidiaries' accounting policies that have significant impact on the consolidated financial statements are outlined below:

(1) Fair value measurement of investment in unlisted stock

The fair value of unlisted stocks without an active market is determined by using valuation techniques such as market approach and net asset approach. The measurement of fair value may adopt observable information or models of similar financial instruments or use assumptions in an appropriate manner if the observable parameters are unavailable in the market. Observable information is the primary source of reference. When valuation models are used for the measurements, calibration are performed to ensure its accountability in reflecting real information and market price.

In the fair value measurement, the Bank and subsidiaries primarily uses reference of the latest updated market multipliers of similar listed stocks in the industry alike and takes into account marketability discount and discount in the specialised risks. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 7 for the financial instruments fair value information.

(2) Expected credit losses

For financial assets at amortised cost and financial assets at fair value through other comprehensive income, the measurement of expected credit losses (ECLs) involves complex model and various assumptions associated with macro-economic projections and borrowers' situation in terms of the probability of default and losses-given-default. Information relating to parameters, assumptions, methods of estimation, ECL's sensitivity analysis corresponding to the aforementioned factors is provided in Note 8(3).

The measurement of ECLs in accordance with the framework of accounting principles involves several significant judgements, such as:

A. Criteria in determining whether there has been a significant increase in credit risk;

B. A selection of appropriate models and assumptions in ECLs measurement;

C. Forward-looking information to be taken into consideration in terms of different products; and

D. Grouping the financial instruments to include financial assets with the same credit risk characteristics into one group.

Please refer to Note 8(3) for the aforementioned judgements and estimates with respect of ECLs.

(3) Post-employment benefit

The present value of post-employment benefit obligations are estimated based on several assumptions. Any changes in those assumptions will affect the carrying amounts of post-employment benefit obligations.

The assumptions used to determine net pension cost (revenue) comprise discount rate. The Bank and subsidiaries determine the appropriate discount rate at the end of each year, and use the discount rate in calculating the present value of future cash outflow of post-employment benefit obligations. The discount rate is chosen by reference to the rate of government bonds where the currency and maturity date of government bonds are in agreement with those of post-employment benefit obligations. Any changes in these assumptions could significantly impact the carrying amount of defined pension obligations.

6. DETAILS OF SIGNIFICANT ACCOUNTS

(1) Cash and cash equivalents

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
Cash on hand and petty cash	$ 15,371,091	$ 500,149	$ 14,934,684
Checks for clearance	805,723	26,217	520,444
Due from banks	107,008,070	3,481,862	122,256,412
Subtotal	123,184,884	4,008,228	137,711,540
Less: allowance for doubtful accounts – due from banks	-	-	(1,293)
Total	$ 123,184,884	$ 4,008,228	$ 137,710,247

Information relating to credit risk is provided in Note 8(3).

(2) Due from the central bank and call loans to banks

	December 31, 2018	
	NT$	US$
Reserve for deposits-category A	$ 16,741,743	$ 544,748
Reserve for deposits-category B	39,410,360	1,282,347
Reserve for deposits-general	291	9
Reserve for deposits-foreign currency	754,965	24,565
Deposits of overseas branches with foreign Central Banks	247,344,272	8,048,166
Interbank settlement fund of Fund Center	5,878,089	191,263
Call loans to banks and bank overdrafts	208,443,344	6,782,395
Import and export loans from banks	202,838	6,600
Participate in interbank financing with risk	1,536,650	50,000
Subtotal	520,312,552	16,930,093
Less: Allowance for doubtful accounts-import and export loans from banks	(120)	(4)
Total	$ 520,312,432	$ 16,930,089

	December 31, 2017
	NT$
Reserve for deposits-category A	$ 11,516,365
Reserve for deposits-category B	41,465,157
Reserve for deposits-general	281
Reserve for deposits-foreign currency	587,701
Deposits of overseas branches with foreign Central Banks	258,376,119
Interbank settlement fund of Fund Center	6,237,279
Call loans to banks and bank overdrafts	247,584,160
Import and export loans from banks	958,904
Participate in interbank financing with risk	2,042,800
Subtotal	568,768,766
Less: Allowance for doubtful accounts-import and export loans from banks	-
Total	$ 568,768,766

A. As required by relevant laws, the reserves for deposits are calculated at required reserve ratios based on the monthly average balances of various deposit accounts. Reserve for deposits - category B cannot be used except upon the monthly adjustment of the reserve.

B. Information relating to credit risk is provided in Note 8(3).

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

	December 31, 2018	
	NT$	US$
Financial assets mandatorily measured at fair value through profit or loss		
Listed stocks	$ 8,999,229	$ 292,820
Emerging stocks	741,766	24,136
Unlisted stocks	5,543,483	180,375
Beneficiary certificates	488,000	15,879
Derivatives	4,735,350	154,080
Government bonds	1,228,205	39,964
Corporate bonds	32,741,866	1,065,365
Financial bonds	9,290,469	302,296
Subtotal	63,768,368	2,074,915
Valuation adjustment	(683,739)	(22,248)
Total	$ 63,084,629	$ 2,052,667

A. Gain or loss on financial assets mandatorily measured at fair value through profit or loss recognized for the years ended December 31, 2018 are provided in Note 6(27).

B. As of December 31, 2018, the above financial assets were not pledged to other parties as collateral for business reserves and guarantees.

C. As of December 31, 2018, the above financial assets used as underlying assets for repurchase agreements held by the Bank and subsidiaries were NT$2,255,767 thousand.

D. Information relating to credit risk is provided in Note 8(3).

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

	December 31, 2018	
	NT$	US$
Debt instruments		
Corporate bonds	$ 89,452,374	$ 2,910,629
Government bonds	63,663,987	2,071,519
Financial bonds	87,585,526	2,849,885
Bank's certificates of deposit	9,726,068	316,470
Treasury securities	671,415	21,847
Subtotal	251,099,370	8,170,350
Valuation adjustment	659,976	21,475
Debt instruments, net	251,759,346	8,191,825
Equity instruments		
Listed stocks	986,467	32,098
Unlisted stocks	4,675,602	152,136
Other securities	300,000	9,762
Subtotal	5,962,069	193,996
Valuation adjustment	6,100,389	198,496
Equity instruments, net	12,062,458	392,492
Total	$ 263,821,804	$ 8,584,317

A. The Bank and subsidiaries has elected to classify investments that are considered to be strategic investments and with steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to NT$12,062,458 thousand as at December 31, 2018.

B. As result of the completion of liquidations for investees, Asiatech and HCV VI, the Bank and subsidiaries have cumulative loss on disposal amounting to NT$132,523 thousand for the year ended December 31 2018. Furthermore, in order to accelerate recovery of investments, the Bank and subsidiaries sold equity instruments – unlisted, over-the-counter and emerging stocks at fair value amounting to NT$8,346 thousand with cumulative loss on disposal amounting to NT$41,512 thousand as the investee, Huacheng Venture Capital, has ceased to make new investments and expected to liquidate in the future. Besides, in response to raising uncertainty of the global situation and avoid short-term market fluctuation, the fair value of equity instruments – investments in listed stocks were sold with amount of NT$4,288,950 thousand and the cumulative gain on disposal amounted to NT$1,825 thousand.

C. Amounts recognised in profit or loss and other comprehensive income in relation to the financial assets at fair value through other comprehensive income are listed below:

	December 31, 2018	
	NT$	US$
Equity instruments at fair value through other comprehensive income		
Fair value change recognised in other comprehensive income	$ 66,523	$ 2,165
Cumulative losses reclassified to retained earnings due to derecognition	$ 172,210	$ 5,604
Dividend income recognised in profit or loss		
Held at end of year	$ 616,781	$ 20,069
Derecognised during the year	48,625	1,582
	$ 665,406	$ 21,651
Debt instruments at fair value through other comprehensive income		
Fair value change recognised in other comprehensive income	$ 218,268	$ 7,102
Cumulative other comprehensive income reclassified to profit or loss		
Reversal due to impairment recognition	($ 27,161)	($ 884)
Reclassified due to derecognition	(289,909)	(9,433)
	($ 317,070)	($ 10,317)
Interest income recognised in profit or loss	$ 5,317,445	$ 173,021

D. As of December 31, 2018, the aforementioned financial assets at fair value through other comprehensive income amounted to NT$5,600,720 thousand was pledged to other parties as collateral for business reserves and guarantees.

E. As of December 31, 2018, financial assets at fair value through other comprehensive income undertaken for repurchase agreements were NT$26,308,420 thousand.

F. Information relating to credit risk is provided in Note 8(3).

(5) Investments in debt instruments at amortised cost

	December 31, 2018	
	NT$	US$
Central Bank's certificates of deposit	$ 157,480,933	$ 5,124,164
Short-term notes and bills	85,007,066	2,765,987
Bank's certificates of deposit	6,535,758	212,662
Financial bonds	17,468,020	568,380
Government bonds	2,880,780	93,736
Corporate bonds	303,653	9,880
Subtotal	269,676,210	8,774,809
Accumulated impairment	(12,324)	(401)
Total	$ 269,663,886	$ 8,774,408

A. Amounts recognised in profit or loss in relation to financial assets at amortised cost are listed below:

	December 31, 2018	
	NT$	US$
Interest income	$ 2,213,713	$ 72,030
Gains on disposal	1,064	35
Gains on reversal of impairment	392	13
	$ 2,215,169	$ 72,078

B. Because of the issuer's credit downgrade, the Bank sold the investments in debt instrument and recognised a gain of NT$1,064 thousand for the year ended December 31, 2018.

C. As of December 31, 2018, the aforementioned debt investments amounted to NT$5,555,000 thousand was pledged to other parties as collateral for business reserves and guarantees.

D. Please refer to Note 8(3) for the movement information on accumulated loss for the year ended December 31, 2018.

E. Information relating to credit risk is provided in Note 8(3).

(6) Receivables, net

	December 31, 2018	
	NT$	US$
Factoring receivable	$ 36,041,881	$ 1,172,742
Acceptances receivable	7,586,118	246,840
Accrued interest	6,555,171	213,294
Accounts receivable - Credit card	5,338,509	173,706
Accounts receivable - Usance L/C buyout	1,942,918	63,219
Accrued income	1,013,319	32,972
Other receivables	3,681,330	119,784
Subtotal	62,159,246	2,022,557
Less: Allowance for bad debts	(1,405,080)	(45,719)
Receivables, net	$ 60,754,166	$ 1,976,838

A. Please refer to Note 8(3) for the movement information on loss allowance for the year ended December 31, 2018.

B. Information relating to credit risk is provided in Note 8(3).

(7) Discounts and loans, net

	December 31, 2018	
	NT$	US$
Bills and notes discounted	$ 11,987	$ 390
Overdrafts	1,844,152	60,006
Short-term loans	566,576,301	18,435,437
Medium-term loans	721,009,290	23,460,427
Long-term loans	591,959,717	19,261,371
Import/export bills negotiated	11,196,406	364,312
Loans transferred to non-accrual loans	2,108,497	68,607
Subtotal	1,894,706,350	61,650,550
Less: Allowance for bad debts	(30,259,247)	(984,585)
Discounts and loans, net	$ 1,864,447,103	$ 60,665,965

A. As of December 31, 2018, the amounts of reclassified non-performing loans to overdue loans were NT$2,108,497 thousand, including interest receivable of NT$14,362 thousand.

B. Please refer to Note 8(3) for the movement information on loss allowance for the year ended December 31, 2018.

C. The amount of recovery of write-off for year ended December 31, 2018 was NT$993,366 thousand.

D. Information relating to credit risk is provided in Note 8(3).

(8) Investments measured by equity method, net

Investee Company	December 31, 2018 NT$	US$	Percentage of Shareholding
Cathay Investment & Development Corporation (Bahamas)	$ 73,363	2,387	100.00
Mega Management Consulting Co., Ltd.	68,089	2,216	100.00
Cathay Investment & Warehousing Co., S.A.	49,438	1,609	100.00
Ramlett Finance Holdings Inc.	5,654	184	100.00
Yung-Shing Industries Co.	689,681	22,441	99.56
China Products Trading Company	27,819	905	68.27
Mega 1 Venture Capital Co., Ltd.	17,391	566	25.00
An Feng Enterprise Co., Ltd.	11,914	388	25.00
Taiwan Finance Corporation	1,650,156	53,693	24.55
Everstrong Iron & Steel Foundry & Mfg. Corporation	46,049	1,498	22.22
China Real Estate Management Co., Ltd.	179,080	5,827	20.00
Universal Venture Capital Investment Corporation	124,267	4,043	11.84
Mega Growth Venture Capital Co., Ltd.	142,659	4,642	11.81
Total	$ 3,085,560	$ 100,399	

Investee Company	December 31, 2017 NT$	Percentage of Shareholding
Cathay Investment & Development Corporation (Bahamas)	$ 58,808	100.00
Mega Management Consulting Co., Ltd.	79,160	100.00
Cathay Investment & Warehousing Co., S.A.	51,135	100.00
Ramlett Finance Holdings Inc.	7,500	100.00
Yung-Shing Industries Co.	684,534	99.56
China Products Trading Company	27,048	68.27
Mega 1 Venture Capital Co., Ltd.	25,769	25.00
An Feng Enterprise Co., Ltd.	11,901	25.00
Taiwan Finance Corporation	1,646,941	24.55
Everstrong Iron & Steel Foundry & Mfg. Corporation	44,637	22.22
China Real Estate Management Co., Ltd.	182,814	20.00
Universal Venture Capital Investment Corporation	142,488	11.84
Mega Growth Venture Capital Co., Ltd.	145,589	11.81
Total	$ 3,108,324	

A. The carrying amount of the Bank and subsidiaries' interests in all individually immaterial associates and the Bank and subsidiaries' share of the operating results are summarized as follows:

	For the years ended December 31, 2018 NT$	2018 US$	2017 NT$
Profit for the year	$ 179,679	$ 5,846	$ 208,567
Other comprehensive income (loss) (after income tax)	(36,185)	(1,178)	21,125
Total comprehensive income	$ 143,494	$ 4,668	$ 229,692

B. The shares of associates and joint ventures that the Bank and subsidiaries own have no quoted market price available in an active market. There is no significant restriction on fund transfer from the associates to their shareholders, i.e. distribution of cash dividends, repayment of loans or money advanced.

C. As of December 31, 2018 and 2017, investments measured by equity method were not pledged as collateral.

D. The Bank's investment in Mega Growth Venture Capital Co., Ltd. accounted for an ownership percentage of 11.81%. However, the combined ownership percentage of the Bank, the Bank's subsidiaries and the Bank's parent company was over 20%, thus the investment is accounted for using equity method.

E. The ownership percentage of the Bank investment in Universal Venture Capital Investment Corporation is 11.84%. However, due to the Bank occupying 2 board seats of Universal Venture Capital Investment Corporation's total 11 board seats, and the Bank being elected as the chairman of the board, the Bank has influence over decision-making. Therefore, valuations are accounted for using equity method.

(9) Other financial assets, net

	December 31, 2018 NT$	US$
Remittance purchased	$ 4,144	$ 135
Nonaccrual loans transferred from overdue receivables	33,713	1,097
Subtotal	37,857	1,232
Less: Allowance for bad debts - Remittance purchased	(41)	(1)
Less: Allowance for bad debts - Nonaccrual loans transferred from overdue receivables	(7,154)	(233)
Total	$ 30,662	$ 998

Information relating to credit risk is provided in Note 8(3).

(10) Property and equipment, net

	December 31, 2018			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In NT Thousand Dollars)			
Land and land improvements	$ 9,486,629	$ -	$ -	$ 9,486,629
Buildings and auxiliary equipment	10,401,146	(6,131,325)	-	4,269,821
Computers and peripheral equipment	3,590,129	(2,619,442)	-	970,687
Transportation and communication equipment	126,355	(104,601)	-	21,754
Miscellaneous equipment	1,503,096	(1,295,040)	-	208,056
	$ 25,107,355	($ 10,150,408)	$ -	$ 14,956,947

	December 31, 2018			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In US Thousand Dollars)			
Land and land improvements	$ 308,679	$ -	$ -	$ 308,679
Buildings and auxiliary equipment	338,436	(199,503)	-	138,933
Computers and peripheral equipment	116,817	(85,232)	-	31,585
Transportation and communication equipment	4,111	(3,404)	-	707
Miscellaneous equipment	48,908	(42,138)	-	6,770
	$ 816,951	($ 330,277)	$ -	$ 486,674

	December 31, 2017			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In NT Thousand Dollars)			
Land and land improvements	$ 9,480,212	$ -	($ 53,395)	$ 9,426,817
Buildings and auxiliary equipment	10,398,402	(5,969,540)	(1,940)	4,426,922
Computers and peripheral equipment	3,446,970	(2,611,668)	-	835,302
Transportation and communication equipment	134,860	(113,512)	-	21,348
Miscellaneous equipment	1,524,567	(1,325,429)	-	199,138
	$ 24,985,011	($ 10,020,149)	($ 55,335)	$ 14,909,527

	2018					
	Land and land improvements	Buildings and auxiliary equipment	Transportation and communication equipment	Computers and peripheral equipment	Miscellaneous equipment	Total
Cost	(In NT Thousand Dollars)					
Balance at January 1, 2018	$ 9,480,212	$ 10,398,402	$ 134,860	$ 3,446,970	$ 1,524,567	$ 24,985,011
Additions for the year	36,622	95,375	8,661	468,189	68,325	677,172
Disposals for the year	(2,348)	(89,200)	(18,345)	(330,477)	(96,692)	(537,062)
Transfers in the current period	(28,915)	(29,975)	-	(1)	1,112	(57,779)
Exchange adjustments	1,058	26,544	1,179	5,448	5,784	40,013
Balance at December 31, 2018	9,486,629	10,401,146	126,355	3,590,129	1,503,096	25,107,355
Accumulated depreciation						
Balance at January 1, 2018	-	(5,969,540)	(113,512)	(2,611,668)	(1,325,429)	(10,020,149)
Depreciation for the year	-	(223,357)	(8,441)	(329,521)	(60,006)	(621,325)
Disposals for the year	-	84,416	18,345	325,832	96,483	525,076
Transfers in the current period	-	490	-	-	(490)	-
Exchange adjustments	-	(23,334)	(993)	(4,085)	(5,598)	(34,010)
Balance at December 31, 2018	-	(6,131,325)	(104,601)	(2,619,442)	(1,295,040)	(10,150,408)
Accumulated impairment						
Balance at January 1, 2018	(53,395)	(1,940)	-	-	-	(55,335)
Gain on reversal of impairment loss	53,395	1,940	-	-	-	55,335
Balance at December 31, 2018	-	-	-	-	-	-
	$ 9,486,629	$ 4,269,821	$ 21,754	$ 970,687	$ 208,056	$ 14,956,947

	2018					
	Land and land improvements	Buildings and auxiliary equipment	Transportation and communication equipment	Computers and peripheral equipment	Miscellaneous equipment	Total
Cost	(In US Thousand Dollars)					
Balance at January 1, 2018	$ 308,470	$ 338,346	$ 4,388	$ 112,159	$ 49,607	$ 812,970
Additions for the year	1,192	3,103	282	15,234	2,223	22,034
Disposals for the year	(76)	(2,902)	(597)	(10,753)	(3,146)	(17,474)
Transfers in the current period	(941)	(975)	-	-	36	(1,880)
Exchange adjustments	34	864	38	177	188	1,301
Balance at December 31, 2018	308,679	338,436	4,111	116,817	48,908	816,951
Accumulated depreciation						
Balance at January 1, 2018	-	(194,239)	(3,693)	(84,979)	(43,127)	(326,038)
Depreciation for the year	-	(7,268)	(275)	(10,722)	(1,952)	(20,217)
Disposals for the year	-	2,747	597	10,602	3,139	17,085
Transfers in the current period	-	16	-	-	(16)	-
Exchange adjustments	-	(759)	(33)	(133)	(182)	(1,107)
Balance at December 31, 2018	-	(199,503)	(3,404)	(85,232)	(42,138)	(330,277)
Accumulated impairment						
Balance at January 1, 2018	(1,737)	(63)	-	-	-	(1,800)
Gain on reversal of impairment loss	1,737	63	-	-	-	1,800
Balance at December 31, 2018	-	-	-	-	-	-
	$ 308,679	$ 138,933	$ 707	$ 31,585	$ 6,770	$ 486,674

	2017					
	Land and land improvements	Buildings and auxiliary equipment	Transportation and communication equipment	Computers and peripheral equipment	Miscellaneous equipment	Total
Cost	(In NT Thousand Dollars)					
Balance at January 1, 2017	$ 9,291,941	$ 10,137,623	$ 147,616	$ 3,147,329	$ 1,536,464	$ 24,260,973
Additions for the year	-	248,516	6,284	561,637	51,130	867,567
Disposals for the year	-	(65,797)	(13,577)	(238,763)	(46,233)	(364,370)
Transfers in the current period	190,185	151,649	(2,960)	(12,593)	(1,105)	325,176
Exchange adjustments	(1,914)	(73,589)	(2,503)	(10,640)	(15,689)	(104,335)
Balance at December 31, 2017	9,480,212	10,398,402	134,860	3,446,970	1,524,567	24,985,011
Accumulated depreciation						
Balance at January 1, 2017	-	(5,819,537)	(121,793)	(2,585,763)	(1,331,502)	(9,858,595)
Depreciation for the year	-	(206,931)	(8,985)	(264,847)	(53,101)	(533,864)
Disposals for the year	-	65,766	13,577	233,402	46,234	358,979
Transfers in the current period	-	(63,600)	1,963	(1,522)	(283)	(63,442)
Exchange adjustments	-	54,762	1,726	7,062	13,223	76,773
Balance at December 31, 2017	-	(5,969,540)	(113,512)	(2,611,668)	(1,325,429)	(10,020,149)
Accumulated impairment						
Balance at January 1, 2017	(77,786)	(2,158)	-	-	-	(79,944)
Gain on reversal of impairment loss	24,391	218	-	-	-	24,609
Balance at December 31, 2017	(53,395)	(1,940)	-	-	-	(55,335)
	$ 9,426,817	$ 4,426,922	$ 21,348	$ 835,302	$ 199,138	$ 14,909,527

(11) Investment property, net

	December 31, 2018			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In NT Thousand Dollars)			
Land and land improvements	$ 574,770	$ -	$ -	$ 574,770
Buildings and auxiliary equipment	21,498	(11,977)	-	9,521
	$ 596,268	($ 11,977)	$ -	$ 584,291

	December 31, 2018			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In US Thousand Dollars)			
Land and land improvements	$ 18,702	$ -	$ -	$ 18,702
Buildings and auxiliary equipment	700	(390)	-	310
	$ 19,402	($ 390)	$ -	$ 19,012

	December 31, 2017			
	Cost	Accumulated Depreciation	Accumulated Impairment	Net Book Value
	(In NT Thousand Dollars)			
Land and land improvements	$ 574,770	$ -	$ -	$ 574,770
Buildings and auxiliary equipment	21,550	(11,674)	-	9,876
	$ 596,320	($ 11,674)	$ -	$ 584,646

A. The fair value of the investment property held by the Bank and subsidiaries as of December 31, 2018 and 2017 was NT$2,980,724 thousand and NT$2,940,545 thousand, respectively according to the result of valuation by an independent valuation expert using the comparison method and land development analysis approach, which is considered to be Level 2 within the fair value hierarchy.

B. Rental income from the lease of the investment property for the years ended December 31, 2018 and 2017 was NT$13,841 thousand and NT$16,985 thousand, respectively; direct operating expenses incident to current rental income from investment property was NT$6,916 thousand and NT$10,589 thousand, respectively.

C. For the rental revenue from the lease of the investment property among related parties, please refer to Note 11(3).

D. None of the Bank's and its subsidiaries' investment property as at December 31, 2018 and 2017 have been pledged or provided as guarantees.

	2018		
	Land and land improvements	Buildings and auxiliary equipment	Total
	(In NT Thousand Dollars)		
Original cost			
Balance at January 1, 2018	$ 574,770	$ 21,550	$ 596,320
Exchange adjustments	-	(52)	(52)
Balance at December 31, 2018	574,770	21,498	596,268
Accumulated depreciation			
Balance at January 1, 2018	-	(11,674)	(11,674)
Depreciation for the year	-	(332)	(332)
Exchange adjustments	-	29	29
Balance at December 31, 2018	-	(11,977)	(11,977)
	$ 574,770	$ 9,521	$ 584,291

	2018		
	Land and land improvements	Buildings and auxiliary equipment	Total
	(In US Thousand Dollars)		
Original cost			
Balance at January 1, 2018	$ 18,702	$ 701	$ 19,403
Exchange adjustments	-	(1)	(1)
Balance at December 31, 2018	18,702	700	19,402
Accumulated depreciation			
Balance at January 1, 2018	-	(380)	(380)
Depreciation for the year	-	(11)	(11)
Exchange adjustments	-	1	1
Balance at December 31, 2018	-	(390)	(390)
	$ 18,702	$ 310	$ 19,012

	2017		
	Land and land improvements	Buildings and auxiliary equipment	Total
	(In NT Thousand Dollars)		
Original cost			
Balance at January 1, 2017	$ 764,955	$ 174,134	$ 939,089
Transfers in the current period	(190,185)	(152,228)	(342,413)
Exchange adjustments	-	(356)	(356)
Balance at December 31, 2017	574,770	21,550	596,320
Accumulated depreciation			
Balance at January 1, 2017	-	(74,050)	(74,050)
Depreciation for the year	-	(1,817)	(1,817)
Transfers in the current period	-	63,989	63,989
Exchange adjustments	-	204	204
Balance at December 31, 2017	-	(11,674)	(11,674)
	$ 574,770	$ 9,876	$ 584,646

(12) Other assets, net

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
Refundable deposits	$ 1,327,168	$ 43,184	$ 1,772,027
Temporary payments	882,147	28,704	654,952
Computer software	382,964	12,461	240,621
Prepaid expenses	132,564	4,313	136,975
Others	96,855	3,151	86,192
Total	$ 2,821,698	$ 91,813	$ 2,890,767

(13) Due to the Central Bank and banks

	December 31, 2018	
	NT$	US$
Due to the Central Bank	$ 192,698,628	$ 6,270,088
Call loans from the Central Bank and banks	138,646,172	4,511,313
Due to the banks	56,656,601	1,843,510
Overdrafts on banks	5,840,512	190,041
Transfer deposits from China Post Co.	820,113	26,685
Total	$ 394,662,026	$ 12,841,637

	December 31, 2017	January 1, 2017
	NT$	NT$
Due to the Central Bank	$ 196,382,249	$ 115,198,538
Call loans from the Central Bank and banks (Note)	126,610,359	221,133,946
Due to the banks	45,003,496	44,551,667
Overdrafts on banks	4,443,419	6,597,442
Transfer deposits from China Post Co.	2,374,693	2,818,812
Total	$ 374,814,216	$ 390,300,405

Note：The fund transfers between overseas branches and the central bank are call loans in nature. Therefore, the amount of 'due to the central bank and banks- Other funds borrowed from the central bank' was reclassified to 'call loans from the central bank and banks'. The amounts were adjusted from NT$0 thousand to NT$3,824,592 thousand and NT$4,283,398 thousand, respectively.

(14) Funds borrowed from the Central Bank and other banks

	December 31, 2018	
	NT$	US$
Funds borrowed from other banks	$ 49,208,266	$ 1,601,154
Collateral loans transferred to the Central Bank	4,712,615	153,341
Total	$ 53,920,881	$ 1,754,495

	December 31, 2017	January 1, 2017
	NT$	NT$
Funds borrowed from other banks	$ 24,234,226	$ 29,781,859
Collateral loans transferred to the Central Bank	5,398,742	5,909,170
Total	$ 29,632,968	$ 35,691,029

For details on reclassification of 'other funds borrowed from the central bank', please refer to Note 6(13).

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

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
Financial liabilities held for trading:			
Derivative	$ 2,228,708	$ 72,518	$ 1,855,204
Financial liabilities designated as at fair value through profit or loss:			
Financial bonds	24,488,891	796,827	6,883,503
Valuation adjustment	(24,612)	(800)	36,619
Subtotal	24,464,279	796,027	6,920,122
Total	$ 26,692,987	$ 868,545	$ 8,775,326

A. Gain (loss) on financial liabilities held for trading and gain (loss) on financial liabilities designated at fair value through profit or loss recognized for the years ended December 31, 2018 and 2017 are provided in Note 6(27).

B. Financial liabilities designated at fair value through profit or loss by the Bank is for the purpose of eliminating recognition inconsistency.

(16) Payables

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
Accounts payable	$ 8,344,206	$ 271,506	$ 8,005,657
Bankers' acceptances	7,648,114	248,857	10,445,175
Dividends and bonus payable	5,679,263	184,794	5,679,263
Accrued expenses	5,212,220	169,597	4,339,817
Accrued interest	3,972,996	129,275	2,994,849
Collections payable for customers	1,530,511	49,800	1,194,930
Accrued U.S. Fed expenses (Note)	-	-	859,792
Other payables	1,919,717	62,464	2,019,469
Total	$ 34,307,027	$ 1,116,293	$ 35,538,952

Note: The further details of Penalty paid to United Fed are provided in Note 6(31).

(17) Deposits and remittances

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
Time deposits	$ 932,550,326	$ 30,343,615	$ 933,282,553
Demand deposits	626,125,615	20,373,072	687,417,686
Demand savings deposits	454,457,238	14,787,272	469,471,766
Time savings deposits	264,706,605	8,613,107	258,313,661
Checking deposits	28,545,558	928,824	33,023,430
Remittances	14,170,652	461,089	6,394,345
Negotiable certificates of deposit	2,023,000	65,825	1,332,800
Total	$ 2,322,578,994	$ 75,572,804	$ 2,389,236,241

(18) Financial bonds payable

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
Subordinated Bonds	$ 13,300,000	$ 432,760	$ 25,900,000

Financial bonds were as follows:

Name of bond	Issuing period	Interest rate %	Total issued amount	December 31, 2018 NT$	December 31, 2018 US$	Remark
100-1 Development Financial bond	2011.04.15-2018.04.15	1.65%	NT$ 4,700,000	$ -	$ -	Interest is paid annually. The principal is repaid at maturity.
100-2 Development Financial bond	2011.11.24-2018.11.24	1.62%	7,900,000	-	-	Interest is paid annually. The principal is repaid at maturity.
101-1 Development Financial bond	2012.05.18-2019.05.18	1.48%	1,300,000	1,300,000	42,300	Interest is paid annually. The principal is repaid at maturity.
103-1 Development Financial bond	2014.03.28-2021.03.28	1.70%	4,900,000	4,900,000	159,438	Interest is paid annually. The principal is repaid at maturity.
103-2 Development Financial bond	2014.06.24-2021.06.24	1.65%	7,100,000	7,100,000	231,022	Interest is paid annually. The principal is repaid at maturity.
Total				$ 13,300,000	$ 432,760	

Name of bond	Issuing period	Interest rate %	Total issued amount	December 31, 2018 US$	Remark
103-5 Financial bond	2014.11.19-2034.11.19	0.00%	US$ 130,000	$ 130,000	The principal is repaid at maturity.
103-7 Financial bond	2014.11.19-2034.11.19	0.00%	75,000	75,000	The principal is repaid at maturity.
107-1 Financial bond	2018.03.01-2048.03.01	0.00%	330,000	330,000	The principal is repaid at maturity.
107-2 Financial bond	2018.05.17-2048.05.17	0.00%	164,000	164,000	The principal is repaid at maturity.
107-3 Financial bond	2018.11.28-2048.11.28	0.00%	45,000	45,000	The principal is repaid at maturity.
Total				$ 744,000	

Name of bond	Issuing period	Interest rate %	Total issued amount	December 31, 2017 NT$	Remark
100-1 Development Financial bond	2011.04.15-2018.04.15	1.65%	NT$ 4,700,000	$ 4,700,000	Interest is paid annually. The principal is repaid at maturity.
100-2 Development Financial bond	2011.11.24-2018.11.24	1.62%	7,900,000	7,900,000	Interest is paid annually. The principal is repaid at maturity.
101-1 Development Financial bond	2012.05.18-2019.05.18	1.48%	1,300,000	1,300,000	Interest is paid annually. The principal is repaid at maturity.
103-1 Development Financial bond	2014.03.28-2021.03.28	1.70%	4,900,000	4,900,000	Interest is paid annually. The principal is repaid at maturity.
103-2 Development Financial bond	2014.06.24-2021.06.24	1.65%	7,100,000	7,100,000	Interest is paid annually. The principal is repaid at maturity.
Total				25,900,000	

Name of bond	Issuing period	Interest rate %	Total issued amount	December 31, 2017 US$	Remark
103-5 Financial bond	2014.11.19-2034.11.19	0.00%	US$ 130,000	$ 130,000	The principal is repaid at maturity.
103-7 Financial bond	2014.11.19-2044.11.19	0.00%	75,000	75,000	The principal is repaid at maturity.
Total				$ 205,000	

As of December 31, 2018 and 2017, the outstanding balances of the above mentioned financial bonds amounted to US$744 million and US$205 million, and NT$13.3 billion and NT$25.9 billion, respectively. In addition, among the above financial bonds, the senior financial bonds with face value of US$744 million and US$205 million were designated as financial liabilities at fair value through profit or loss and hedged by interest rate swap contracts. As such interest rate swap contracts were valued at fair value with changes in fair value recognized as profit or loss, the financial bonds stated above were designated as financial liabilities at fair value through profit or loss in order to eliminate or significantly reduce recognition inconsistency.

(19) Provisions

	December 31, 2018 NT$	December 31, 2018 US$	December 31, 2017 NT$
Provisions for employee benefits	$ 12,072,670	$ 392,824	$ 11,161,036
Provisions for guarantee liabilities	3,248,056	105,686	3,659,834
Provisions for loan commitments	104,083	3,387	-
Total	$ 15,424,809	$ 501,897	$ 14,820,870

Provisions for employee benefits are as follows:

	December 31, 2018 NT$	December 31, 2018 US$	December 31, 2017 NT$
Recognized in consolidated balance sheet:			
-Defined benefit plans	$ 7,757,638	$ 252,420	$ 7,159,287
-Employee preferential savings plans	4,315,032	140,404	4,001,749
Total	$ 12,072,670	$ 392,824	$ 11,161,036

A. Defined benefit plans

(A) The Bank has a defined benefit pension plan in accordance with the Labor Standards Law, covering all regular employees' service years prior to the enforcement of the Labor Pension Act on July 1, 2005 and service years thereafter of employees who chose to continue to be subject to the pension mechanism under the Law. Under the defined benefit pension plan, two units are accrued for each year of service for the first 15 years and one unit for each additional year thereafter, subject to a maximum of 45 units. Pension benefits are based on the number of units accrued and the average monthly salaries and wages of the last 6 months prior to retirement. The Bank and subsidiaries contribute monthly an amount equal to 11.654% (the contribution percentage from January to May was 9.622%) of the employees' monthly salaries and wages to the retirement fund deposited with Bank of Taiwan, the trustee, under the name of the independent retirement fund committee. Also, the Bank would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Bank will make contributions to cover the deficit by next March.

(B) The amounts recognized in the balance sheet are determined as follows:

	December 31, 2018 NT$	December 31, 2018 US$	December 31, 2017 NT$
Present value of funded obligations	$ 16,909,423	$ 550,204	$ 16,470,771
Fair value of plan assets	(9,151,785)	(297,784)	(9,311,484)
Net defined benefit liability	$ 7,757,638	$ 252,420	$ 7,159,287

(C) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
		(In NT Thousand Dollars)	
2018			
Balance at January 1	$ 16,470,771	($ 9,311,484)	$ 7,159,287
Current service cost	502,408	-	502,408
Interest expenses (income)	161,037	(92,031)	69,006
	17,134,216	(9,403,515)	7,730,701
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expenses)	-	(287,739)	(287,739)
Change in financial assumptions	326,372	-	326,372
Experience adjustments	718,457	-	718,457
	1,044,829	(287,739)	757,090
Pension fund contribution	-	(730,153)	(730,153)
Paid Pension	(1,269,622)	1,269,622	-
Balance at December 31	$ 16,909,423	($ 9,151,785)	$ 7,757,638

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
		(In US Thousand Dollars)	
2018			
Balance at January 1	$ 535,931	($ 302,980)	$ 232,951
Current service cost	16,348	-	16,348
Interest expenses (income)	5,240	(2,995)	2,245
	557,519	(305,975)	251,544
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expenses)	-	(9,363)	(9,363)
Change in financial assumptions	10,620	-	10,620
Experience adjustments	23,377	-	23,377
	33,997	(9,363)	24,634
Pension fund contribution	-	(23,758)	(23,758)
Paid Pension	(41,311)	41,311	-
Balance at December 31	$ 550,205	($ 297,785)	$ 252,420

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
		(In NT Thousand Dollars)	
2017			
Balance at January 1	$ 15,585,176	($ 9,866,865)	$ 5,718,311
Current service cost	452,603	-	452,603
Interest expenses (income)	152,236	(97,646)	54,590
	16,190,015	(9,964,511)	6,225,504
Remeasurements:			
Return on plan assets (excluding amounts included in interest income or expenses)	-	3,819	3,819
Change in financial assumptions	1,461,253	-	1,461,253
Experience adjustments	274,553	-	274,553
	1,735,806	3,819	1,739,625
Pension fund contribution	-	(805,842)	(805,842)
Paid Pension	(1,455,050)	1,455,050	-
Balance at December 31	$ 16,470,771	($ 9,311,484)	$ 7,159,287

(D) The Bank of Taiwan was commissioned to manage the Fund of the Bank's defined benefit pension plan in accordance with the Fund's annual investment and utilization plan and the "Regulations for Revenues, Expenditures, Safeguard and Utilization of the Labor Retirement Fund" (Article 6: The scope of utilization for the Fund includes deposit in domestic or foreign financial institutions, investment in domestic or foreign listed, over-the-counter, or private placement equity securities, investment in domestic or foreign real estate securitization products, etc.), and the performance of fund utilization is supervised by the Labor Funds Supervisory Committee. With regard to the utilization of the Fund, its minimum earnings in the annual distributions on the final financial statements shall be no less than the earnings attainable from the amounts accrued from two-year time deposits with the interest rates offered by local banks. If the earnings is less than aforementioned rates, government shall make payment for the deficit after being authorized by the Regulator. The Bank has no right to participate in managing and operating that fund and hence the Bank is unable to disclose the classification of plan asset fair value in accordance with IAS 19 paragraph 142. The composition of fair value of plan assets as of December 31, 2018 and 2017 is given in the Annual Labor Retirement Fund Utilization Report announced by the government.

(E) The principal actuarial assumptions used were as follows:

	For the years ended December 31,	
	2018	2017
Discount rate	1.00%	1.00%
Rate of future salary increases	3.21%	3.00%

Assumptions regarding future mortality rate are set based on the 5th Chart of Life Span Estimate Used by the Taiwan Life Insurance Enterprises.

Because the main actuarial assumption changed, the present value of defined benefit obligation is affected. The analysis was as follows:

	Discount rate		Rate of future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
	(In NT Thousand Dollars)			
December 31, 2018				
Effect on present value of defined benefit obligation	($ 394,959)	$ 409,808	$ 399,886	($ 387,575)

	Discount rate		Rate of future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
	(In US Thousand Dollars)			
December 31, 2018				
Effect on present value of defined benefit obligation	($ 12,851)	$ 13,334	$ 13,012	($ 12,611)

	Discount rate		Rate of future salary increases	
	Increase 0.25%	Decrease 0.25%	Increase 0.25%	Decrease 0.25%
	(In NT Thousand Dollars)			
December 31, 2017				
Effect on present value of defined benefit obligation	($ 389,470)	$ 404,438	$ 395,460	($ 382,958)

The sensitivity analysis above is based on other conditions that are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once. The method of analysing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(F) Expected contributions to the defined benefit pension plans of the Bank for the year ending December 31, 2019 amounts to NT$507,000 thousand.

(G) As of December 31, 2018, the weighted average duration of that retirement plan is 9.2 years.

B. Defined contribution plans

(A) Effective July 1, 2005, the Bank has established a funded defined contribution pension plan (the “New Plan”) under the Labor Pension Act (the “Act”). Employees have the option to be covered under the New Plan. Under the New Plan, the Bank contributes monthly an amount based on 6% of the employees’ monthly salaries and wages to the employees’ individual pension accounts at the Bureau of Labor Insurance. The payment of pension benefits is based on the employees’ individual pension fund accounts and the cumulative profit in such accounts, and the employees can choose to receive such pension benefits monthly or in lump sum.

(B) The pension costs under the defined contribution pension plan for the years ended December 31, 2018 and 2017 were NT$113,583 thousand and NT$97,181 thousand, respectively. For employees working overseas, pension expenses under defined contribution plans are recognized according to the respective local regulations. For the years ended December 31, 2018 and 2017, pension expenses were NT$32,332 thousand and NT$19,276 thousand, respectively.

C. The Bank’s payment obligations of fixed-amount preferential savings of retired employees and current employees after retirement are in compliance with the internal “Rules Governing Pension Preferential Savings of Staff of Mega International Commercial Banks”. The excessive interest arising from the interest rate upon retirement agreed with the employees in excess of general market interest rate should be accounted for in accordance with IAS 19, “Employee Benefits”.

(A) Adjustment of assets and liabilities recognized in the consolidated balance sheets, present value of defined benefit obligation, and fair value of plan assets:

	December 31, 2018		December 31, 2016
	NT$	US$	NT$
Present value of defined benefit obligation	$ 4,315,032	$ 140,404	$ 4,001,749
Less: Fair value of plan assets	-	-	-
	$ 4,315,032	$ 140,404	$ 4,001,749

(B) Movements in net defined benefit liabilities are as follows:

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
		(In NT Thousand Dollars)	
2018			
Balance at January 1	$ 4,001,749	$ -	$ 4,001,749
Interest expense	152,747	-	152,747
	4,154,496	-	4,154,496
Remeasurements:			
Change in demographic assumptions	457,576	-	457,576
Experience adjustments	492,165	-	492,165
	949,741	-	949,741
Pension fund contribution	-	(789,205)	(789,205)
Paid Pension	(789,205)	789,205	-
Balance at December 31	$ 4,315,032	$ -	$ 4,315,032

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
		(In NT Thousand Dollars)	
2018			
Balance at January 1	$ 130,210	$ -	$ 130,210
Interest expense	4,970	-	4,970
	135,180	-	135,180
Remeasurements:			
Change in demographic assumptions	14,889	-	14,889
Experience adjustments	16,014	-	16,014
	30,903	-	30,903
Pension fund contribution	-	(25,679)	(25,679)
Paid Pension	(25,679)	25,679	-
Balance at December 31	$ 140,404	$ -	$ 140,404

	Present value of defined benefit obligation	Fair value of plan assets	Net defined benefit liability
		(In NT Thousand Dollars)	
2017			
Balance at January 1	$ 3,544,046	$ -	$ 3,544,046
Interest expense	135,249	-	135,249
	3,679,295	-	3,679,295
Remeasurements:			
Change in demographic assumptions	581,719	-	581,719
Experience adjustments	458,528	-	458,528
	1,040,247	-	1,040,247
Pension fund contribution	-	(717,793)	(717,793)
Paid Pension	(717,793)	717,793	-
Balance at December 31	$ 4,001,749	$ -	$ 4,001,749

(C) Actuarial assumptions are as follows:

	For the years ended December 31,	
	2018	2017
Discount rate for employee preferential interest savings	4.00%	4.00%
Return rate on capital deposited	2.00%	2.00%
Annual decreasing ratio for account balance	1.00%	1.00%
Probability of change in preferential savings system in the future	50.00%	50.00%

Because the main actuarial assumption changed, the present value of employee preferential interest savings obligation is affected. The analysis was as follows:

	Discount rate		Rate of deposit cost	
	Increase 0.25%	Decrease 0.25%	Increase 0.05%	Decrease 0.05%
		(In NT Thousand Dollars)		
December 31, 2018				
Effect on present value of defined benefit obligation	($ 86,997)	$ 90,263	($ 31,099)	$ 31,099

	Discount rate		Rate of deposit cost	
	Increase 0.25%	Decrease 0.25%	Increase 0.05%	Decrease 0.05%
	(In US Thousand Dollars)			
December 31, 2018				
Effect on present value of defined benefit obligation	($ 2,831)	$ 2,937	($ 1,012)	$ 1,012

	Discount rate		Rate of deposit cost	
	Increase 0.25%	Decrease 0.25%	Increase 0.05%	Decrease 0.05%
	(In NT Thousand Dollars)			
December 31, 2017				
Effect on present value of defined benefit obligation	($ 81,596)	$ 84,691	($ 28,522)	$ 28,522

(D) The Bank and subsidiaries recognized employee benefit expenses of NT$1,326,021 thousand and NT$1,376,912 thousand for the years ended December 31, 2018 and 2017, respectively.

D. Please refer to Note 8(3) for the movement information on provisions for loan commitments and guarantee liabilities for the year ended December 31, 2018.

E. Information relating to credit risk of provisions for loan commitments and guarantee liabilities is provided in Note 8(3).

(20) Other financial liabilities

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
Appropriation for loans	$ 898,051	$ 29,221	$ 1,307,089
Received principal of structured notes	9,631,351	313,388	7,662,552
Total	$ 10,529,402	$ 342,609	$ 8,969,641

(21) Other liabilities

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
Deposits received	$ 3,034,397	$ 98,734	$ 2,724,103
Advance receipt	1,566,385	50,968	1,623,079
Temporary credits	852,134	27,727	1,370,928
Other liabilities to be settled	426,053	13,863	402,773
Others	246,182	8,010	298,587
Total	$ 6,125,151	$ 199,302	$ 6,419,470

(22) Equity

A. Common stock

As of December 31, 2018 and 2017, the Bank's authorized and paid-in capital was NT$85,362,336 thousand and outstanding shares were 8,536,234 thousand, with a par value of NT$10 per share.

B. Capital reserve

(A) Pursuant to the R.O.C. Company Act, capital surplus arising from paid-in capital in excess of par value on issuance of common stocks and donations can be used to cover accumulated deficit or to issue new stocks or cash to shareholders in proportion to their share ownership, provided that the Bank has no accumulated deficit. Further, the R.O.C. Securities and Exchange Law requires that the amount of capital surplus to be capitalised mentioned above should not exceed 10% of the paid-in capital each year. Capital surplus should not be used to cover accumulated deficit unless the legal reserve is insufficient.

(B) On December 31, 2018 and 2017, the details of the Bank's capital surplus are as follows:

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
Capital increase by cash – additional paid-in capital	$ 31,495,952	$ 1,024,825	$ 31,495,952
Consolidation surplus arising from share conversion	30,109,277	979,705	30,109,277
Changes in additional paid-in capital of investees accounted for using equity method	375,908	12,232	375,908
Share-based payment (Note)	238,403	7,757	238,403
Total	$ 62,219,540	$ 2,024,519	$ 62,219,540

Note: above-mentioned share-based payment includes the subsidiaries.

C. Legal reserve and Special reserve

(A) Legal reserve

Except for covering accumulated deficit or issuing new stocks or cash to shareholders in proportion to their share ownership, the legal reserve shall not be used for any other purpose. The use of legal reserve for the issuance of stocks or cash to shareholders in proportion to their share ownership is permitted, provided that the distribution of the reserve is limited to the portion in excess of 25% of the Bank's paid-in capital. As of December 31, 2018 and 2017, the Bank's legal reserves are NT$86,147,870 thousand and NT$79,690,847 thousand, respectively.

(B) Special reserve

In accordance with Financial-Supervisory-Securities-Corporate No. 1010012865 of the FSC dated on April 6, 2012, upon the first-time adoption for IFRSs, equivalent amounts of special reserve with regard to the unrealized revaluation increment under the stockholders' equity and cumulative translation adjustment (gains) transferred to retained earnings should be set aside. For the said special reserve, reversal of distributed earnings shall be based on the proportion of the original ratio of special reserve provision in the subsequent use, disposal or reclassification for the related assets. Such amounts are reversed upon disposal or reclassified if the assets are investment property of land. If the assets are investment property other than land, the amounts are reversed over the use period and should be reversed by amortized balance upon disposal. As of December 31, 2018 and 2017, the special reserve of the Bank were NT$4,535,074 thousand and NT$4,000,055 thousand, respectively.

In accordance with the regulations, the Bank shall set aside an equivalent amount of special reserve from earnings after tax of the current year and the undistributed earnings of the prior period based on the net decreased amount of other stockholders' equity in the current period before distributing earnings. If there is any reversal of decrease in other stockholders' equity, the earnings may be distributed based on the reversal proportion.

In accordance with Financial-Supervisory-Banks Letter No. 10510001510, as a response to the development of financial technology, and to ensure the rights of bank practitioners, the Bank shall, upon appropriating the earnings of 2016 to 2018, provision 0.5% to 1% of income after taxes as special reserve. Starting from the 2017 accounting year, public banks may reverse an amount of the aforementioned special reserve commensurate to employee termination or arrangement expenditures resulting from the development of financial technology.

(23) Retained earnings and dividend policies

A. The current year's earnings, if any, shall first be used to pay all taxes and offset prior year's operating loss, and the remaining amount should then be set aside as legal reserve and special reserve in accordance with provisions under the applicable laws and regulations. The remaining earnings plus prior year's accumulated unappropriated earnings are subject to the Board of Directors' proposal for a distribution plan and approval by the stockholders at the Ordinary Stockholders' Meeting.

B. The legal reserve is to be used exclusively to offset any deficit or to increase capital by issuing new shares or distribute cash dividends according to original shareholders in proportion to the number of shares being held by each of them and is not to be used for any other purposes. For the legal reserve to be used for issuing new shares or distributing cash dividends, only the portion of the legal reserve exceeding 25% of paid-in capital may be capitalized or released.

C. The appropriations and distributions for 2017 and 2016 approved by the Bank's Board of Directors on the stockholders' behalf on May 11, 2018 and May 5, 2017, respectively, were as follows:

	For the years ended December 31,	
	2017	2016
	NT$	NT$
Legal reserve	$ 6,457,023	$ 5,702,988
Special reserve (Note)	535,745	126,223
Cash dividends (NT$1.50 dollar per share)	12,804,350	12,804,350
	$ 19,797,118	$ 18,633,561

Note: The special reserves were reversed amounting to NT$726 thousand and NT$0 for the years ended December 31, 2017 and 2016, respectively.

Information on the appropriation of the Bank's earnings as approved by the Board of Directors and during the shareholders' meeting is posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

D. The appropriation of 2018 earnings resolved by the Board of Directors on March 15, 2019 is set forth below:

	For the year ended December 31, 2018	
	NT$	US$
Legal reserve	$ 7,251,663	$ 235,957
Special reserve	155,416	5,057
Cash dividends (NT$1.96 dollar per share)	16,731,018	544,399
	$ 24,138,097	$ 785,413

E. For information related to employees' compensation, please refer to Note 6(32).

(24) Other equity

	Exchange differences on translation of foreign financial statements	Gain (loss) on financial assets at fair value through other comprehensive income	Other equity-other	Total
	NT$			
January 1, 2018	($ 2,713,370)	$ 6,771,816	($ 32,579)	$ 4,025,867
Financial assets at fair value through other comprehensive income				
Evaluation adjustment for the year	-	284,791	-	284,791
Changed in accumulated impairments in the period	-	(27,161)	-	(27,161)
Realized gain and loss in the period	-	(117,699)	-	(117,699)
Translation gain and loss on the financial statements of foreign operating entities in the period	1,100,821	-	-	1,100,821
Share of other comprehensive income of associates and joint ventures accounted for using equity method	4,527	(21,623)	(19,089)	(36,185)
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	(-)	31,809	-	31,809
December 31, 2018	($ 1,608,022)	$ 6,921,933	($ 51,668)	$ 5,262,243

	Exchange differences on translation of foreign financial statements	Gain (loss) on financial assets at fair value through other comprehensive income	Other equity-other	Total
		US$		
January 1, 2018	($ 88,288)	$ 220,343	($ 1,060)	$ 130,995
Financial assets at fair value through other comprehensive income				
Evaluation adjustment for the year	-	9,267	-	9,267
Changed in accumulated impairments in the period	-	(884)	-	(884)
Realized gain and loss in the period	-	(3,830)	-	(3,830)
Translation gain and loss on the financial statements of foreign operating entities in the period	35,819	-	-	35,819
Share of other comprehensive income of associates and joint ventures accounted for using equity method	147	(703)	(621)	(1,177)
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	(-)	1,035	-	1,035
December 31, 2018	($ 52,322)	$ 225,228	($ 1,681)	$ 171,225

(25) Net interest income

	For the years ended December 31		
	2018		2017
	NT$	US$	NT$
Interest income			
Interest income, discounts and loans	$ 44,424,272	$ 1,445,491	$ 38,535,880
Interest income, due from banks	12,019,172	391,084	8,388,370
Interest income, securities investment	7,531,159	245,051	6,254,938
Interest income, accounts receivable factoring	515,643	16,778	323,540
Interest income, credit card recurrence	176,345	5,738	172,411
Interest income, others	294,695	9,589	179,008
Subtotal	64,961,286	2,113,731	53,854,147
Interest expenses			
Interest expenses, deposit	(20,680,781)	(672,918)	(14,710,966)
Interest expenses, due to the Central Bank and other banks	(6,796,259)	(221,139)	(4,367,250)
Interest expenses, repurchase	(428,782)	(13,952)	(1,691)
Interest expenses, bond and bill	(356,920)	(11,613)	(579,746)
Interest expenses, others	(160,157)	(5,211)	(110,391)
Subtotal	(28,422,899)	(924,833)	(19,770,044)
Total	$ 36,538,387	$ 1,188,898	$ 34,084,103

(26) Net service fee income

	For the years ended December 31		
	2018		2017
	NT$	US$	NT$
Service fee income			
Trust service fee income	$ 1,676,048	$ 54,536	$ 1,631,249
Loan service fee income	1,582,271	51,485	1,528,983
Agent service fee income	1,015,793	33,052	905,066
Guarantee service fee income	817,710	26,607	833,606
Remittance service fee income	805,831	26,220	858,168
Credit card service fee income	608,542	19,801	523,998
Import and export service fee income	519,497	16,904	531,859
Other fee income (Note)	1,053,939	34,293	1,036,457
Subtotal	8,079,631	262,898	7,849,386
Service fee charges			
Agent service fee	(924,827)	(30,092)	(695,730)
Custody fee	(57,070)	(1,857)	(55,906)
Other charges	(167,637)	(5,455)	(168,235)
Subtotal	(1,149,534)	(37,404)	(919,871)
Total	$ 6,930,097	$ 225,494	$ 6,929,515

The Bank and subsidiaries provide custody, trust, and investment management and consultation service to the third party, and therefore the Bank and subsidiaries are involved with the exercise of planning, managing and trading decision of financial instruments. In relation to the management and exercise of trust fund and portfolio for brokerage, the Bank and subsidiaries record and prepare the financial statements independently for internal management purposes, which are not included in the financial statements of the Bank and subsidiaries.

Note:

A. As of December 31, 2018 and 2017, the fee income generated by the Bank and subsidiaries concurrently in electronic payment business were amounted to NT$4,287 thousand and NT$4,170 thousand, respectively.

B. Due to the Bank and subsidiaries concurrently in electronic payment business, as of December 31, 2018 and 2017, the interest earned from utilizing funds received from users amounted to NT$89 and NT$87, respectively, based on the calculation required in Article 4 of

"Regulations Governing the Organization and Administration of Sinking Fund Established by Electronic Payment Institutions".

(27) Gain (Loss) on financial assets and liabilities at fair value through profit or loss

	For the year ended December 31		
	2018		2017
	NT$	US$	NT$
Gains (losses) on disposal of financial assets or liabilities measured at fair value through profit or loss			
Bond	$ 28,452	$ 926	$ 25,125
Stock	(793,107)	(25,806)	287,656
Interest rate	(2,061)	(67)	62,252
Exchange rate	3,996,763	130,048	3,024,979
Options	37,657	1,225	99,516
Futures	(1,718)	(56)	(1,450)
Asset swap contracts	221,245	7,199	(1,710)
Credit default swap	162,012	5,272	284,751
Others	(2,692)	(88)	5,973
Subtotal	3,646,551	118,653	3,787,092
Revaluation gains (losses) on financial assets or liabilities measured at fair value through profit or loss			
Bond	(585,924)	(19,065)	(93,880)
Stock	(107,644)	(3,503)	58,668
Interest rate	477,956	15,552	232,036
Exchange rate	276,363	8,992	571,763
Options	(3,141)	(102)	(29,498)
Asset swap contracts	410,918	13,370	(68,511)
Credit default swap	(107,443)	(3,496)	117,794
Others	7,486	244	-
Subtotal	368,571	11,992	788,372
Dividend income from financial assets measured at fair value through profit or loss	630,905	20,529	155,381
Interest income from financial assets measured at fair value through profit or loss	853,978	27,787	1,002,066
Interest expenses from financial liabilities measured at fair value through profit or loss	(778,186)	(25,321)	(310,071)
Total	$ 4,721,819	$ 153,640	$ 5,422,840

Net income on the exchange rate instrument includes realized and unrealized gains and losses on forward exchange agreement, FX options, and exchange rate futures.

Interest-linked instruments include interest rate swap contracts, money market instruments, interest linked-options and other interest related instruments.

(28) Realized gains on financial assets at fair value through other comprehensive income

	For the year ended December 31,	
	2018	
	NT$	US$
Dividend income	$ 665,406	$ 21,651
Gains on disposal		
Bond	289,909	9,433
Total	$ 955,315	$ 31,084

(29) (Impairment losses on assets) reversal of impairment losses on assets

	For the year ended December 31,	
	2018	
	NT$	US$
Reversal of impairment losses on investment in debt instruments measured at fair value through other comprehensive income	$ 27,161	$ 884
Reversal of impairment losses on investments in debt instruments measured at amortised cost	392	13
Reversal on impairment losses on property and equipment	55,335	1,800
Total	$ 82,888	$ 2,697

(30) Net other revenue other than interest income

	For the years ended December 31		
	2018		2017
	NT$	US$	NT$
Net income from rent	$ 180,497	$ 5,873	$ 181,150
Gain on sales of property and equipment	1,498	49	1,262
Loss on retirement of assets	(3,965)	(129)	(32)
Gain on sale of non-performing loans	-	-	53,117
Total	$ 178,030	$ 5,793	$ 235,497

(31) Other miscellaneous revenue(expense)

	For the years ended December 31		
	2018		2017
	NT$	US$	NT$
Penalty paid to United Fed (Note 2)	$ -	$ -	($ 878,506)
Other revenue	174,392	5,674	150,152
Total	$ 174,392	$ 5,674	($ 728,354)

Note 1: The New York State Department of Financial Services (NYDFS) fined the Bank and Mega New York Branch for failing to comply with Bank Secrecy Act (BSA) anti-money laundering laws (AML). The fine USD$180 million was part of a consent order entered into with the NYDFS on August 19, 2016 pursuant to which the Bank and Mega New York Branch shall take immediate steps to correct the non-compliance. According to the consent order, the Bank and Mega New York Branch shall engage an independent compliance consultant of NYDFS' selection for six months to immediately consult about, oversee and address deficiencies in Mega New York Branch's compliance function, including compliance with BSA/AML requirements. In addition, the Bank and Mega New York Branch shall retain an independent monitor to conduct a comprehensive review of the effectiveness of the Branch's program for compliance with BSA/AML requirements, laws and regulations and prepare a written report of findings, conclusions, and recommendations. The independent monitor shall also conduct a review of Mega New York Branch's U.S. dollar clearing transaction activity from January 1, 2012 through December 31, 2014, to determine whether the Mega New York Branch's suspicious transaction activity can be recognised appropriately and be declared in accordance with relevant reporting regulations, and transactions are inconsistent with or in violation of the OFAC Regulations.

On May 22, 2017, a press release announced by the Taipei District Prosecutors Office (TDPO) with respect to the investigation result of the Bank's suspicious money laundering activities indicated no evidence was found that the Bank's related member and citizen is involved in any money laundering.

As for Jin-Guan-Jian-Kong-Zi Letter No.1060152046 on February 6, 2017, there was no evidence that is related to suspicious money laundering transaction.

As of reporting date, the Bank and Mega New York Branch have been overseen and consulting with the compliance consultant during the stipulated term. The Mega New York Branch is conducting a comprehensive review of effective compliance with BAS/AML requirements, laws and regulations by the independent monitor in July, 2017. Whereas a retrospective investigation of the Mega New York Branch's U.S. dollar clearing transaction activity are still under investigation.

Note 2: Following the most recent examination of the Mega New York Branch, the Mega Chicago Branch and the Mega Silicon Valley Branch (collectively, the "Branches") of June 30, 2016, December 31, 2016, and September 30, 2016, the supervisory authorities disclosed deficiencies relating to the Branches' risk management and compliance with the BSA/AML requirements. Therefore, on January 17, 2018, the bank, the Branches, the Board of Governors of the Federal Reserve System (FED) and the Illinois Department of Financial and Professional Regulation (IDFPR), Division of Banking entered into a consent Order to Cease and Desist and Order of Assessment of a Civil Money Penalty. The FED and IDFPR fined a $29 million penalty against the U.S. operations of the Bank and the Branches. According to the Order, the Bank's Board of Directors and the respective management of each of the Branches shall jointly submit an individual written plan aiming to enhance the Bank's and the respective Branch's management's oversight of the respective Branch's compliance with the BSA/AML requirements and the OFAC regulations on a consolidated basis. Each plan shall provide for a sustainable governance framework that addresses an enhanced BSA/AML compliance program, a revised program for conducting appropriate levels of customer due diligence, an enhanced program reasonably designed for suspicious activity monitoring and reporting and a plan to ensure compliance with the OFAC regulations. Additionally, the Bank and Mega New York Branch shall engage an independent third party acceptable to the Federal Reserve Bank of New York to conduct a review of the Mega New York Branch's U.S. dollar clearing transaction activity from January 1, 2015 to June 30, 2015 to determine whether suspicious activity involving higher risk customers were properly identified and reported. The Order acknowledged that the Bank has undertaken enhancements to its corporate governance and is committed to continue to implement improvements in its oversight and compliance program.

As of the reporting date, the Mega New York Branch has engaged an independent third party to conduct a retrospective investigation of U.S. dollar clearing transaction activity during the abovementioned period. Additionally, FED and NYDFS conducted a joint investigation on the Mega New York Branch's overall risk management, operational controls, compliance and asset quality (ROCA). The Bank and Mega New York Branch have submitted the written action plans relating to the above events in March 2018 and March 2019, respectively, and are subsequently improving its risk management and addressing compliance issues in line with the plan.

(32) Employee benefits expenses

	For the years ended December 31		
	2018		2017
	NT$	US$	NT$
Payroll expenses	$ 11,000,945	$ 357,952	$ 10,081,195
Preferential interest deposit for retired employees	1,326,021	43,146	1,376,912
Pension	717,329	23,341	623,650
Staff insurance	690,784	22,477	645,025
Other staff expenses	1,028,258	33,458	922,253
Total	$ 14,763,337	$ 480,374	$ 13,649,035

A. Please refer to Note 1(5) for information on number of employee, the calculating basis was in agreement with employee benefit expense excluding preferential interest deposit for retired employees.

B. The Board of Directors of the Bank has approved the amended Articles of Incorporation of the Bank on October 20, 2017. According to the amended articles, a ratio of distributable profit of the current year, after covering accumulated losses, shall be distributed as employees' compensation. In case there are earnings at the end of each fiscal year, the employees' compensation of the Bank shall be 2~6% of the amount of net profit before income tax and employees' compensation, under the Board's discretion after taking into account the performance indicators and industry benchmark.

C. For the years ended December 31, 2018 and 2017, employees' compensation was accrued at NT$1,401,947 thousand and NT$1,275,582 thousand, respectively. The above-mentioned amounts were recognized in salary expenses.

D. Employees' compensation and directors' and supervisors' remuneration of 2017 as resolved at the meeting of Board of Directors were in agreement with those amounts recognised in the 2017 financial statements.

E. Information about employees' compensation of the Bank as resolved by the Board of Directors and the shareholders at the shareholders' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange.

(33) Depreciation and amortization expense

	For the year ended December 31		
	2018		2017
	NT$	US$	NT$
Depreciation	$ 621,657	$ 20,228	$ 535,681
Amortization	5,597	182	6,039
Total	$ 627,254	$ 20,410	$ 541,720

(34) Other general and administrative expenses

	For the year ended December 31		
	2018		2017
	NT$	US$	NT$
Taxes	$ 2,035,974	$ 66,247	$ 2,005,752
Professional expenses	1,973,838	64,225	1,116,397
Rental	851,968	27,722	771,136
Computer software maintenance fees	558,054	18,158	496,004
Insurance charges	446,996	14,544	408,047
Business development	291,929	9,499	268,922
Postage	249,523	8,119	212,256
Shipping expenses	227,763	7,411	196,279
Advertising and printing cost	208,757	6,793	210,145
Donation expenses	162,760	5,296	220,070
Employee training expenses	141,877	4,616	132,222
Water and electricity	132,456	4,310	127,601
Traveling expenses	118,968	3,871	113,369
Others	857,823	27,912	859,797
Total	$ 8,258,686	$ 268,723	$ 7,137,997

(35) Income tax

A. Income tax expense

(A) Components of income tax expenses:

	For the year ended December 31		
	2018		2017
	NT$	US$	NT$
Current income tax:			
Income tax from current income	$ 3,427,369	$ 111,521	$ 3,460,861
Tax on undistributed surplus earnings	31,652	1,030	-
Prior year income tax (over) under estimate	(322,690)	(10,500)	(557,613)
Total current income tax	3,136,331	102,051	2,903,248
Deferred income tax:			
Impact of change in tax rate	(536,701)	(17,463)	-
Origination and reversal of temporary differences	(52,891)	(1,721)	(123,616)
Total deferred tax	(589,592)	(19,184)	(123,616)
Income tax expense	$ 2,546,739	$ 82,867	$ 2,779,632

(B) The income tax relating to components of other comprehensive income is as follows:

	For the year ended December 31		
	2018		2017
	NT$	US$	NT$
Changes in fair value of financial assets at fair value through other comprehensive income	$ 31,809	$ 1,035	$ -
Remeasurement on defined benefit plan	325,670	10,597	295,736
	$ 357,479	$ 11,632	$ 295,736

B. Reconciliation between income tax expense and accounting profit:

	For the year ended December 31		
	2018		2017
	NT$	US$	NT$
Income tax calculated based on pre-tax income using statutory tax rate enacted in the country where the branch operates	$ 5,406,624	$ 175,923	$ 4,366,878
Effects of items not recognized under relevant regulations	3,049	99	6,307
Additional 10% tax payment levied on undistributed earnings	31,652	1,030	-
Effect of income basic tax	-	-	815,009
Income tax adjustments in respect of prior years	(322,690)	(10,500)	(557,613)
Adjusted effects on income tax exemption and other adjustments	(2,571,896)	(83,685)	(1,850,949)
Income tax expense	$ 2,546,739	$ 82,867	$ 2,779,632

C. Deferred income tax assets or liabilities arising from the temporary differences are as follows:

	2018			
	NT$			
Temporary differences:	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred income tax assets				
Allowance for doubtful accounts in excess of limit	$ 2,874,343	$ 485,630	$ -	$ 3,359,973
Reserve of guarantees in excess of limit	199,597	35,223	-	234,820
Employee benefit liabilities reserve	1,494,236	(115,537)	325,670	1,704,369
Unrealized impairment loss	712,839	146,537	-	859,376
Others	282,336	271,447	31,809	585,592
	$ 5,563,351	$ 823,300	$ 357,479	$ 6,744,130
Deferred income tax liabilities				
Land value increment tax	($ 1,053,300)	$ -	$ -	($ 1,053,300)
Unrealized exchange gains	(437,870)	(102,311)	-	(540,181)
Investment income accounted for using equity method	(601,117)	(164,939)	-	(766,056)
Others	(110,598)	33,542	-	(77,056)
	($ 2,202,885)	($ 233,708)	$ -	($ 2,436,593)

	2018			
	US$			
Temporary differences:	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred income tax assets				
Allowance for doubtful accounts in excess of limit	$ 93,526	$ 15,801	$ -	$ 109,327
Reserve of guarantees in excess of limit	6,495	1,146	-	7,641
Employee benefit liabilities reserve	48,620	(3,759)	10,597	55,458
Unrealized impairment loss	23,195	4,768	-	27,963
Others	9,187	8,832	1,035	19,054
	$ 181,023	$ 26,788	$ 11,632	$ 219,443
Deferred income tax liabilities				
Land value increment tax	($ 34,273)	$ -	$ -	($ 34,273)
Unrealized exchange gains	(14,248)	(3,329)	-	(17,577)
Investment income accounted for using equity method	(19,559)	(5,367)	-	(24,926)
Others	(3,599)	1,092	-	(2,507)
	($ 71,679)	($ 7,604)	$ -	($ 79,283)

Temporary differences:	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
	2017 NT$			
Deferred income tax assets				
Allowance for doubtful accounts in excess of limit	$ 2,580,441	$ 293,902	$ -	$ 2,874,343
Reserve of guarantees in excess of limit	199,597	-	-	199,597
Employee benefit liabilities reserve	1,249,033	(50,533)	295,736	1,494,236
Unrealized impairment loss	717,287	(4,448)	-	712,839
Others	342,446	(60,110)	-	282,336
	$ 5,088,804	$ 178,811	$ 295,736	$ 5,563,351
Deferred income tax liabilities				
Land value increment tax	($ 1,053,300)	$ -	$ -	($ 1,053,300)
Unrealized exchange gains	(466,918)	29,048	-	(437,870)
Investment income accounted for using equity method	(600,384)	(733)	-	(601,117)
Others	(41,050)	(83,510)	-	(124,560)
	($ 2,161,652)	($ 55,195)	$ -	($ 2,216,847)

D. As of December 31, 2014, the income tax return of the Bank and its subsidiaries has been approved by National Taxation Bureau of Taipei. However, the Bank and its subsidiaries disagreed with the results of the 2014 income tax return. As a result, the parent company, Mega Financial Holding Co., Ltd, had appealed for a review.

E. Under the amendments to the Income Tax Act which was promulgated by the President of the Republic of China in February 7, 2018, the Bank's applicable income tax rate was raised from 17% to 20% effective from January 1, 2018. The Bank has assessed the impact of the change in income tax rate.

(36) Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to ordinary shareholders of the parent by the weighted-average number of ordinary shares in issue during the period.

	For the years ended December 31		
	2018		2017
	NT$	US$	NT$
Weighted-average number of shares outstanding common stock (Unit: Thousand)	8,536,234		8,536,234
Profit attributable to ordinary shareholders of the Bank and subsidiaries	$ 24,172,212	$ 786,523	$ 21,523,410
Basic earnings per share (in dollars)	$ 2.83	$ 0.09	$ 2.52

(37) Change in liabilities from financing activities

	Financial bonds payable	
	NT$	US$
January 1, 2018	$ 25,900,000	$ 842,742
Repayment of financial bonds payable	(12,600,000)	(409,982)
December 31, 2018	$ 13,300,000	$ 432,760
January 1, 2017	$ 36,200,000	
Repayment of financial bonds payable	(10,300,000)	
December 31, 2017	$ 25,900,000	

7. FAIR VALUE INFORMATION OF FINANCIAL INSTRUMENTS

(1) Overview

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. Financial instruments are recorded at fair value upon their initial recognition, where often fair value refers to the transaction price; for subsequent measurements, other than a portion of financial instruments being measured at amortized cost, fair value is elected for measurements. The best evidence for fair value is a public quote in an active market. If the market of a financial instrument is not active, the Bank elects valuation techniques or references Bloomberg or the quotes of counterparties to measure the fair value of the financial instrument. In addition, through the valuation process, information on the counterparty's and the Bank's credit risk is also considered.

(2) Fair value information of financial instruments

Except for those listed in the table below, the carrying amount of some of certain financial instruments held by the Bank and subsidiaries (e.g. cash and cash equivalents, due from central bank and call loans to other banks, securities purchased under resell agreement, receivables, discounts and loans, financial assets at amortised cost-central bank's certificate of deposit and short-term note and bill , due to the Central Bank and banks, funds borrowed from the Central Bank and other banks, securities sold under repurchase agreements, payables, deposits and remittances, financial bonds payable and other financial liabilities) are approximate to their fair value (please refer to Note 7 (5)). The fair value information of financial instruments measured at fair value is provided in Note 7(6).

	NT$	
	Book Value	Fair Value
December 31, 2018		
Investments in debt instruments at amortised cost	$ 20,652,454	$ 20,624,888

	US$	
	Book Value	Fair Value
December 31, 2018		
Investments in debt instruments at amortised cost	$ 671,996	$ 671,099

	NT$	
	Book Value	Fair Value
December 31, 2017		
Held-to-maturity financial assets - investments in bonds	$ 19,343,891	$ 19,381,844

The fair values of the above-mentioned investments in debt instruments at amortised cost and held-to-maturity financial assets are classified as Level 1 and Level 2

(3) Financial instruments measured at fair value

If the market quotation from the Taiwan Stock Exchange Corporation, brokers, underwriters, Industrial Trade Unions, pricing service agencies or competent authorities can be frequently obtained on time, and the price represents the actual and frequent transactions at arm's length, then a financial instrument is deemed to have an active market. If the above condition cannot be met, the market is deemed inactive. In general, significant price variance between the purchase price and selling price, significantly increasing price variance or extremely low trading volume are all indicators of an inactive market.

If the quoted market price of a financial instrument is available in an active market, the quoted price is the fair value, usually the fair value is measured using the market price, interest rate, foreign exchange central parity rate shown in Reuters quotation system, partially using the quoted prices from Bloomberg, OTC, and the basis for valuation is maintained consistently. If there is no quoted market price for reference, a valuation technique or quoted price offer by the counterparties will be adopted to measure the fair value. Fair value measured by a valuation technique is usually estimated by reference to the fair values of other financial instruments with similar terms and characteristics, or by using cash flows discounting method, or using model calculation based on the market information (such as yield rate curves from OTC, average interest rate of TAIBOR from Reuters) available on the balance sheet date.

When assessing non-standardized financial instruments with lower complexity, derivatives such as interest rate swap contracts, foreign exchange swap contracts, options, the Bank and subsidiaries use valuation techniques and models which are extensively used by the market to estimate their fair value. The parameters used in the valuation model for these kinds of financial instruments usually use the observable information as the input.

For more complicated financial instruments, such as debt instruments with embedded derivatives or securitization products, the Bank and subsidiaries develop its own valuation models to estimate fair value by reference to the valuation techniques and methods which are extensively used by the same trade. Parts of parameters used in these valuation models are not observable from the market; they must be estimated by using some assumptions.

A. NTD Central Government Bond: the yield rates across different contract length and one-hundred price bulletined by Over-The-Counter (hereinafter OTC) are used.

B. NTD corporate bonds, financial debentures, government bonds, bond-type beneficiary securities and designated financial debentures issued by the Bank and subsidiaries: the present value of future estimated cash flows is calculated by using the yield rate curve.

C. NTD short-term bills and NTD bill-type beneficiary securities: the present value of future estimated cash flows of NTD and USD short-term bills is calculated by using average interest rate of TAIBOR and TAIFX3 central parity rate from Reuters, respectively.

D. Foreign securities: quoted prices from Bloomberg are adopted.

E. Listed stock and emerging stock in active market：The closing price being listed in TSE or OTC is adopted.

F. Emerging stock not in active markets: The Bank shall first adopt the 30 days average price or representative trading in the recent half year in accordance with the classifications of transaction volume, amount and turnover rates during the month. The trading price might be the best estimate of stocks' fair value; secondly adopt the 30 days average price, net of the discount on liquidity as stocks' fair value, of which the discount on liquidly is calculated based on the market liquidity condition under a 30 days average price basis.

G. Unlisted stock: The sale price in the most recent year or rights offering price is adopted as stock's fair value if they were available for the objective company's stocks and its stock price or operation and industry has no significant change; the average price is adopted for more than one sale price or rights offering price available; otherwise, the fair value is estimated through the market approach or net asset approach under the consideration of life cycle, profitability and asset and liability structure of the objective company. The fair value of stock is measured at equity value that has taken into consideration the discount on liquidity and materialisation adjustments if the market approach is adopted by the objective company or the fair value is equivalent to the book value if the objective company adopted the net asset approach.

H. Funds：net assets value is adopted.

I. Derivatives:

(A) Foreign exchange forward contract, currency swaps, forward rate agreement, interest rate swaps and cross currency swaps: the discounting future cash flow is adopted.

(B) Options: Black-Scholes model is mainly adopted for valuation.

(C) Some structured derivatives are valued by using Bloomberg.

(D) Some foreign-currency derivatives are valued by using the quoted prices from Bloomberg.

(4) Credit risk value adjustment

A. Credit risk value adjustments can be primarily classified as either credit value adjustments or debit value adjustments. The definitions are as follows:

(A) Credit value adjustments refer to adjustments through fair value, which reflect the possibility that a counterparty may default on repayments and that an entity may not be able to recover, in full, the market value, for transactions in non-centralized markets (i.e. valuation adjustments on derivative contracts traded over-the-counter).

(B) Debit value adjustments refer to adjustments through fair value, which reflect the possibility that the Bank may default on repayments and that the Bank may not be able to pay, in full, the market value, for transactions in non-centralized markets (i.e. valuation adjustments on derivative contracts traded over-the-counter).

B. The Bank and subsidiaries has incorporated credit risk value adjustments in the considerations for calculating the fair value of financial instruments in order to respectively reflect the counterparty's credit risk and the Bank's and its subsidiaries' credit quality.

(5) Financial instruments not measured at fair value through profit or loss

A. In relation to cash and cash equivalents, securities purchased under resell agreements, due from the central bank and call loans to banks, receivables, refundable deposits, due to the Central Bank and banks, funds borrowed from the Central Bank and other banks, securities sold under repurchase agreements, payables and deposits received, the book value of the financial instruments which have a short maturity period will be considered as their fair value. While the maturities are quite closed or the future payment or receipt is closed to the carrying amount, the carrying amount at the consolidated balance sheet date is used to estimate the fair value.

B. Interest rates of the Bank and subsidiaries' discounts and loans (including non-performing loans) are generally based on the benchmark interest rate plus or minus certain adjustment to reflect the market interest rate. Thus, their fair values are based on the book value after adjustments of estimated recoverability. Fair values for long-term loans with fixed interest rates shall be estimated using their discounted values of expected future cash flows. However, as such loans account for only a small portion of all loans, book value was used to estimate the fair value.

C. When there is a quoted market price available in an active market, the fair value of financial assets measured at amortised cost is determined using the market price. If there is no quoted market price for reference, a valuation technique or quoted price offer by the counterparties will be adopted to measure the fair value.

D. The fair value of deposits and remittances are represented by the book value.

E. The coupon rate of financial bonds payable issued by the Bank and subsidiaries is equivalent to market interest rate; therefore, fair value estimated based on the present value of future cash flows is equivalent to book value.

F. For other financial assets, such as investments in debt instruments without active market, as they have no quoted price in active market and their valuation results by using different valuation methods are significantly different, their fair value cannot be measured reliably and is not disclosed here.

(6) Level information of financial instrument at fair value

A. Three definitions of the Bank and subsidiaries' financial instruments at fair value

(A) Level 1

Level 1 is quoted prices (unadjusted) in active markets for identical assets or liabilities. An active market refers to a market in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The Bank and subsidiaries' investment in listed stock, beneficiary certificates, popular Taiwan government bonds and the derivatives with a quoted price in an active market are deemed as Level 1.

(B) Level 2

Level 2 inputs are observable prices other than quoted prices included in Level 1, including observable direct (e.g. prices) or indirect (e.g. those inferred prom prices) inputs in an active market. The Bank and subsidiaries' investments in non-popular government bonds, corporate bonds, bank debentures, convertible bonds, derivatives and corporate bonds issued by the Bank and subsidiaries belong to this category.

(C) Level 3

Level 3 inputs are inputs for assets or liabilities that are unobservable in the market (unobservable inputs, e.g. option pricing model using history volatility rate, because history volatility rate cannot represent the expectation value of market participants for future volatility rate).

B. Information of fair value hierarchy of financial instruments

(In NT Thousand Dollars)

Recurring fair value measurements	December 31, 2018 Total	Level 1	Level 2	Level 3
Non-derivatives				
Assets				
Financial assets at fair value through profit or loss				
Investment in stock	$ 15,058,070	$ 6,891,224	$ 3,295,025	$ 4,871,821
Investment in bonds	42,800,769	2,809,282	39,991,487	-
Beneficiary certificates	490,440	490,440	-	-
Financial assets at fair value through other comprehensive income				
Investment in stock	11,760,958	986,494	5,637,116	5,137,348
Investment in bonds	241,355,657	24,800,557	216,555,100	-
Commercial paper and certificate of deposit	10,403,689	-	10,403,689	-
Other	301,500	301,500	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	(24,464,279)	-	(24,464,279)	-
Derivatives				
Assets				
Financial assets at fair value through profit or loss	4,735,350	-	4,735,350	-
Liabilities				
Financial liabilities at fair value through profit or loss	(2,228,708)	-	(2,228,708)	-
Total	$ 300,213,446	$ 36,279,497	$ 253,924,780	$ 10,009,169

(In US Thousand Dollars)

Recurring fair value measurements	December 31, 2018 Total	Level 1	Level 2	Level 3
Non-derivatives				
Assets				
Financial assets at fair value through profit or loss				
Investment in stock	$ 489,965	$ 224,229	$ 107,215	$ 158,521
Investment in bonds	1,392,664	91,409	1,301,255	-
Beneficiary certificates	15,958	15,958	-	-
Financial assets at fair value through other comprehensive income				
Investment in stock	382,682	32,099	183,422	167,161
Investment in bonds	7,853,306	806,968	7,046,338	-
Commercial paper and certificate of deposit	338,519	-	338,519	-
Other	9,810	9,810	-	-
Liabilities				
Financial liabilities at fair value through profit or loss	(796,027)	-	(796,027)	-
Derivatives				
Assets				
Financial assets at fair value through profit or loss	154,080	-	154,080	-
Liabilities				
Financial liabilities at fair value through profit or loss	(72,518)	-	(72,518)	-
Total	$ 9,768,439	$ 1,180,473	$ 8,262,284	$ 325,682

(In NT Thousand Dollars)

Recurring fair value measurements	December 31, 2017 Total	Level 1	Level 2	Level 3
Non-derivatives				
Assets				
Financial assets at fair value through profit or loss				
Investment in stock	$ 4,060,454	$ 4,060,454	$ -	$ -
Investment in bonds	34,291,662	-	34,291,662	-
Available-for-sale financial assets				
Investment in stock	5,781,732	3,207,823	2,573,909	-
Investment in bonds	220,262,863	23,324,432	196,938,431	-
Short-term note and bill and certificate of deposit	52,045,405	-	52,045,405	-
Liabilities				
Financial liabilities at fair value through profit or loss	(6,920,122)	-	(6,920,122)	-
Derivatives				
Assets				
Financial assets at fair value through profit or loss	3,264,346	-	3,264,346	-
Liabilities				
Financial liabilities at fair value through profit or loss	(1,855,204)	-	(1,855,204)	-
Total	$ 310,931,136	$ 30,592,709	$ 280,338,427	$ -

C. Transfer between Level 1 and Level 2

On December 31, 2018, the Bank has no transfer between Level 1 and Level 2.

On December 31, 2017, the balance of the bank's held 2016 Fiscal Year Order 11 Category 1 Central Government Construction Bonds was NT$1,459,572 thousand. Due to the bonds becoming inactive securities in the Index, thus the bonds were transferred from Level 1 to Level 2.

D. Movements of financial instruments classified into Level 3 of fair value are as follows:

(A) Movements of financial assets classified into Level 3 of fair value are as follows:

For the year ended December 31, 2018: (In NT Thousand Dollars)

Items	Beginning Balance	Gain and loss on valuation		Addition		Reduction		Ending balance
		Recognised as gain and loss	Recognised as other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value through profit or loss	$ 5,048,252	($ 245,980)	$ -	$ 1,088	$ 284,121	($101,538)	($ 114,122)	$ 4,871,821
Financial assets at fair value through other comprehensive income-equity investments	10,599,949	-	48,755	6,598	400,000	(498,020)	(5,419,934)	5,137,348
Total	$ 15,648,201	($ 245,980)	$ 48,755	$ 7,686	$ 684,121	($599,558)	($ 5,534,056)	$ 10,009,169

For the year ended December 31, 2018: (In US Thousand Dollars)

Items	Beginning Balance	Gain and loss on valuation		Addition		Reduction		Ending balance
		Recognised as gain and loss	Recognised as other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Financial assets at fair value through profit or loss	$ 164,262	($ 8,004)	$ -	$ 35	$ 9,245	($ 3,304)	($ 3,713)	$ 158,521
Financial assets at fair value through other comprehensive income-equity investments	344,904	-	1,587	215	13,015	(16,205)	(176,355)	167,161
Total	$ 509,166	($ 8,004)	$ 1,587	$ 250	$ 22,260	($ 19,509)	($ 180,068)	$ 325,682

On January 1, 2018, the unlisted stocks held by the Bank amounted to $5,534,056 thousand, the most recent year's market transaction prices were used as the fair values, thus the stocks were transferred from Level 3 to Level 2.

For the year ended December 31, 2017: No relevant balance.

(B) Movements of financial liabilities classified into Level 3 of fair value are as follows:

For the year ended December 31, 2018: No relevant balance.

For the year ended December 31, 2017: No relevant balance.

E. Fair value measurement to Level 3, and the sensitivity analysis of the substitutable appropriate assumption made on fair value.

The Bank and subsidiaries' fair value measurement of financial instruments was reasonable, if valued using different model or parameters, it would obtain different results. For Level 3, if the parameters of valuation varied up or down by 10%, the effect on profit or loss would be shown as follows:

(In NT Thousand Dollars)

December 31, 2018	Changes in the fair value recognized in the current profit or loss		Changes in the fair value recognized in the comprehensive income or loss	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets at fair value through profit or loss				
Investment in stock	$ 487,182	($ 487,182)	$ -	$ -
Financial assets at fair value through other comprehensive income				
Investment in stock	-	-	513,735	(513,735)

(In US Thousand Dollars)

December 31, 2018	Changes in the fair value recognized in the current profit or loss		Changes in the fair value recognized in the comprehensive income or loss	
	Favorable changes	Unfavorable changes	Favorable changes	Unfavorable changes
Financial assets at fair value through profit or loss				
Investment in stock	$ 15,852	($ 15,852)	$ -	$ -
Financial assets at fair value through other comprehensive income				
Investment in stock	-	-	16,716	(16,716)

For the year ended December 31, 2017: No relevant balance.

The favorable changes and unfavorable changes meant the fluctuation of fair value, and the fair value was calculated by the unobservable parameters in different levels, if the fair value of financial instrument was affected by one of the above parameters, the favorable changes and unfavorable changes would not consider the correlation and variability in the table.

F. Quantitative information of fair value measurement of significant unobservable inputs (level 3)

Fair value of the Bank and subsidiaries belongs to level 3 because of equity investments-unlisted stocks.

Fair value belongs to equity investments of level 3 have several significant unobservable inputs, but they are independent from each other, the inputs have no relation.

Table below summaries quantitative information of significant unobservable inputs:

December 31, 2018	Fair value (In NT Thousand Dollars)	Fair value (In US Thousand Dollars)	Valuation technique	Significant unobservable input	Range (weighted average)	Relationship of inputs to fair value
Financial assets measured at fair value through profit or loss						
Equity investment- unlisted stock	$ 4,654,184	$ 151,439	Market approach	Lack of liquidity discount	15%-30%	The higher liquidity discount , the lower fair value.
				Price-book value ratio multiple	0.72-7.82	The higher price-book value ratio multiple, the lower fair value.
	217,637	$ 7,082	Net asset approach	N/A	N/A	N/A
Financial assets at fair value through other comprehensive income						
Equity investment- unlisted stock	2,540,521	$ 82,664	Market approach	Lack of liquidity discount	10%-30%	The higher liquidity discount , the lower fair value.
				Price-book value ratio multiple	0.73-1.26	The higher price-book value ratio multiple, the lower fair value.
	2,596,827	$ 84,497	Net asset approach	N/A	N/A	N/A

For the year ended December 31, 2017: No relevant balance.

8. MANAGEMENT OBJECTIVE AND POLICY FOR FINANCIAL RISK

(1) Overview

The Bank and subsidiaries earn profits mainly from lending, financial instruments trading and investments. The Bank and subsidiaries are supposed to bear and manage any risks from these business activities. These risks include credit risk, market risk, operating risk and liquidity risk. Among those risks, credit risk, market risk and liquidity risk have greatest impact.

The Bank and subsidiaries regard any potential factors that might negatively affect earnings and reputation as risks. To maintain steady profits and good reputation and avoid losses from incidental events, the Bank and subsidiaries' risk management policies focus on prevention and reduction of anticipated business risks and increase of capital in response to future anticipated risks. In order to meet the solid operating requirements by the competent authorities, depositors and other stakeholders for management objectives for risks, business risks are controlled within the tolerable scope.

(2) The organisation framework of risk management

The Bank and subsidiaries established risk management policies and guidelines and whole risk tolerance of the Bank and subsidiaries. Subsidiaries therefore follow the Bank's instructions in setting risk management organisation, policies, objectives, procedures, internal control operation, risk monitor mechanism and risk limits, and report to the parent company on risk management issues.

The Board of Directors is the highest instruction unit of the Bank and subsidiaries' risk management organisation structure and is responsible for establishing risk management system, including risk management policies, organisation structure, risk preference, internal control system and management of significant business cases.

Under the head office, the Risk Management Committee is established. The Risk Management Committee is responsible for review and monitor of risk management. Under the management, several committees and other administrative units are established. They are responsible for assessing and monitoring the related risk of loans, investments, trading of financial products.

The Bank has the Risk Management Committee established beneath its management, which is responsible for supervising the establishment of risk management mechanism, risk limits setting, risk monitoring and reporting. Each business management unit is responsible for identifying possible risks that may be generated within their respective jurisdictions, establishing internal control procedures and regulations, periodically measuring risk degrees and adopting response measures for possible negative effects.

Business units follow operating procedures and report to the management units directly. Risk management unit is responsible for monitor of overall risk positions and concentration and reporting to the management or Board of Directors.

Auditing office examines the operations of business and administration units regularly or irregularly to ensure the three risk management defense lines operate normally.

The Bank has assigned personnel to sit on the Board of Directors of each subsidiary to monitor the governance of each subsidiary.

(3) Credit risk

A. The source and definition of credit risk

Credit risk pertains to the risk of loss that the borrowers, issuers or counterparties might default on contracts due to deterioration in their finance or other factors.

The Bank and subsidiaries are exposed to credit risk mainly on businesses of corporate and individual loans, guarantees, trade financing, interbank deposits and call loans and securities investments.

Credit risk is the primary risk of the Bank and subsidiaries' capital charge.

B. Credit risk management policies

The objectives of the Bank and subsidiaries' credit risk management are to maintain stable asset allocation strategy, careful loaning policy and excellent asset quality to secure assets and earnings.

The management mechanism of the Bank and subsidiaries for credit risk includes:

The establishment of Risk Management, Loan and Investment committees which adopt responding measures to market environment, changes in industry, and capital limits, and review relevant regulations and cases of significant lending and investments.

Setting careful prior review procedures for lending and criteria of handling subsequent matters, regular post-lending follow-up, understanding of clients' operation and capital outflows, and increase in the frequency of review on clients with higher risk.

Classifying credit ratings based on clients' probability of default or behavior scoring with management put in practice.

Controlling concentration of credit risk by setting credit limits for individuals, corporate groups, industries, areas, and different types of collaterals.

Setting credit risk limits by reference to external ratings and prospects with attention to changes in market credit spread and risk concentration of counterparties.

The establishment of credit pre-warning list and reporting system.

Assessing assets quality regularly and setting aside sufficient reserve for losses.

Setting creditor's rights management unit and advisory committee in charge of accelerating collection of non-performing loans.

The procedures for credit risk management of the Bank and subsidiaries and related measurement approaches are outlined below:

(A) Credit extensions

Classification of credit assets and internal risk ratings are as follows:

a. Classification of credit assets

Corporate credit risk is measured by using the borrower's default probability model with logistic regression analysis in which financial and non-financial factors are incorporated, which predicts the default probability of borrower within the next year. Besides, the extent of risk is measured by using credit rating table and taking into account the characteristics and scale of business. Lending examination and post management are dealt with based on clients' credit rating. Individual borrowers are grouped into different risk levels and managed by using application scoring and behavior scoring cards. Back-testing is conducted on internal models regularly; those models are subject to adjustments when necessary. Clients' credit ratings are reviewed annually and subject to adjustments when there is significant change in their credit ratings.

b. Internal risk rating

The internal rating for lending is classified as excellent, satisfactory, fair and weak, and corresponds to the Standard & Poor's rating as follows:

Internal risk rating	Excellent	Satisfactory	Fair	Weak
Corresponding to S&P	AAA~BBB-	BB+~ BB-	B+	B and below

(B) Interbank deposits and call loans

Before trading with other banks, the Bank and subsidiaries must assess the credit of the counterparty; generally referencing external rating agencies, assets and scale of equity of the counterparty, and the credit rating of the counterparty's country of origin in order to set different transaction limits, as well as periodically examining the ratings and changes in stock prices of the counterparty in order to monitor the risks of counterparty.

(C) Bonds and derivatives

The limits of bonds purchased by the Bank and subsidiaries are set by considering the credit rating of bond issuers or guarantors (ex. S&P, Moody's, Fitch, Taiwan ratings or Fitch Taiwan), which needs to meet the minimum rating set by the Board of (Managing) Directors, and country risk at the application, changes in CDS quoted prices and market condition.

The Bank and subsidiaries have set trading units and overall total risk limit for non-hedging derivatives, and use positive trading contract evaluation and the potential exposure as the basis for calculating credit risk and add the limit to the total credit risk limit for monitoring.

(D) Asset quality

The Bank and subsidiaries have set the minimum requirements and examination procedures for the quality of financial assets of each type, and controls risk concentration of assets portfolios of each type based on the risk limit of each type. The Bank and subsidiaries also monitor the changes in assets quality regularly during the duration of the assets and takes measures to maintain their quality. According to the policies and regulations, reserve for losses is provided adequately for those assets to actually reflect and safeguard the value of owners' equity.

C. Expected credit losses calculation

In the assessment of impairment and calculation of expected credit losses, the Bank and subsidiaries consider reasonable and supportable information (including forward-looking information that can be obtained without costing excessive costs or inputs) about past events, current conditions and reasonable and supportable forecasts of future economic conditions. The Bank and subsidiaries determine at the reporting date whether there has been a significant increase in credit risk since initial recognition or whether credit impairment has occurred, and recognises expected credit loss according to which stage the asset belongs: no significant increase in credit risk or low credit risk at balance sheet date (Stage 1), significant increase in credit risk (Stage 2), and credit impaired (Stage 3). 12-month expected credit losses are recognised for assets in Stage 1, and lifetime expected credit losses are recognised for assets in Stage 2 and Stage 3.

The definition of each stage and the recognition of expected credit loss are as follows:

Low credit risk (Stage 1)

The Bank and subsidiaries estimate the 12 months expected credit losses if financial assets which has low credit risk at reporting date, or there has not been a significant increase in credit risk since initial recognition.

Significant increase in credit risk (Stage 2)

The Bank and subsidiaries estimate the lifetime expected credit losses (ECLs) if such credit risk has significant increased since initial recognition but not impaired after taking into consideration all reasonable and verifiable information.

Credit-impaired (Stage 3)

The credit is impaired when expected future cash flows of the financial assets have one or more events that occurred with adverse effects, and the Bank and subsidiaries shall estimate the lifetime expected credit losses (ECLs).

(A) Determination of a significant increase in credit risk after initial recognition

a. Loan business

Subsidiary, the Bank and subsidiaries, assesses the changes in default risk over the lifetime of each category of credit assets at each reporting date to determine whether there has been a significant increase in credit risk. The assessment takes into account reasonable and supportable information including forward-looking information that demonstrates a significant increase in credit risk after initial recognition. The main indicators taken into consideration include:

(a) Quantitative indicators

I. Changes in internal/external credit ratings

The credit risk of the financial instrument is assessed to be significantly increased after initial recognition if its external credit rating were lowered over 2 grades and it qualified other conditions at the reporting date. A financial instrument that is not externally rated whose internal credit rating needs to be mapped with an external grade and then determined based on its external credit rating. A no-rated financial instrument is determined by default events and qualitative indicators.

The credit assets are allocated in 13 scales of internal rating. The scales corresponds to the ratings of Standard & Poor's as follows:

Internal risk rating	1~3	4~6	7~9	10~13
Corresponding to S&P	AA-or better~A-	BBB+~ BBB-	BB+~B+	B +and below

II. Default events

The repayment of principal and interest is later 1 to 3 months over when contractually dues, and not included in credit-impaired (Stage 3).

(b) Qualitative indicators:

I. The Bank and subsidiaries, reported a dishonored check issued by debtor.

II. Debtor was notified as a dishonoured account by Taiwan clearing house.

III. The pledged collateral of the debtor is seised by another bank.

IV. Debtor's loans from other financial institutions have been reclassified as overdue loan or written off as bad debt.

V. The independent accountant issues an opinion expressing material uncertainty over the company's ability to continue as a going concern.

VI. The debtor has other records of bad credit that has affected its capital procurement and normal operation.

The loan assets of the Bank and subsidiaries are assumed to have no significant increase in credit risk since initial recognition if they are of low credit risk at the reporting date.

b. Bond investments and counterparty transactions

The Bank and subsidiaries assess the changes in default risk over the lifetime of bond investments and counterparty transactions at each reporting date to determine whether there has been a significant increase in credit risk. The assessment takes into account reasonable and supportable information including forward-looking information that demonstrates a significant increase in credit risk after initial recognition. The main indicators taken into consideration include:

I. The repayment including interests is over 30 days past due.

II. The fair value and cost are lower than a certain percentage.

III. A change in internal/external credit ratings.

At the reporting date, if the external credit rating of the financial instrument has decreased by more than certain grades since initial recognition, or if the instrument is not investment grade, it is determined to have significant increase in credit risk. If the financial instrument only has an internal credit rating, the assessment is based on the equivalent external credit rating.

IV. The CDS spread of bond issuer/counterparty is over certain basis points.

V. Fluctuation rate of individual stock price relative to the overall market price

The fluctuation rate of individual stock price of the bond issuer/ counterparty relative to the overall market price is lower than a certain percentage in consecutive months.

(B) Definition of default and credit impaired financial assets

a. Credit business

The Bank and subsidiaries use the credit-impaired indicators as follows:

(a) Quantitative indicator: Except for the accounts receivable factoring without recourse resulting from a non-financial factor, the repayment of principal and interest is over 90 days past due

(b) Qualitative indicators:

I. The accounts receivable factoring without recourse has been recorded as non-performing loans.

II. Overdue receivables.

III. The amount cannot be expected to be recovered because of the debtor's financial difficulties.

IV. A modification of the contractual terms led by the debtor's financial difficulties, including an extended repayment term of principal and a punctual repayment of interests, extended repayment term of interests, debt negotiations for agreed settlement administered by the Bank Association.

V. The debtor has filed for bankruptcy or is likely to file for bankruptcy.

VI. The debtor entered into reorganisation or is likely to file for reorganisation.

b. Bond investments and counterparty transactions

The Mega Group uses the credit-impaired indicators as follows:

(a) The repayment is over 90 days past due.

(b) Overdue receivables.

(c) Bad debts.

(d) The issuer or debtor encounters financial difficulties.

(e) A modification of the contractual terms led by the debtor's financial difficulties.

(f) The debtor has filed for bankruptcy or is likely to file for bankruptcy.

(g) The debtor entered into reorganisation or is likely to file for reorganization.

(C) Write-off policy

The Bank and subsidiaries writes-off the financial assets partially or entirely to the extent of the amount which cannot be reasonably expected to be recovered.

The indicators for reasonably expected to be unrecoverable include:

a. The recourse procedures has ceased.

b. The debtor's assets or income is evaluated to be insufficient to repay outstanding payments.

The Bank and subsidiaries may proceed recourse activities for the written-off financial assets and undergo recourse procedures in accordance with related policies.

(D) Measurement of expected credit loss

The Bank and subsidiaries recognise the impairment provision for 12 months expected credit losses (ECLs) if there has not been a significant increase in credit risk since initial recognition and recognises the impairment provision for the lifetime expected credit losses if such credit risk has increased since initial recognition.

a. Credit business

Expected credit loss are measured based on probability of default ("PD"), loss given default ("LGD") and exposure at default ("EAD").

(a) Probability of default ("PD"):

The estimation of PD is based on the rated financial assets and no-rated financial assets of the Bank and subsidiaries, with the 12-month PD and lifetime PD estimated separately.

I. Calculate the actual 12-month PD from historical data, which is adjusted by using forward-looking information, and use it to estimate the future12-month PD parameter.

II. Lifetime PD: The Bank and subsidiaries adopts Markov Chain to estimate lifetime PD, which is obtained by a matrix multiplication from rating transition matrix.

In addition, probability of default of externally rated financial assets is measured by the same method with "Bond investments and counterparty transactions".

(b) Loss given default ("LGD"):

Loans are grouped according to type (corporate or consumer) and whether they are secured with collateral, and the LGD of each group is calculated based on historical recovery experience.

(c) Exposure at default ("EAD"):

I. On balance sheet: calculated from the total book value at the reporting date (including interest receivable).

II. Off balance sheet: off balance sheet figures multiplied by the credit conversion factor (CCF). The CCF is estimated according to the rules described in the "Calculation Method of Equity Capital and Risky Assets and Accompanying Forms-Credit Risk Standard Rules."

b. Bond investments and counterparty transactions

(a) PD is calculated based on external credit ratings data, which takes into consideration forward-looking information.

(b) LGD is an average LGD obtained from external credit ratings.

(c) EAD:

I. Stage 1 and Stage 3: calculated from total book value (including interest receivable)

II. Stage 2: used the cash flows of bonds during its duration.

(E) Consideration of forward-looking information

a. Credit business

The Bank and subsidiaries incorporates forecastable information when determining whether there has been a significant increase in credit risk since initial recognition and measuring expected credit losses.

(a) For determining significant increase in credit risk

Clients' financial condition, repayment ability, corporate governance and forward-looking information such as industry's prospects are taken into consideration.

(b) For measuring expected credit losses

Consideration of forward-looking information are reflected by PD and LGD. Consideration of forward-looking information classifies loans into three types: loans with (a) external credit ratings (b) with internal credit ratings and (c) without credit ratings:

I. Loans with external credit ratings: ECLs are measured by the same approach by considering the same forward-looking information adopted for bond investments and counterparty transactions.

II. Loans with internal credit ratings:

To measure the PD of internally rated financial assets, the Bank and subsidiaries considers forward-looking information by assessing corporate and individual customers sequently, referring to academic literatures across the countries and employing statistical methods to screen relevant macro-economic factors (including economic growth rate, unemployment rate, consumer price index, interest rate, exchange rate and real estate price index) in order to assess the effects on each rating level while the macro-economic changes, and use it to be the forward-looking information adjustment of future PD. In addition, the Bank and subsidiaries' adjustment of forward-looking information is including the analysis under the different macroeconomic environments, which are appropriated the weight in accordance with its incidence. As a result, the weighted average was calculated based on different economic environments, and it reflects the non-linear system between the incidence of different macroeconomic environments and the existence of credit loss.

III. No-rated financial assets

To measure the PD of no-rated financial assets, the Bank and subsidiaries considers forward-looking information by complying with the impairment estimation methodology guidelines released by the Bankers Association of the Republic of China.

b. Bond investments and counterparty transactions

To measure the forecastable estimation of PD, the PDs under different ratings and limits are obtained by constructuring the regression model and combining the result of regression with the assessment of macroeconomic.

D. Policies of hedging and mitigation of credit risk

To reduce credit risk, the Bank and its subsidiaries adopt the following policies:

(A) Obtaining collaterals and guarantors

The Bank and subsidiaries have established policies on collateral management, mortgage loan line setting, scope of collaterals, collateral valuation, collateral management and disposal. Besides, protection of creditor's right, collateral terms and offsetting terms are all addressed in the credit extension contract in case of any occurrence of credit event, of which the amount may be deductible, loan repayment schedule may be shortened or deemed as matured, or the debtor's deposits can be used to offset its liabilities to mitigate credit risks.

(B) Loan limit control

To avoid extreme credit risk concentration, subsidiaries established policies for control of credit risk concentration and set up credit extension limit for a single individual, a single group, a single industry, a single area/country, and single collateral.

(C) Master netting arrangements

The Bank's and subsidiaries' transactions predominantly settle at gross amount. A portion of transactions have entered into master netting arrangements with counterparties or upon the event of a default may cease all transactions with the counterparties and settle by net amount in order to further reduce credit risk.

(D) Other credit enhancements

The Bank and subsidiaries have offsetting terms within their credit contracts, which clearly define that all deposits in the Bank and subsidiaries from debtors may be offset against their liabilities upon a credit event, and have guarantees from third parties or financial institutions, in order to decrease credit risk.

E. Maximum credit risk exposure

The maximum credit risk exposure of financial assets within the balance sheets is presented in book values. The maximum credit risk exposure of guarantees and irrevocable commitments off balance sheets is calculated based on their limits. Letters of credit and the guarantee refer to those issued but not used.

(A) The maximum credit risk exposure of financial assets of the Bank and subsidiaries excluding collaterals or other credit enhancement instruments is approximately equal to book value.

a. The total carrying amount of financial assets held by the Bank and subsidiaries that has the maximum exposure to credit risk is as follows:

(a) Discounts and loans

Unit: In NT Thousand Dollars

Discounts and loans	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
	December 31, 2018				
Credit ratings					
- excellent	$ 831,764,348	$ 100,031	$ 134,480	$ -	$ 831,998,859
- good	469,478,581	33,480,718	91,084	-	503,050,383
- acceptable	272,814,116	20,453,589	856,078	-	294,123,783
- weak	88,009,347	17,679,105	6,204,468	-	111,892,920
- no rated	148,601,687	2,920,522	2,118,196	-	153,640,405
Total carrying amount	1,810,668,079	74,633,965	9,404,306	-	1,894,706,350
Allowance for bad debt	(2,625,625)	(700,461)	(2,956,493)	-	(6,282,579)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(23,976,668)	(23,976,668)
Total	$ 1,808,042,454	$ 73,933,504	$ 6,447,813	($ 23,976,668)	$ 1,864,447,103

Unit: In US Thousand Dollars

Discounts and loans	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
	December 31, 2018				
Credit ratings					
- excellent	$ 27,064,210	$ 3,255	$ 4,376	$ -	$ 27,071,841
- good	15,276,041	1,089,406	2,964	-	16,368,411
- acceptable	8,876,911	665,525	27,855	-	9,570,291
- weak	2,863,676	575,248	201,883	-	3,640,807
- no rated	4,835,248	95,030	68,922	-	4,999,200
Total carrying amount	58,916,086	2,428,464	306,000	-	61,650,550
Allowance for bad debt	(85,434)	(22,792)	(96,199)	-	(204,425)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(78,160)	(780,160)
Total	$ 58,830,652	$ 2,405,672	$ 209,801	($ 78,160)	$ 60,665,965

(b) Receivables

Unit: In NT Thousand Dollars

Receivables	December 31, 2018 12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Credit ratings					
- excellent	$ 32,685,464	$ 88	$ 48	$ -	$ 32,685,600
- good	7,217,223	563,261	3	-	7,780,487
- acceptable	6,905,968	546,898	1,486	-	7,454,352
- weak	1,281,182	56,311	259,904	-	1,597,397
- no rated	11,978,119	15,344	647,947	-	12,641,410
Total carrying amount	60,067,956	1,181,902	909,388	-	62,159,246
Allowance for bad debt	(124,672)	(4,685)	(82,732)	-	(212,089)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(1,192,991)	(1,192,991)
Total	$ 59,943,284	$ 1,177,217	$ 826,656	($ 1,192,991)	$ 60,754,166

Unit: In US Thousand Dollars

Receivables	December 31, 2018 12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Credit ratings					
- excellent	$ 1,063,530	$ 3	$ 2	$ -	$ 1,063,535
- good	234,836	18,328	-	-	253,164
- acceptable	224,709	17,795	48	-	242,552
- weak	41,687	1,832	8,457	-	51,976
- no rated	389,748	499	21,083	-	411,330
Total carrying amount	1,954,410	38,457	29,590	-	2,022,557
Allowance for bad debt	(4,057)	(152)	(2,692)	-	(6,901)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(38,818)	(38,818)
Total	$ 1,950,453	$ 38,305	$ 26,898	($ 38,818)	$ 1,976,838

(c) Debt instruments

Unit: In NT Thousand Dollars

Debt instruments	December 31, 2018 12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Credit ratings				
- excellent	$ 519,994,716	$ -	$ -	$ 519,994,716
- good	1,100,282	-	-	1,100,282
- acceptable	-	-	-	-
- weak	330,933	-	-	330,933
- no rated	9,625	-	-	9,625
Total carrying amount	521,435,556	-	-	521,435,556
Accumulated impairment	(12,324)	-	-	(12,324)
Other equity	(102,889)	-	-	(102,889)
Total	$ 521,320,343	$ -	$ -	$ 521,320,343

Unit: In US Thousand Dollars

Debt instruments	December 31, 2018 12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Credit ratings				
- excellent	$ 16,919,751	$ -	$ -	$ 16,919,751
- good	35,802	-	-	35,802
- acceptable	-	-	-	-
- weak	10,768	-	-	10,768
- no rated	313	-	-	313
Total carrying amount	16,966,634	-	-	16,966,634
Accumulated impairment	(401)	-	-	(401)
Other equity	(3,348)	-	-	(3,348)
Total	$ 16,962,885	$ -	$ -	$ 16,962,885

b. The maximum exposure to credit risk in relation to the items off balance sheet is as follows:

Unit: In NT Thousand Dollars

Loan commitments and financial gurantee contracts	December 31, 2018 12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Credit ratings					
- excellent	$ 176,676,384	$ -	$ -	$ -	$ 176,676,384
- good	78,710,321	5,766,302	-	-	84,476,623
- acceptable	28,552,090	1,060,681	-	-	29,612,771
- weak	8,078,541	2,381,930	462,955	-	10,923,426
- no rated	108,359,812	1,090,619	30,269	-	109,480,700
Total carrying amount	400,377,148	10,299,532	493,224	-	411,169,904
Provisions	(217,540)	(41,389)	(41,094)	-	(300,023)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(3,052,116)	(3,052,116)
Total	$ 400,159,608	$ 10,258,143	$ 452,130	($ 3,052,116)	$ 407,817,765

Unit: In US Thousand Dollars

Loan commitments and financial gurantee contracts	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
	December 31, 2018				
Credit ratings					
- excellent	$ 5,748,752	$ -	$ -	$ -	$ 5,748,752
- good	2,561,101	187,625	-	-	2,748,726
- acceptable	929,037	34,513	-	-	963,550
- weak	262,862	77,504	15,064	-	355,430
- no rated	3,525,845	35,487	985	-	3,562,317
Total carrying amount	13,027,597	335,129	16,049	-	13,378,775
Provisions	(7,078)	(1,347)	(1,337)	-	(9,762)
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	(99,311)	(99,311)
Total	$ 13,020,519	$ 333,782	$ 14,712	($ 99,311)	$ 13,269,702

c. The analysis of risk exposure by the asset's counterparty and category is as follows:

Unit: In NT Thousand Dollars

	Cash and cash equivalents, Due from the Central Bank and call loans to banks	Discountes and loans	Receivables, net	Securities purchased under resell agreements and debt instruments	Derivatives	Other on balance sheet	Loan commitments and financial gurantee contracts	Total
	December 31, 2018							
Government institution	$ 326,309,592	$ 9,590,241	$ 659,648	$ 69,288,449	$ 37	$ 1,644	$ 17,997,463	$ 423,847,074
Finance, investment and insurance	317,187,844	201,014,440	5,494,797	383,481,806	4,101,120	-	21,829,058	933,109,065
Enterprise and commerce	-	1,249,992,842	48,739,428	115,181,125	111,344	33,884	296,731,123	1,710,789,746
Individuals	-	428,650,895	5,702,800	-	29,943	2,283	71,135,488	505,521,409
Others	-	5,457,932	1,562,573	279,415	492,906	46	3,476,772	11,269,644
Total	643,497,436	1,894,706,350	62,159,246	568,230,795	4,735,350	37,857	411,169,904	3,584,536,938
Less: allowance for bad debt, accumulated impairment and provisions for liabilities	(120)	(30,259,247)	(1,405,080)	(115,213)	-	(7,195)	(3,352,139)	(35,138,994)
Net	$ 643,497,316	$ 1,864,447,103	$ 60,754,166	$ 568,115,582	$ 4,735,350	$ 30,662	$ 407,817,765	$ 3,549,397,944

Unit: In US Thousand Dollars

	Cash and cash equivalents, Due from the Central Bank and call loans to banks	Discountes and loans	Receivables, net	Securities purchased under resell agreements and debt instruments	Derivatives	Other on balance sheet	Loan commitments and financial gurantee contracts	Total
	December 31, 2018							
Government institution	$ 10,617,564	$ 312,050	$ 21,464	$ 2,254,529	$ 1	$ 54	$ 585,607	$ 13,791,269
Finance, investment and insurance	10,320,757	6,540,671	178,791	12,477,851	133,444	-	710,281	30,361,795
Enterprise and commerce	-	40,672,660	1,585,899	3,747,799	3,623	1,103	9,655,131	55,666,215
Individuals	-	13,947,577	185,559	-	974	74	2,314,629	16,448,813
Others	-	177,592	50,844	9,092	16,038	1	113,128	366,695
Total	20,938,321	61,650,550	2,022,557	18,489,271	154,080	1,232	13,378,776	116,634,787
Less: allowance for bad debt, accumulated impairment and provisions for liabilities	(4)	(984,585)	(45,719)	(3,749)	-	(234)	(109,073)	(1,143,364)
Net	$ 20,938,317	$ 60,665,965	$ 1,976,838	$ 18,485,522	$ 154,080	$ 998	$ 13,269,703	$ 115,491,423

The trade financing for corporates and businesses accounts for 11.72%, equivalent to NT$146,533,386 thousand while the housing loans for individuals accounts for 76.34%, equivalent to NT$327,219,821 thousand.

d. Relevant financial information on effect of the Bank's and subsidiaries' assets exposed to credit risk, net settlement master netting arrangements and other credit improvements is as follows:

Unit: In NT Thousand Dollars

December 31, 2018	Collateral	Net settlement master netting arrangements	Other credit improvements	Total
On-Balance-Sheet Items				
Financial assets at fair value through profit or loss				
- debt instrument	$ -	$ -	$ 8,492,311	$ 8,492,311
- derivatives	1,906,620	563,380	-	2,470,000
Securiries purchased under resell agreements	3,994,470	-	-	3,994,470
Discounts and loans	1,163,114,203	-	61,119,129	1,224,233,332
Financial assets at fair value through other comprehensive income-debt instrument	-	-	13,025,500	13,025,500
Investments in debt instruments at amortised cost	-	-	49,114,348	49,114,348
Off-Balance-Sheet Items				
Irrevocable commitments	20,509,495	-	1,396,401	21,905,896
Guarantees and letters of credit	43,631,922	-	2,022,898	45,654,820

Unit: In US Thousand Dollars

December 31, 2018	Collateral	Net settlement master netting arrangements	Other credit improvements	Total
On-Balance-Sheet Items				
Financial assets at fair value through profit or loss				
- debt instrument	$ -	$ -	$ 276,325	$ 276,325
- derivatives	62,038	18,332	-	80,370
Securiries purchased under resell agreements	129,973	-	-	129,973
Discounts and loans	37,845,775	-	1,988,713	39,834,488
Financial assets at fair value through other comprehensive income-debt instrument	-	-	423,828	423,828
Investments in debt instruments at amortised cost	-	-	1,598,098	1,598,098
Off-Balance-Sheet Items				
Irrevocable commitments	667,344	-	45,437	712,781
Guarantees and letters of credit	1,419,709	-	65,822	1,485,531

Note 1: Collaterals include property, movable property, certification of authorization, securities, certificates of deposits, letter of credit and rights in property.

(1)Value of collaterals pledged for assets that arise from lending is the lower of collateral value/ market value and maximum exposure amount. If the collateral value cannot be obtained, value of collaterals must be assessed.

(2)Value of collaterals pledged for assets that do not arise from lending is the lower of market value and maximum exposure amount.

Note 2: Details of improvement to net settlement master netting arrangements and other credits are provided in Note 8(3) D. (C) and (D).

e. The Bank and subsidiaries closely monitor the value of the collateral of financial instruments and considers the credit-impaired financial assets that require impairment recognition. Information on credit-impaired assets and the value of collateral used to offset potential losses is as follows:

Unit: In NT Thousand Dollars

	December 31, 2018			
	Total carrying amount	Allowance for impairment	Total risk exposure	Fair value of Collateral / Guarantee
Receivables	$ 909,388	$ 727,702	$ 181,686	$ -
- Credit card business	75,181	59,861	15,320	-
- Others	834,207	667,841	166,366	-
Discounts and loans	9,404,306	3,101,154	6,303,152	5,190,095
Other financial assets	33,713	7,154	26,559	-
Impaired financial assets on balance sheet	$ 10,347,407	$ 3,836,010	$ 6,511,397	5,190,095
Irrevocable loan commitments	$ 394,989	$ 3,997	$ 390,992	$ -
Guarantees and letters of credit	98,235	52,989	45,246	229,321
Impaired financial assets off balance sheet	$ 493,224	$ 56,986	$ 436,238	$ 229,321

Unit: In US Thousand Dollars

	December 31, 2018			
	Total carrying amount	Allowance for impairment	Total risk exposure	Fair value of Collateral / Guarantee
Receivables	$ 29,590	$ 23,678	$ 5,912	$ -
- Credit card business	2,446	1,948	498	-
- Others	27,144	21,730	5,414	-
Discounts and loans	306,000	100,906	205,094	168,877
Other financial assets	1,097	233	864	-
Impaired financial assets on balance sheet	$ 336,687	$ 124,817	$ 211,870	168,877
Irrevocable loan commitments	$ 12,852	$ 130	$ 12,722	$ -
Guarantees and letters of credit	3,197	1,724	1,473	7,462
Impaired financial assets off balance sheet	$ 16,049	$ 1,854	$ 14,195	$ 7,462

F. Movements in allowance for bad debts, accumulated impairment and provisions for financial assets are as follows:

(A) The reconciliation from the beginning balance to ending balance of the allowance for bad debts arising from discounts and loans for the year ended of 2018, is shown below:

Unit: In NT Thousand Dollars

Discounts and loans	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total impairment recognised under IFRS 9	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Balance at the beginning of the period	$ 2,825,429	$ 709,417	$ 2,309,183	$ 5,844,029	$ 22,511,523	$ 28,355,552
Changes from financial instruments recognised at the beginning of the period:						
- Transferred to lifetime expected credit losses	(30,712)	33,268	(2,556)	-	-	-
- Transferred to credit impaired financial asset	(4,110)	(25,943)	30,053	-	-	-
- Transferred to 12-month expected credit losses	143,851	(107,482)	(36,369)	-	-	-
- Derecognised financial assets	(1,285,842)	(225,466)	(122,487)	(1,633,795)	-	(1,633,795)
- additional provision and reversal	(286,219)	115,164	875,950	704,895	-	704,895
Originated or purchased new financial assets	1,288,540	220,648	548,227	2,057,415	-	2,057,415
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	1,465,145	1,465,145
Write-off of uncollectible amount	-	-	(1,745,175)	(1,745,175)	-	(1,745,175)
Foreign exchange and other changes	(25,312)	(19,145)	1,099,667	1,055,210	-	1,055,210
Balance at the end of the period	$ 2,625,625	$ 700,461	$ 2,956,493	$ 6,282,579	$ 23,976,668	$ 30,259,247

Unit: In US Thousand Dollars

Discounts and loans	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total impairment recognised under IFRS 9	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Balance at the beginning of the period	$ 91,935	$ 23,083	$ 75,137	$ 190,155	$ 732,487	$ 922,642
Changes from financial instruments recognised at the beginning of the period:						
- Transferred to lifetime expected credit losses	(999)	1,082	(83)	-	-	-
- Transferred to credit impaired financial asset	(134)	(844)	978	-	-	-
- Transferred to 12-month expected credit losses	4,680	(3,497)	(1,183)	-	-	-
- Derecognised financial assets	(41,839)	(7,336)	(3,986)	(53,161)	-	(53,161)
- additional provision and reversal	(9,313)	3,747	28,502	22,936	-	22,936
Originated or purchased new financial assets	41,927	7,180	17,838	66,945	-	66,945
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	47,673	47,673
Write-off of uncollectible amount	-	-	(56,785)	(56,785)	-	(56,785)
Foreign exchange and other changes	(823)	(623)	35,781	34,335	-	34,335
Balance at the end of the period	$ 85,434	$ 22,792	$ 96,199	$ 204,425	$ 780,160	$ 984,585

(B) The reconciliation from the beginning balance to ending balance of the allowance for bad debts arising from receivables for the year ended of 2018, is shown below:

Unit: In NT Thousand Dollars

Receivables	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total impairment recognised under IFRS 9	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Balance at the beginning of the period	$ 158,621	$ 2,402	$ 379,636	$ 540,659	$ 1,152,248	$ 1,692,907
Changes from financial instruments recognised at the beginning of the period:						
- Transferred to lifetime expected credit losses	(247)	1,284	(1,037)	-	-	-
- Transferred to credit impaired financial asset	(46)	(108)	154	-	-	-
- Transferred to 12-month expected credit losses	1,634	(875)	(759)	-	-	-
- Derecognised financial assets	(174,012)	(1,861)	(369,886)	(545,759)	-	(545,759)
- additional provision and reversal	403	778	(1,358)	(177)	-	(177)
Originated or purchased new financial assets	119,381	14,750	12,151	146,282	-	146,282
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	40,743	40,743
Write-off of uncollectible amount	(8,265)	(11,683)	(30,085)	(50,033)	-	(50,033)
Foreign exchange and other changes	27,203	(2)	93,916	121,117	-	121,117
Balance at the end of the period	$ 124,672	$ 4,685	$ 82,732	$ 212,089	$ 1,192,991	$ 1,405,080

Unit: In US Thousand Dollars

Receivables	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total impairment recognised under IFRS 9	Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Balance at the beginning of the period	$ 5,161	$ 78	$ 12,353	$ 17,592	$ 37,492	$ 55,084
Changes from financial instruments recognised at the beginning of the period:						
- Transferred to lifetime expected credit losses	(8)	42	(34)	-	-	-
- Transferred to credit impaired financial asset	(1)	(4)	5	-	-	-
- Transferred to 12-month expected credit losses	53	(28)	(25)	-	-	-
- Derecognised financial assets	(5,662)	(61)	(12,035)	(17,758)	-	(17,758)
- additional provision and reversal	13	25	(44)	(6,)	-	(6)
Originated or purchased new financial assets	3,885	480	395	4,760	-	4,760
Difference in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	1,326	1,326
Write-off of uncollectible amount	(269)	(380)	(979)	(1,628)	-	(1,628)
Foreign exchange and other changes	885	-	3,056	3,941	-	3,941
Balance at the end of the period	$ 4,057	$ 152	$ 2,692	$ 6,901	$ 38,818	$ 45,719

(C) The reconciliation from the beginning balance to ending balance of the accumulated impairment arising from debt instruments for the year ended of 2018, is shown below:

a. Financial assets at fair value through other comprehensive income

Unit: In NT Thousand Dollars

Financial assets at fair value through other comprehensive income	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 128,712	$ -	$ -	$ 128,712
Changes from financial instruments recognised at the beginning of the period:				
- Additional provision and reversal	(42,618)	-	-	(42,618)
Originated or purchased new financial assets	25,977	-	-	25,977
The impairment allowance for financial assets derecognised in the current period	(9,402)	-	-	(9,402)
Foreign exchange and other changes	220	-	-	220
Balance at the end of the period	$ 102,889	$ -	$ -	$ 102,889

Unit: In US Thousand Dollars

Financial assets at fair value through other comprehensive income	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 4,188	$ -	$ -	$ 4,188
Changes from financial instruments recognised at the beginning of the period:				
- Additional provision and reversal	(1,386)	-	-	(1,386)
Originated or purchased new financial assets	845	-	-	845
The impairment allowance for financial assets derecognised in the current period	(306)	-	-	(306)
Foreign exchange and other changes	7	-	-	7
Balance at the end of the period	$ 3,348	$ -	$ -	$ 3,348

b. Investments in debt instruments at amortised cost

Unit: In NT Thousand Dollars

Investments in debt instruments at amortised cost	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 12,557	$ -	$ -	$ 12,557
Changes from financial instruments recognised at the beginning of the period:				
- Additional provision and reversal	(1,354)	-	-	(1,354)
Originated or purchased new financial assets	8,006	-	-	8,006
The impairment allowance for financial assets derecognised in the current period	(7,587)	-	-	(7,587)
Foreign exchange and other changes	702	-	-	702
Balance at the end of the period	$ 12,324	$ -	$ -	$ 12,324

Unit: In US Thousand Dollars

Investments in debt instruments at amortised cost	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 409	$ -	$ -	$ 409
Changes from financial instruments recognised at the beginning of the period:				
- Additional provision and reversal	(44)	-	-	(44)
Originated or purchased new financial assets	260	-	-	260
The impairment allowance for financial assets derecognised in the current period	(247)	-	-	(247)
Foreign exchange and other changes	23	-	-	23
Balance at the end of the period	$ 401	$ -	$ -	$ 401

(D) The reconciliation from the beginning balance to ending balance of the provisions for loan commitments and guarantee liabilities for the year of 2018, is shown below:

Unit: In NT Thousand Dollars

Provisions for loan commitments and guarantee liabilities	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total impairment recognised under IFRS 9	Different in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Balance at the beginning of the period	$ 182,409	$ 21,226	$ 94,833	$ 298,468	$ 3,401,085	$ 3,699,553
Changes from financial instruments recognised at the beginning of the period:						
- Transferred to lifetime expected credit losses	(3,679)	3,679	-	-	-	-
- Transferred to credit impaired financial asset	-	-		-	-	-
- Transferred to 12-month expected credit loss	13,418	(13,418)	-	-	-	-
- Derecognised financial assets	(78,655)	(5,607)	(68,400)	(152,662)	-	(152,662)
- additional provision and reversal	(24,864)	7,740	2,580	(14,544)	-	(14,544)
Originated or purchased new financial assets	135,340	28,320	11,141	174,801	-	174,801
Different in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	(348,969)	(348,969)
Foreign exchange and other changes	(6,429)	(551)	940	(6,040)	-	(6,040)
Balance at the end of the period	$ 217,540	$ 41,389	$ 41,094	$ 300,023	$ 3,052,116	$ 3,352,139

Unit: In US Thousand Dollars

Provisions for loan commitments and guarantee liabilities	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total impairment recognised under IFRS 9	Different in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	Total
Balance at the beginning of the period	$ 5,935	$ 691	$ 3,086	$ 9,712	$ 110,666	$ 120,378
Changes from financial instruments recognised at the beginning of the period:						
- Transferred to lifetime expected credit losses	(120)	120	-	-	-	-
- Transferred to credit impaired financial asset	-	-		-	-	-
- Transferred to 12-month expected credit loss	437	(437)	-	-	-	-
- Derecognised financial assets	(2,560)	(182)	(2,226)	(4,968)	-	(4,968)
- additional provision and reversal	(809)	252	84	(473)	-	(473)
Originated or purchased new financial assets	4,404	921	362	5,687	-	5,687
Different in impairment recognised under the regulation governing the procedures for each industry to evaluate assets and set aside loss reserves	-	-	-	-	(11,355)	(11,355)
Foreign exchange and other changes	(209)	(18)	31	(196)	-	(196)
Balance at the end of the period	$ 7,078	$ 1,347	$ 1,337	$ 9,762	$ 99,311	$ 109,073

G. Movements in the total carrying amount of financial assets

(A) The movement in the total carrying amount of discounts and loans for the year ended of 2018, is shown below:

Unit: In NT Thousand Dollars

Discounts and loans	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 1,712,445,224	$ 68,892,409	$ 9,178,628	$ 1,790,516,261
Changes from financial instruments recognised at the beginning of the period:				
- Transferred to lifetime expected credit losses	(20,496,617)	20,523,763	(27,146)	-
- Transferred to credit impaired financial asset	(1,734,901)	(760,828)	2,495,729	-
- Transferred to 12-month expected credit losses	11,755,438	(11,692,477)	(62,961)	-
- Derecognition(including recovery, write-off bad debt not included)	(658,325,310)	(25,794,971)	(1,361,508)	(685,481,789)
- Increased(decreased)	(64,513,727)	(1,512,206)	(484,013)	(66,509,946)
Originated or purchased new financial assets	829,144,256	24,976,772	1,412,822	855,533,850
Write-off of uncollectible amount	-	-	(1,745,175)	(1,745,175)
Foreign exchange and other changes	2,393,716	1,503	(2,070)	2,393,149
Balance at the end of the period	$ 1,810,668,079	$ 74,633,965	$ 9,404,306	$ 1,894,706,350

Unit: In US Thousand Dollars

Discounts and loans	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 55,720,080	$ 2,241,643	$ 298,657	$ 58,260,380
Changes from financial instruments recognised at the beginning of the period:				
- Transferred to lifetime expected credit losses	(666,925)	667,809	(884)	-
- Transferred to credit impaired financial asset	(56,451)	(24,756)	81,207	-
- Transferred to 12-month expected credit losses	382,502	(380,453)	(2,049)	-
- Derecognition(including recovery, write-off bad debt not included)	(21,420,796)	(839,325)	(44,301)	(22,304,422)
- Increased(decreased)	(2,099,168)	(49,205)	(15,749)	(2,164,122)
Originated or purchased new financial assets	26,978,956	812,702	45,971	27,837,629
Write-off of uncollectible amount			(56,785)	(56,785)
Foreign exchange and other changes	77,888	49	(67)	77,870
Balance at the end of the period	$ 58,916,086	$ 2,428,464	$ 306,000	$ 61,650,550

(B) The movement in the total carrying amount of receivables for the year ended of 2018, is shown below:

Unit: In NT Thousand Dollars

Receivables, net	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 59,041,829	$ 702,721	$ 1,110,897	$ 60,855,447
Changes from financial instruments recognised at the beginning of the period:				
- Transferred to lifetime expected credit losses	(113,569)	115,091	(1,522)	-
- Transferred to credit impaired financial asset	(24,771)	(12,397)	37,168	-
- Transferred to 12-month expected credit losses	316,908	(315,792)	(1,116)	-
- Derecognition(including recovery, write-off bad debt not included)	(45,220,337)	(182,390)	(436,765)	(45,839,492)
- Increased(decreased)	886,367	8,511	(33,580)	861,298
Originated or purchased new financial assets	43,940,149	877,839	172,849	44,990,837
Write-off of uncollectible amount	(8,265)	(11,683)	(30,085)	(50,033)
Foreign exchange and other changes	1,249,612	2	91,382	1,340,996
Other changes	33	-	160	193
Balance at the end of the period	$ 60,067,956	$ 1,181,902	$ 909,388	$ 62,159,246

Unit: In US Thousand Dollars

Receivables, net	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 1,921,122	$ 22,865	$ 36,147	$ 1,980,134
Changes from financial instruments recognised at the beginning of the period:				
- Transferred to lifetime expected credit losses	(3,695)	3,744	(49)	-
- Transferred to credit impaired financial asset	(806)	(403)	1,209	-
- Transferred to 12-month expected credit losses	10,311	(10,275)	(36)	-
- Derecognition(including recovery, write-off bad debt not included)	(1,471,393)	(5,935)	(14,212)	(1,491,540)
- Increased(decreased)	28,841	277	(1,093)	28,025
Originated or purchased new financial assets	1,429,738	28,564	5,624	1,463,926
Write-off of uncollectible amount	(269)	(380)	(979)	(1,628)
Foreign exchange and other changes	40,660	-	2,974	43,634
Other changes	1	-	5	6
Balance at the end of the period	$ 1,954,510	$ 38,457	$ 29,590	$ 2,022,557

(C) The movement in the total carrying amount of debt instruments for the year ended December 31, 2018, is shown below:

a. Financial assets at fair value through other comprehensive income

Unit: In NT Thousand Dollars

Financial assets at fair value through other comprehensive income	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 232,141,475	$ -	$ -	$ 232,141,475
Increased(decreased)	2,251,340	-	-	2,251,340
Originated or purchased new financial assets	70,742,533	-	-	70,742,533
Derecognition(including recovery, write-off bad debt not included)	(52,930,679)	-	-	(52,930,679)
Foreign exchange and other changes	(445,323)	-	-	(445,323)
Balance at the end of the period	$ 251,759,346	$ -	$ -	$ 251,759,346

Unit: In US Thousand Dollars

Financial assets at fair value through other comprehensive income	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 7,553,492	$ -	$ -	$ 7,553,492
Increased(decreased)	73,255	-	-	73,255
Originated or purchased new financial assets	2,301,843	-	-	2,301,843
Derecognition(including recovery, write-off bad debt not included)	(1,722,275)	-	-	(1,722,275)
Foreign exchange and other changes	(14,490)	-	-	(14,490)
Balance at the end of the period	$ 8,191,825	$ -	$ -	$ 8,191,825

b.Investments in debt instruments at amortised cost

Unit: In NT Thousand Dollars

Investments in debt instruments at amortised cost	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 322,615,638	$ -	$ -	$ 322,615,638
Increased(decreased)	271,927	-	-	271,927
Originated or purchased new financial assets	251,290,711	-	-	251,290,711
Derecognition(including recovery, write-off bad debt not included)	(304,518,299)	-	-	(304,518,299)
Foreign exchange and other changes	16,233	-	-	16,233
Balance at the end of the period	$ 269,676,210	$ -	$ -	$ 269,676,210

Unit: In US Thousand Dollars

Investments in debt instruments at amortised cost	12-month expected credit losses (Stage 1)	Lifetime expected credit losses (individual assessment) (Stage 2)	Lifetime expected credit losses (credit impaired financial assets that were neither purchased nor originated) (Stage 3)	Total
Balance at the beginning of the period	$ 10,497,369	$ -	$ -	$ 10,497,369
Increased(decreased)	8,848	-	-	8,848
Originated or purchased new financial assets	8,176,576	-	-	8,176,576
Derecognition(including recovery, write-off bad debt not included)	(9,908,512)	-	-	(9,908,512)
Foreign exchange and other changes	528	-	-	528
Balance at the end of the period	$ 8,774,809	$ -	$ -	$ 8,774,809

（Blank below）

H. Credit risk concentration

Extreme credit risk concentration will enhance risk degree, such as large amount of risk exposure concentrated on one credit product, one client, or minor clients, or a group of clients in the same industry or with similar business or in the same area or with the same risk characteristics. When adverse economic changes occur, a financial institution may incur a significant loss.

To avoid extreme credit risk concentration, the Bank and subsidiaries have regulated credit limit and management rules for single client, single business group and large amount of risk exposure. The Bank and subsidiaries have to monitor and control the credit risk concentration within the limit. Status of credit risk concentration must be shown in the regular risk report by industry, area/country, collateral and other forms.

(A) Loans and credit commitments of the Bank and subsidiaries are shown below by industry:

		Loans and credit commitments				
		December 31, 2018			December 31, 2017	
		Amount		Percentage	Amount	Percentage
		NT$	US$	(%)	NT$	(%)
Individuals	Individuals	$ 499,786,383	$ 16,262,206	21.67%	$ 469,885,151	21.33%
	Government organization	27,587,704	897,657	1.20%	95,409,141	4.33%
	Financial institution, investment and insurance	222,843,498	7,250,952	9.66%	204,159,982	9.27%
	Enterprise and commerce					
	- Manufacturing	626,245,191	20,376,963	27.16%	547,622,336	24.86%
	- Electricity and gas supply	73,790,232	2,401,010	3.20%	85,344,980	3.88%
	- Wholesale and retail	173,971,971	5,660,755	7.54%	159,440,903	7.24%
	- Transportation and storage	159,061,710	5,175,600	6.90%	163,154,325	7.41%
	- Real estate	297,699,507	9,686,640	12.91%	281,822,024	12.80%
	- Others	215,955,354	7,026,823	9.37%	182,985,237	8.31%
Corporation	Others	8,934,704	290,720	0.39%	12,643,288	0.57%
	Total	$ 2,305,876,254	$ 75,029,326	100.00%	$ 2,202,467,367	100.00%

(B) Loans and credit commitments of the Bank and subsidiaries are shown below by location:

	Loans and credit commitments				
	December 31, 2018			December 31, 2017	
	Amount		Percentage	Amount	Percentage
	NT$	US$	(%)	NT$	(%)
ROC	$ 1,718,068,220	$ 55,903,043	74.51%	$ 1,719,348,004	78.06%
Asia	385,517,977	12,544,106	16.72%	303,204,321	13.77%
North America	96,422,299	3,137,419	4.18%	82,687,000	3.75%
Others	105,867,758	3,444,758	4.59%	97,228,042	4.42%
Total	$ 2,305,876,254	$ 75,029,326	100.00%	$ 2,202,467,367	100.00%

(C) Loans and credit commitments of the Bank and subsidiaries are shown below by collaterals:

	Loans and credit commitments				
	December 31, 2018			December 31, 2017	
	Amount		Percentage	Amount	Percentage
	NT$	US$	(%)	NT$	(%)
Unsecured	$ 1,014,082,207	$ 32,996,525	43.98%	$ 869,949,638	39.50%
Secured					
- Secured by stocks	40,979,169	1,333,393	1.78%	143,631,758	6.52%
- Secured by bonds	87,200,003	2,837,341	3.78%	82,855,860	3.76%
- Secured by real estate	896,321,872	29,164,803	38.87%	842,144,756	38.24%
- Secured by chattel	96,114,606	3,127,407	4.17%	96,494,268	4.38%
- Secured by letter of guarantee	64,538,428	2,099,972	2.80%	54,752,245	2.49%
- Others	106,639,969	3,469,885	4.62%	112,638,842	5.11%
Total	$ 2,305,876,254	$ 75,029,326	100.00%	$ 2,202,467,367	100.00%

I. Foreclosed properties management policy

As of December 31, 2018 and 2017, other assets in the consolidated balance sheet include foreclosed properties' book value of the Bank and subsidiaries both totaling NT$0 thousand. According to the R.O.C. Banking Law, foreclosed properties of the Bank shall be sold within four years. However, foreclosed properties which is approved by the competent authority are not at this limit.

J. Supplementary information in accordance with "Regulations Governing the Preparation of Financial Reports by Public Banks"

(A) Asset quality of non-performing loans and overdue accounts

Unit: In NT Thousand Dollars, %

Month/Year			December 31, 2018				
Business/Items			Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate Banking	Secured loans		$ 684,772	$ 659,713,048	0.10%	$ 9,883,164	1443.28%
	Unsecured loans		1,305,229	806,342,408	0.16%	13,985,258	1071.48%
Consumer banking	Residential mortgage loans (Note 4)		667,735	327,578,553	0.20%	4,899,646	733.77%
	Cash card services		-	-	-	-	-
	Small amount of credit loans (Note 5)		337	14,142,004	0.00%	205,599	61008.61%
	Others (Note 6)	Secured loans	146,801	86,888,239	0.17%	1,284,875	875.25%
		Unsecured loans	341	42,098	0.81%	705	206.74%
Gross loan business			$ 2,805,215	$ 1,894,706,350	0.15%	$ 30,259,247	1078.68%
			Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services			$ 8,768	$ 5,304,444	0.17%	$ 64,890	740.08%
Without recourse factoring (Note 7)			$ -	$ 36,041,881	-	$ 517,373	-

Unit: In US Thousand Dollars, %

Month/Year			December 31, 2018				
Business/Items			Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate Banking	Secured loans		$ 22,281	$ 21,465,950	0.10%	$ 321,581	1443.30%
	Unsecured loans		42,470	26,237,022	0.16%	455,057	1071.48%
Consumer banking	Residential mortgage loans (Note 4)		21,727	10,658,854	0.20%	159,426	733.77%
	Cash card services		-	-	-	-	-
	Small amount of credit loans (Note 5)		11	460,157	0.00%	6,690	60818.18%
	Others (Note 6)	Secured loans	4,777	2,827,197	0.17%	41,808	875.19%
		Unsecured loans	11	1,370	0.80%	23	209.09%
Gross loan business			$ 91,277	$ 61,650,550	0.15%	$ 984,585	1078.68%
			Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services			$ 285	$ 172,598	0.17%	$ 2,111	740.08%
Without recourse factoring (Note 7)			$ -	$ 1,172,742	-	$ 16,834	-

Unit: In NT Thousand Dollars, %

Month/Year			December 31, 2017				
Business/Items			Amount of non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate Banking	Secured loans		$ 1,128,319	$ 645,095,746	0.17%	$ 9,782,286	866.98%
	Unsecured loans		536,519	736,683,401	0.07%	12,510,566	2331.80%
Consumer banking	Residential mortgage loans (Note 4)		472,705	307,978,041	0.15%	4,579,914	968.87%
	Cash card services		-	-	-	-	-
	Small amount of credit loans (Note 5)		307	11,654,683	0.00%	169,328	55155.70%
	Others (Note 6)	Secured loans	132,076	88,979,017	0.15%	1,311,503	992.99%
		Unsecured loans	468	125,373	0.37%	1,908	407.69%
Gross loan business			$ 2,270,394	$ 1,790,516,261	0.13%	$ 28,355,505	1248.92%
			Amount of overdue accounts	Balance of accounts receivable	Overdue account ratio	Allowance for doubtful accounts	Coverage ratio
Credit card services			$ 9,460	$ 4,840,142	0.20%	$ 47,226	499.22%
Without recourse factoring (Note 7)			$ -	$ 33,152,887	-	$ 497,293	-

Notes:

1. The amount recognized as non-performing loans is in accordance with the “Regulation Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. The amount included in overdue accounts for credit cards is in accordance with the Financial-Supervisory-Banks (4) Letter No.0944000378 dated July 6, 2005.
2. Non-performing loan ratio = non-performing loans/gross loans. Overdue account ratio for credit cards=overdue accounts/balance of accounts receivable.
3. Coverage ratio for loans = allowance for doubtful accounts of loans/non-performing loans. Coverage ratio for accounts receivable of credit cards = allowance for doubtful accounts for accounts receivable of credit cards/overdue accounts.
4. For residential mortgage loans, the borrower provides his/her (or spouses or minor) house as collateral in full and mortgages it to the financial institution for the purpose of obtaining funds to purchase or add improvements to a house.
5. Small amount of credit loans apply to the norms of the Financial-Supervisory-Banks (4) Letter No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.
6. Other consumer banking is specified as secured or unsecured consumer loans other than residential mortgage loan, cash card services and small amount of credit loans, and excluding credit card services.
7. Pursuant to the Financial-Supervisory-Banks (5) Letter No. 094000494 dated July 19, 2005, the amount of without recourse factoring will be recognized as overdue accounts within three months after the factor or insurance company resolves not to compensate the loss.

(B) Non-performing loans and overdue receivables exempted from reporting to the competent authority

Unit: In NT Thousand Dollars

	December 31, 2018	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1)	$ -	$ -
Performing amounts in accordance with debt liquidation program and restructuring program (Note 2)	292	2,417
Total	$ 292	$ 2,417

Unit: In US Thousand Dollars

	December 31, 2017	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1)	$ -	$ -
Performing amounts in accordance with debt liquidation program and restructuring program (Note 2)	10	79
Total	$ 10	$ 79

Unit: In NT Thousand Dollars

	December 31, 2017	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Performing amounts exempted from reporting to the competent authority as debt negotiation (Note 1)	$ -	$ -
Performing amounts in accordance with debt liquidation program and restructuring program (Note 2)	350	2,728
Total	$ 350	$ 2,728

Note 1: The Bank disclosed the total amount of non-performing loans and overdue receivables exempted from reporting to the competent authority as debt negotiation in accordance with Financial-Supervisory-Banks (1) Letter No. 09510001270 dated April 25, 2006.

Note 2: The Bank disclosed the total amount of non-performing loans and overdue receivables exempted from reporting to the competent authority as debt liquidation program and restructuring program in accordance with Financial-Supervisory-Banks (1) Letter No. 09700318940 dated September 15, 2008 and Financial-Supervisory-Banks Letter No. 10500134790 dated September 20, 2016.

(C) The Bank and subsidiaries contract amounts of significant credit risk concentration are as follows：

Unit: In NT Thousand Dollars, In US Thousand Dollars %

Year	December 31, 2018			
Ranking (Note 1)	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)		Total outstanding loan amount / net worth of the current year (%)
		NT$	US$	
1	A Company - Transport via Railways	$ 49,843,216	$ 1,621,814	17.62%
2	B Group - Manufacture of Plastic Films and Bags	40,705,135	1,324,476	14.39%
3	C Group - Real Estate Development Activities	35,943,083	1,169,527	12.71%
4	D Group - Manufacture of Liquid Crystal Panel and Components	26,657,693	867,396	9.42%
5	E Group - Air Transport	22,752,579	740,331	8.04%
6	F Group -Smelting and Refining of Iron and Steel	19,492,055	634,239	6.89%
7	G Group - Computer manufacturing	18,420,802	599,382	6.51%
8	H Group - Manufacture of Wholesale of Chemical Materials	17,554,153	571,183	6.21%
9	I Group - Rolling and Extruding of Iron and Steel	16,905,262	550,069	5.98%
10	J Group - Other Financial Serve Activities Not Elsewhere Classified	15,188,612	494,212	5.37%

Unit: In NT Thousand Dollars, %

Year	December 31, 2017		
Ranking (Note 1)	Name of Enterprise Group (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount / net worth of the current year (%)
		NT$	
1	A Company - Transport via Railways	$ 51,663,696	19.58%
2	B Group - Real Estate Development Activities	37,925,144	14.37%
3	C Group - Other Financial Service Activities Not Elsewhere Classified	35,881,823	13.60%
4	D Group - Other Financial Service Activities Not Elsewhere Classified	25,120,360	9.52%
5	E Group - Air Transport	22,840,187	8.66%
6	F Group - Rolling and Extruding of Iron and Steel	18,748,581	7.10%
7	G Group - Other Financial Service Activities Not Elsewhere Classified	16,338,253	6.19%
8	H Group - Woolen textile	15,559,273	5.90%
9	I Group - Ocean Freight Transportation Forwarding Services	14,966,084	5.67%
10	J Group - Real Estate Development Activities	11,612,591	4.40%

Note 1: Ranking the top ten enterprise groups other than government and government enterprise according to their total amounts of outstanding loans. If an outstanding loan belongs to an enterprise group, the outstanding loan of the enterprise group should be categorized and listed in total, and disclosed by "code" plus "industry type" (for example, company (or group) A - Liquid Crystal Panel and Components Manufacturing). If it is an enterprise group, industry type of maximum exposure of the enterprise group would be disclosed. Industry type should be filled in accordance with "Standard Industrial Classification System" of Directorate-General of Budget, Accounting and Statistics, Executive Yuan.

Note 2: Definition of enterprise group is based on Article 6 of Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings.

Note 3: Total outstanding loan amount is the sum of balances of all types of loans (including import negotiation, export negotiation, bills discounted, overdraft, short-term loan, short-term secured loan, margin loans receivable, medium-term unsecured loan, medium-term secured loan, long-term unsecured loan, long-term secured loan and overdue loan), bills purchased, without recourse factoring, acceptance receivable and guarantees.

(4) Liquidity risk

A. Definition and sources of liquidity risk

The Bank and subsidiaries define liquidity risk as the risk of financial loss to the Bank and subsidiaries arising from default by any companies of financial instruments on the payment obligations. For example, the companies are default on payment obligations, such as withdrawals paid to depositors and loans repayment. Or, the company is unable to obtain funds within a certain period at reasonable cost in response to increased demand for assets.

B. Procedures for liquidity risk management and measurement of liquidity risk

The Bank and subsidiaries are mainly engaged in industry related to finance. Therefore, the management for capital liquidity is very important to the Bank and subsidiaries. The objectives for liquidity risk management are (a) Meet the liquidity index regulation (b) Maintain reasonable liquidity based on business development plans, ensure capability of daily payment obligations and meet business growth requirements with adequate highly-liquid assets and capability of raising funds from others in case of emergency.

The financial department of the Bank and subsidiaries is responsible for daily capital liquidity management. According to the limits authorized by the Board of (Managing) Directors, the Bank and subsidiaries monitor the indexes of liquidity risk, execute capital procurement trading and report the conditions of capital liquidity to the management. The Bank and subsidiaries also reports the liquidity risk control to the Fund Management Committee, Risk Management Committee and the Board of (Managing) Directors regularly, and performs regular liquidity stress-testing to ensure sufficient capital to meet the funding requirements for increase in assets and payment obligations.

The Bank and subsidiaries daily perform intensive control over capital sources and the period for fund gaps and liquidity risk management. Future cash flows are estimated based on the financial liability contracts due date and expected cash collection date of financial assets. The Bank and subsidiaries also take into account the extent of practical utilization of capital in contingent liabilities such as use of loan limits, guarantees and commitments.

Assets used to pay obligations and loan commitments 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, securities purchased under resell agreement, receivables, discounts and loans, financial assets at fair value through other comprehensive income, financial assets at amortised cost, and other financial assets are held in response to unexpected cash outflows.

The liquidity management policies of the Bank and subsidiaries include:

(A) Maintain the ability to perform all payment obligations immediately.

(B) Maintain solid assets/liabilities structure to ensure medium and long-term liquidity safety.

(C) Diversify capital sources and absorb stable core depositors to avoid depending on certain large-sum depositors.

(D) Avoid potential unknown loss risk which will increase capital cost and capital procurement pressure.

(E) Conduct due date management to ensure that cash inflow is greater than cash outflow in short term.

(F) Keep liquidity ratio.

(G) Keep legal ratio for high-quality, high-liquidity assets.

(H) Be aware of the liquidity, safety and diversity of financial instruments.

(I) The Bank and subsidiaries have capital emergency plans, which are reviewed regularly.

(J) The overseas branches of the Bank and subsidiaries must obey the regulations of R.O.C. and the local supervisory authorities. Otherwise, they will be penalized for violation of these regulations.

C. Maturity date analysis for non-derivatives

The table below lists analysis for cash inflow and outflow of the non-derivatives held by the Bank and subsidiaries for liquidity risk management based on the remaining period at the financial reporting date to the contractual maturity date.

(Blank below)

The Bank and subsidiaries' analysis for capital maturity gaps

UNIT：In NT Thousand Dollars

	December 31, 2018						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Primary funds inflow upon maturity							
Cash and cash equivalents	$ 80,004,371	$ 29,955,636	$ 7,188,072	$ 6,631,307	$ -	$ -	$ 123,779,386
Due from the Central Bank and call loans to banks	495,835,728	23,419,316	1,436,172	-	-	-	520,691,216
Financial assets at fair value through profit or loss	28,400,999	413,555	1,291,869	1,848,198	27,810,387	1,325,186	61,090,194
Financial assets at fair value through other comprehensive income	10,416,391	7,726,793	7,759,343	25,198,544	182,767,422	47,900,444	281,768,937
Investment in debt instruments at amortised cost	204,130,731	33,626,669	11,429,238	3,956,017	16,094,272	601,415	269,838,342
Securities purchased under resell agreements	3,997,958	-	-	-	-	-	3,997,958
Receivables	49,674,583	23,420,235	4,903,749	7,692,067	18,295	389	85,709,318
Discounts and loans	147,827,777	184,728,410	264,710,887	210,181,220	726,070,346	464,826,776	1,998,345,416
Other financial assets	345	691	691	2,417	-	33,713	37,857
Total	1,020,288,883	303,291,305	298,720,021	255,509,770	952,760,722	514,687,923	3,345,258,624
Primary funds outflow upon maturity							
Due to the Central Bank and banks	303,223,458	43,221,186	4,656,550	6,370,242	36,583,075	778,363	394,832,874
Funds borrowed from the Central Bank and other banks	32,455,818	21,528,840	-	-	-	-	53,984,658
Financial liabilities at fair value through profit or loss	24,488,891	-	-	-	-	-	24,488,891
Securities sold under repurchase agreements	2,431,135	24,557,101	-	-	-	-	26,988,236
Payables	44,520,178	4,225,590	1,417,971	5,371,291	555	5,679,275	61,214,860
Deposits and remittances	526,274,768	369,490,057	212,724,659	380,302,616	834,894,603	17,278,102	2,340,964,805
Financial bonds payable	-	83,300	1,436,390	-	12,400,900	-	13,920,590
Other financial liabilities	5,677,794	1,757,222	83,402	461,177	2,369,183	194,349	10,543,127
Other liabilities	252,867	505,733	505,733	1,770,064	-	-	3,034,397
Total	939,324,909	465,369,029	220,824,705	394,275,390	886,248,316	23,930,089	2,929,972,438
Gap	$ 80,963,974	($ 162,077,724)	$ 77,895,316	($ 138,765,620)	$ 66,512,406	$ 490,757,834	$ 415,286,186

(Blank below)

UNIT：In US Thousand Dollars

	December 31, 2018						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Primary funds inflow upon maturity							
Cash and cash equivalents	$ 2,603,207	$ 974,706	$ 233,888	$ 215,771	$ -	$ -	$ 4,027,572
Due from the Central Bank and call loans to banks	16,133,658	762,025	46,731	-	-	-	16,942,414
Financial assets at fair value through profit or loss	924,121	13,456	42,035	60,137	904,903	43,119	1,987,771
Financial assets at fair value through other comprehensive income	338,932	251,417	252,476	819,918	5,946,944	1,558,600	9,168,287
Investment in debt instruments at amortised cost	6,642,070	1,094,155	371,888	128,722	523,680	19,569	8,780,084
Securities purchased under resell agreements	130,087	-	-	-	-	-	130,087
Receivables	1,616,327	762,055	159,560	250,287	595	13	2,788,837
Discounts and loans	4,810,067	6,010,751	8,613,246	6,838,943	23,625,105	15,124,679	65,022,791
Other financial assets	11	23	22	79	-	1,097	1,232
Total	33,198,480	9,868,588	9,719,846	8,313,857	31,001,227	16,747,077	108,849,075
Primary funds outflow upon maturity							
Due to the Central Bank and banks	9,866,380	1,406,344	151,516	207,277	1,190,352	25,327	12,847,196
Funds borrowed from the Central Bank and other banks	1,056,058	700,512	-	-	-	-	1,756,570
Financial liabilities at fair value through profit or loss	796,827	-	-	-	-	-	796,827
Securities sold under repurchase agreements	79,105	799,046	-	-	-	-	878,151
Payables	1,448,612	137,494	46,138	174,773	18	184,794	1,991,829
Deposits and remittances	17,124,094	12,022,582	6,921,702	12,374,406	27,166,063	562,200	76,171,047
Financial bonds payable	-	2,710	46,738	-	403,504	-	452,952
Other financial liabilities	184,746	57,177	2,714	15,006	77,089	6,324	343,056
Other liabilities	8,228	16,456	16,456	57,594	-	-	98,734
Total	30,564,050	15,142,321	7,185,264	12,829,056	28,837,026	778,645	95,336,362
Gap	$ 2,634,430	($ 5,273,733)	$ 2,534,582	($ 4,515,199)	$ 2,164,201	$ 15,968,432	$ 13,512,713

UNIT：In NT Thousand Dollars

	December 31, 2017						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Primary funds inflow upon maturity							
Cash and cash equivalents	$ 91,177,364	$ 34,611,153	$ 8,870,415	$ 3,342,635	$ -	$ -	$ 138,001,567
Due from the Central Bank and call loans to banks	498,655,666	67,103,158	2,658,663	1,113,651	-	-	569,531,138
Financial assets at fair value through profit or loss	1,261,128	1,352,128	1,980,436	6,516,993	23,815,089	5,193,600	40,119,374
Securities purchased under resell agreements	1,698,567	-	-	-	-	-	1,698,567
Receivables	55,147,588	21,596,208	6,312,004	10,553,413	222,402	354	93,831,969
Discounts and loans	109,589,387	173,098,023	227,833,193	211,185,138	691,639,343	484,928,145	1,898,273,229
Available-for-sale financial assets	69,215,384	17,995,955	13,777,486	19,913,276	144,193,287	95,885,314	360,980,702
Held-to-maturity financial assets	137,155,603	48,257,467	58,352,020	21,100,795	17,972,478	307,184	283,145,547
Other financial assets	341	681	681	2,385	-	4,830	8,918
Total	963,901,028	364,014,773	319,784,898	273,728,286	877,842,599	586,319,427	3,385,591,011
Primary funds outflow upon maturity							
Due to the Central Bank and banks	329,091,273	4,192,524	3,453,710	5,846,754	31,623,119	672,832	374,880,212
Funds borrowed from the Central Bank and other banks	25,826,533	3,640,270	168,901	-	-	-	29,635,704
Financial liabilities at fair value through profit or loss	6,885,190	1,188	-	2,313	16,062	8,125	6,912,878
Securities sold under repurchase agreements	589,237	259,115	-	-	-	-	848,352
Payables	54,975,325	3,692,390	1,450,748	4,290,638	206,344	5,679,276	70,294,721
Deposits and remittances	502,451,168	355,176,501	230,807,062	405,504,291	893,424,724	18,535,697	2,405,899,443
Financial bonds payable	-	83,300	4,913,940	8,027,980	13,920,590	-	26,945,810
Other financial liabilities	6,216,352	1,765,124	19,376	5,747	252,629	720,819	8,980,047
Other liabilities	227,009	454,017	454,017	1,589,060	-	-	2,724,103
Total	926,262,087	369,264,429	241,267,754	425,266,783	939,443,468	25,616,749	2,927,121,270
Gap	$ 37,638,941	($ 5,249,656)	$ 78,517,144	($ 151,538,497)	($ 61,600,869)	$ 560,702,678	$ 458,469,741

D. Structure analysis for maturity of derivatives

(A) Derivatives settled on a net basis

Derivatives of the Bank and subsidiaries settled on a net basis include:

a. Foreign exchange derivatives: currency option, non-delivery forward

b. Interest derivatives: forward rate agreement, interest rate swap, assets swap, interest rate option, bond option, interest rate futures

c. Credit derivatives: credit default swaps (CDS)

d. Equity derivatives: stock option

e. Others: combined commodity

UNIT：In NT Thousand Dollars

	December 31, 2018						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Foreign exchange derivatives							
Inflow	$ 58,366	$ 13,014	$ 10,331	$ 5,806	$ -	$ -	$ 87,517
Outflow	69,188	10,102	8,036	3,784	-	-	91,110
Interest rate derivatives							
Inflow	66,186	591,963	553,089	882,688	5,592,949	19,785,885	27,472,760
Outflow	68,001	165,128	244,865	475,871	3,296,252	13,125,661	17,375,778
Credit derivatives							
Inflow	-	51,282	49,873	110,858	512,757	-	724,770
Outflow	-	-	-	-	992	-	992
Total inflows	$ 124,552	$ 656,259	$ 613,293	$ 999,352	$ 6,105,706	$ 19,785,885	$ 28,285,047
Total outflows	$ 137,189	$ 175,230	$ 252,901	$ 479,655	$ 3,297,244	$ 13,125,661	$ 17,467,880

UNIT：In US Thousand Dollars

	December 31, 2018						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Foreign exchange derivatives							
Inflow	$ 1,899	$ 424	$ 336	$ 189	$ -	$ -	$ 2,848
Outflow	2,251	329	262	123	-	-	2,965
Interest rate derivatives							
Inflow	2,154	19,261	17,997	28,721	181,985	643,799	893,918
Outflow	2,213	5,373	7,967	15,484	107,255	427,087	565,379
Credit derivatives							
Inflow	-	1,669	1,623	3,607	16,684	-	23,583
Outflow	-	-	-	-	32	-	32
Total inflows	$ 4,053	$ 21,354	$ 19,956	$ 32,517	$ 198,669	$ 643,799	$ 920,348
Total outflows	$ 4,464	$ 5,702	$ 8,229	$ 15,607	$ 107,287	$ 427,087	$ 568,376

UNIT：In NT Thousand Dollars

	December 31, 2017						
	1-30 days	31-90 days	91-180 days	181 days -1 year	1 year -5 years	Over 5 years	Total
Foreign exchange derivatives							
Inflow	$ 157,614	$ 18,477	$ 19,054	$ 13,752	$ -	$ -	$ 208,897
Outflow	146,250	14,708	16,044	12,668	-	-	189,670
Interest rate derivatives							
Inflow	40,982	125,089	210,593	630,380	3,184,282	5,250,370	9,441,696
Outflow	94,266	124,275	206,707	278,617	2,309,459	3,411,216	6,424,540
Credit derivatives							
Inflow	-	50,626	47,985	80,514	276,682	-	455,807
Outflow	-	-	-	-	-	-	-
Total inflows	$ 198,596	$ 194,192	$ 277,632	$ 724,646	$ 3,460,964	$ 5,250,370	$ 10,106,400
Total outflows	$ 240,516	$ 138,983	$ 222,751	$ 291,285	$ 2,309,459	$ 3,411,216	$ 6,614,210

(B) Derivatives settled on a gross basis

Derivatives of the Bank and subsidiaries settled on a gross basis include:

a. Foreign exchange derivatives: forward exchange

b. Interest derivatives: cross currency swaps and currency swaps

UNIT：In NT Thousand Dollars

	December 31, 2018						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Foreign exchange derivatives							
Inflow	$ 6,590,300	$ 8,835,708	$ 4,323,073	$ 2,755,457	$ -	$ -	$ 22,504,538
Outflow	6,712,297	8,859,523	4,345,695	2,806,037	-	-	22,723,552
Interest rate derivatives							
Inflow	386,682,833	191,298,863	75,148,593	17,134,443	134,368	-	670,399,100
Outflow	385,016,900	190,674,689	73,972,151	16,879,148	138,299	-	666,681,187
Total inflows	$ 393,273,133	$ 200,134,571	$ 79,471,666	$ 19,889,900	$ 134,368	$ -	$ 692,903,638
Total outflows	$ 391,729,197	$ 199,534,212	$ 78,317,846	$ 19,685,185	$ 138,299	$ -	$ 689,404,739

UNIT：In US Thousand Dollars

	December 31, 2018						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Foreign exchange derivatives							
Inflow	$ 214,437	$ 287,499	$ 140,666	$ 89,658	$ -	$ -	$ 732,260
Outflow	218,406	288,274	141,402	91,304	-	-	739,386
Interest rate derivatives							
Inflow	12,582,008	6,224,542	2,445,208	557,526	4,372	-	21,813,656
Outflow	12,527,801	6,204,233	2,406,929	549,219	4,500	-	21,692,682
Total inflows	$ 12,796,445	$ 6,512,041	$ 2,585,874	$ 647,184	$ 4,372	$ -	$ 22,545,916
Total outflows	$ 12,746,207	$ 6,492,507	$ 2,548,331	$ 640,523	$ 4,500	$ -	$ 22,432,068

UNIT：In NT Thousand Dollars

	December 31, 2017						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Foreign exchange derivatives							
Inflow	$ 27,223,858	$ 12,766,317	$ 6,696,367	$ 2,581,317	$ 1,371,641	$ -	$ 50,639,500
Outflow	27,159,553	12,700,082	6,622,980	2,567,709	1,341,572	-	50,391,896
Interest rate derivatives							
Inflow	371,875,856	162,999,593	78,682,742	20,305,658	1,367,068	-	635,230,917
Outflow	372,274,968	162,200,579	78,277,632	19,946,846	1,358,461	-	634,058,486
Total inflows	$ 399,099,714	$ 175,765,910	$ 85,379,109	$ 22,886,975	$ 2,738,709	$ -	$ 685,870,417
Total outflows	$ 399,434,521	$ 174,900,661	$ 84,900,612	$ 22,514,555	$ 2,700,033	$ -	$ 684,450,382

E. Analysis for off-balance sheet contractual commitments

UNIT：In NT Thousand Dollars

	December 31, 2018						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Irrevocable commitments	$ 3,776,482	$ 5,456,819	$ 77,920,331	$ 9,314,559	$ 75,832,641	$ 6,126,640	$ 178,427,472
Financial guarantee contracts	49,374,374	53,380,170	28,957,528	73,776,673	27,252,028	1,659	232,742,432
Total	$ 53,150,856	$ 58,836,989	$ 106,877,859	$ 83,091,232	$ 103,084,669	$ 6,128,299	$ 411,169,904

UNIT：In US Thousand Dollars

	December 31, 2018						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Irrevocable commitments	$ 122,880	$ 177,556	$ 2,535,396	$ 303,080	$ 2,467,466	$ 199,351	$ 5,805,729
Financial guarantee contracts	1,606,559	1,736,901	942,229	2,400,569	886,735	54	7,573,047
Total	$ 1,729,439	$ 1,914,457	$ 3,477,625	$ 2,703,649	$ 3,354,201	$ 199,405	$ 13,378,776

UNIT：In NT Thousand Dollars

	December 31, 2017						
	1-30 days	31-90 days	91-180 days	181 days-1 year	1 year-5 years	Over 5 years	Total
Irrevocable commitments	$ 1,778,198	$ 132,777	$ 64,358,929	$ 4,927,631	$ 19,987,704	$ 77,612,020	$ 168,797,259
Financial guarantee contracts	51,862,977	60,001,331	33,697,291	77,828,638	19,169,582	594,028	243,153,847
Total	$ 53,641,175	$ 60,134,108	$ 98,056,220	$ 82,756,269	$ 39,157,286	$ 78,206,048	$ 411,951,106

a. Off-balance sheet items include irrevocable commitments and financial guarantee contracts

b. Irrevocable commitments include irrevocable arranged financing limit and credit card line commitments

c. Financial gurantee contracts refer to gurantees and letters of credit issued

F. Analysis for maturity leasing contractual commitments

UNIT：In NT Thousand Dollars

	December 31, 2018			
	Not later than one year	1 year-5 years	Over 5 years	Total
Leasing contractual commitments				
Non-cancellable aggregate minimum lease payments	$ 529,920	$ 1,079,766	$ 693,663	$ 2,303,349
Non-cancellable aggregate minimum lease income	155,852	239,915	-	395,767
Net payment	$ 374,068	$ 839,851	$ 693,663	$ 1,907,582

UNIT：In US Thousand Dollars

	December 31, 2018			
	Not later than one year	1 year-5 years	Over 5 years	Total
Leasing contractual commitments				
Non-cancellable aggregate minimum lease payments	$ 17,242	$ 35,134	$ 22,571	$ 74,947
Non-cancellable aggregate minimum lease income	5,071	7,806	-	12,877
Net payment	$ 12,171	$ 27,328	$ 22,571	$ 62,070

UNIT：In NT Thousand Dollars

	December 31, 2017			
	Not later than one year	1 year-5 years	Over 5 years	Total
Leasing contractual commitments				
Non-cancellable aggregate minimum lease payments	$ 510,292	$ 810,916	$ 590,893	$ 1,912,101
Non-cancellable aggregate minimum lease income	164,583	146,398	-	310,981
Net payment	$ 345,709	$ 664,518	$ 590,893	$ 1,601,120

G. Disclosure requirements in the "Regulations Governing the Preparation of Financial Reports by Public Banks"

(A) Maturity analysis of NTD financial instruments of the Bank

UNIT: In NT Thousand Dollars

	December 31, 2018						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	$ 1,847,329,522	$ 257,675,113	$ 236,753,293	$ 169,819,077	$ 206,535,977	$ 157,381,317	$ 819,164,745
Primary funds outflow upon maturity	2,384,413,673	123,880,474	185,756,784	330,375,891	245,907,911	387,365,435	1,111,127,178
Gap	($ 537,084,151)	$ 133,794,639	$ 50,996,509	($ 160,556,814)	($ 39,371,934)	($ 229,984,118)	($ 291,962,433)

UNIT: In US Thousand Dollars

	December 31, 2018						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	$ 60,108,988	$ 8,384,314	$ 7,703,553	$ 5,525,626	$ 6,720,332	$ 5,120,923	$ 26,654,240
Primary funds outflow upon maturity	77,584,801	4,030,862	6,044,213	10,749,874	8,001,429	12,604,218	36,154,205
Gap	($ 17,475,813)	$ 4,353,452	$ 1,659,340	($ 5,224,248)	($ 1,281,097)	($ 7,483,295)	($ 9,499,965)

UNIT: In NT Thousand Dollars

	December 31, 2017						
	Total	0-10 days	11-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	$ 1,884,008,321	$ 187,833,304	$ 208,337,785	$ 237,385,104	$ 248,521,534	$ 177,816,984	$ 824,113,610
Primary funds outflow upon maturity	2,474,105,713	128,173,756	235,794,465	311,681,705	283,744,919	429,264,908	1,085,445,960
Gap	($ 590,097,392)	$ 59,659,548	($ 27,456,680)	($ 74,296,601)	($ 35,223,385)	($ 251,447,924)	($ 261,332,350)

(B) Maturity analysis of USD financial instruments of the Bank

UNIT: In US Thousand Dollars

	December 31, 2018					
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	$ 56,534,405	$ 25,579,158	$ 8,084,179	$ 3,895,261	$ 1,769,138	$ 17,206,669
Primary funds outflow upon maturity	65,768,134	26,907,531	10,629,841	5,342,397	6,800,810	16,087,555
Gap	($ 9,233,729)	($ 1,328,373)	($ 2,545,662)	($ 1,447,136)	($ 5,031,672)	$ 1,119,114

	December 31, 2017					
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	$ 56,886,477	$ 26,657,714	$ 8,343,873	$ 3,766,739	$ 2,154,972	$ 15,963,179
Primary funds outflow upon maturity	66,821,302	26,582,615	9,076,199	5,419,476	6,325,843	19,417,169
Gap	($ 9,934,825)	$ 75,099	($ 732,326)	($ 1,652,737)	($ 4,170,871)	($ 3,453,990)

Note 1: The funds denominated in US dollars means the amount of all US dollars of the Bank.

Note 2: If overseas assets exceed 10% of total assets, supplementary information shall be disclosed.

(C) Maturity analysis of USD financial instruments of the foreign branches

UNIT：In US Thousand Dollars

	December 31, 2018					
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	$ 19,756,020	$ 11,220,306	$ 2,087,792	$ 644,532	$ 609,495	$ 5,193,895
Primary funds outflow upon maturity	21,095,065	10,345,450	1,362,985	916,441	985,287	7,484,902
Gap	($ 1,339,045)	$ 874,856	$ 724,807	($ 271,909)	($ 375,792)	($ 2,291,007)

	December 31, 2017					
	Total	0-30 days	31-90 days	91-180 days	181 days-1 year	Over 1 year
Primary funds inflow upon maturity	$ 20,412,248	$ 11,517,700	$ 2,516,467	$ 753,350	$ 1,009,933	$ 4,614,798
Primary funds outflow upon maturity	21,991,414	10,855,576	1,066,824	727,380	666,492	8,675,142
Gap	($ 1,579,166)	$ 662,124	$ 1,449,643	$ 25,970	$ 343,441	($ 4,060,344)

(5) Market risk

A. Definition of market risk

Market risk refers the potential losses of the Bank's and subsidiaries' on-balance-sheet and off-balance-sheet positions due to the Bank and subsidiaries enduring fluctuations of market prices (for example: fluctuations of market interest, exchange rates, stock prices and price of products).

B. Objective of market risk management

The objective of the Bank's and subsidiaries' market risk management is to confine risks within a tolerable scope to avoid the fluctuations of financial product prices impacting future returns and the values of assets and liabilities.

C. Market risk management policies and procedures

The Board of (Managing) Directors decided the risk tolerant limits, position limits, and loss limits. Market risk management comprises trading book control and banking book control. Trading book operation mainly pertains to the positions held by bills and securities firms due to market making. Policies for financial instrument trading of bank are based on back-to-back operation principle. Banking book is based on held-to-maturity principle and adopts hedging measures.

D. Procedures for market risk management

(A) The Bank's objectives of market risk management are respectively proposed by The Treasury Department and Risk Management Department, and then Risk Management Department summarizes and reports these objectives to Risk Management Committee of Mega Financial Holdings and the Bank's Board of Directors for assessment.

(B) Risk Management Department not only prepares statement of market risk position and profit and loss of various financial instruments but regularly compiles securities investment performance evaluation and reports to the Board of (Managing) Directors for the Board's knowledge of the Bank's risk control over securities investment. Risk Management Department summarizes and analyzes information on a daily basis. Besides, Risk Management Department monthly summarizes and analyzes data collected from positions of various financial instruments, profit and loss assessment, analysis on risk-sensitive factors, and stress testing for senior management's knowledge of the Bank's market risk exposure profile.

E. Market risk measurement and control principle

(A) The Bank's market risk report contains interest rate, exchange rate, positions of equity securities, credit default swap (CDS) and profit and loss assessment. Every transaction has limit and stop-loss provisions, which shall be submitted to approval management in accordance with the Bank's regulations. Stop-loss limit shall be implemented as soon as a transaction reaches the threshold. If no stop-loss limit will be implemented, trading units shall immediately make statement about reasons to not implement stop-loss limit and coping plan, which shall be submitted to senior management for approval and reported to the Board of (Managing) Directors regularly.

(B) Non-hedging trading positions of derivatives are daily assessed based on the market value, whereas hedging trading positions of futures are daily assessed and others are assessed twice a month.

(C) SUMMIT information system and DW information system for market risk provides functions in relation to risk management such as real-time limits, profit and loss assessment, analysis on risk-sensitive factors, stress testing, etc.

F. Policies and procedures of trading-book risk management

The Bank and subsidiaries daily monitor trading-book positions, changes in risk exposures, and various risk limits, including trading rooms, traders and product line risk limits.

If trading-book financial instruments have market price, the valuation of those instruments is conducted at least one time daily using the independent source and available information. If using mathematical model valuation, the assumptions and parameters used in the model are reviewed regularly.

The method of risk measurement is sensitivity analysis.

The Bank and subsidiaries conduct stress test on the positions of its interest rate, equity securities, foreign exchange rate products and credit default swap (CDS) on the assumptions of the monthly change in interest rate, securities market index, foreign exchange rate and CDS by 1%, 15%, 3% and 100 base points, respectively, and reports to the Risk Management Committee.

G. Trading-book interest rate risk management

Trading-book interest rate risk refers to the financial loss of the decline in values of interest rate products held due to unfavorable changes in interest rates, including securities and derivatives with interest.

The Bank and subsidiaries interest rate products are traded mainly for hedging.

The trading group screens the credits and financial positions of issuers and selects investment objectives by judging interest rate trend and a variety of country risks and based on the authorized minimum investment criteria. The Bank and subsidiaries set trading-book trading limits and stop-loss limits (including trading rooms, traders, trading products, counterparties, and daily and overnight limits) based on business strategies and market conditions, and measure monthly the extent of impact of interest rate risk on investment portfolios using DV01 value.

H. Banking book interest rate risk management

Banking book interest rate risk mainly comes from the unmatched maturity dates of assets and liabilities or price resetting dates, and inconsistent changes in base interest rates for assets and liabilities. The Bank and subsidiaries' interest rate risk mainly comes from the unmatched periods of interest-rate sensitive assets and liabilities of the Bank and subsidiaries.

As the Bank and subsidiaries have interest-rate sensitive gaps, market interest rate fluctuations have good or bad impacts on the Bank and subsidiaries' earnings and cash flows.

The Bank and subsidiaries manage Banking book interest rate risk by using repricing gap analysis. The interest-rate repricing gap analysis is to estimate the difference between the assets and liabilities with interest bearing that are to be due near or repriced within a certain period and measure the impact of interest rate change on net interest revenue. The analysis assumes assets and liabilities structure remain unchanged and there are parallel movements of interest rate curves, and excludes the customer behavior, basis risk, option characteristics of early repayment of bonds. The Bank and subsidiaries calculate the change in net interest revenue for this year and also monitor the percentage of change in net interest revenue to the projection of net interest revenue for this year.

The Bank and subsidiaries monthly analyze and monitor interest rate risk positions limits and various interest rate risk management indexes. If any risk management index exceeds limit, the Bank and subsidiaries will adopt responding measures and report the analysis and monitoring results to the Fund Management Committee, the Risk Management Committee and the Board of Directors.

I. Foreign exchange risk management

Foreign exchange risk refers to the losses caused by the exchange of two different currencies at different times. The Bank and subsidiaries' foreign exchange risk mainly comes from its derivatives business such as spot foreign exchange, forward foreign exchange and foreign exchange options. The foreign exchange trading of the Bank and subsidiaries are mainly for offsetting customers' positions on the same day; therefore, foreign exchange risk is relatively low.

To control trading-book foreign exchange risk, subsidiaries have set trading limits and stop-loss limits for trading rooms and traders and also set the annual maximum loss limits to control the losses within the tolerable scopes.

J. The Bank and subsidiaries' foreign exchange risk gaps

UNIT：In NT Thousand Dollars

	December 31, 2018				
	USD	AUD	RMB	EUR	JPY
Assets					
Cash and cash equivalents	$ 71,991,084	$ 317,863	$ 23,929,221	$ 2,472,371	$ 9,481,073
Due from the Central Bank and call loans to banks	428,715,142	1,452,319	6,739,005	467,540	8,147,853
Financial assets at fair value through profit or loss	38,017,449	3,854,136	588	7,726	2,059
Financial assets at fair value through other comprehensive income	54,465,414	74,683,965	11,675,992	2,943,621	-
Investment in debt instruments at amortised cost	20,994,748	1,298,107	1,901,957	581,675	555,787
Receivables	32,702,529	7,172,202	1,037,584	311,810	2,510,284
Discounts and loans	520,635,235	50,181,957	17,913,188	20,129,485	34,166,702
Other assets	2,407,687	27,533	78,780	71,102	83,594
Total assets	1,169,929,288	138,988,082	63,276,315	26,985,330	54,947,352
Liabilities					
Due to the Central Bank and banks	305,098,241	2,624,928	19,821,369	1,511,247	38,929,324
Funds borrowed from the Central Bank and other banks	51,734,091	-	-	1,759,006	-
Financial liabilities at fair value through profit or loss	25,588,137	5,406	608	5,890	1,461
Securities sold under repurchase agreement	6,933,891	19,092,751	-	-	-
Payables	14,296,111	272,332	1,263,100	427,812	2,349,320
Deposits and remittances	866,531,484	38,154,098	98,094,237	28,877,238	27,159,864
Other liabilities	8,922,038	1,198,618	1,238,970	1,269,676	404,214
Total liabilities	1,279,103,993	61,348,133	120,418,284	33,850,869	68,844,183
On-balance sheet foreign exchange gap	($ 109,174,705)	$ 77,639,949	($ 57,141,969)	($ 6,865,539)	($ 13,896,831)
Off-balance sheet commitments	$ 95,005,634	$ 2,316,440	$ 4,102,921	$ 13,199,335	$ 4,365,793
NTD exchange rate	30.7330	21.6483	4.4761	35.1801	0.2775

UNIT：In NT Thousand Dollars

	December 31, 2017				
	USD	AUD	RMB	EUR	JPY
Assets					
Cash and cash equivalents	$ 78,035,329	$ 524,540	$ 21,568,006	$ 3,641,671	$ 19,664,594
Due from the Central Bank and call loans to banks	464,400,136	1,848,048	6,408,555	633,202	22,644,647
Financial assets at fair value through profit or loss	30,939,076	3,184,769	258	4,157	1,368
Receivables	31,881,245	7,686,002	1,582,258	378,176	1,928,689
Discounts and loans	470,566,619	46,818,900	15,803,835	21,447,658	28,518,461
Available-for-sale financial assets	52,570,567	68,676,711	17,242,410	4,158,860	-
Held-to-maturity financial assets	22,412,975	1,513,814	3,923,593	512,581	263,368
Other assets	2,263,405	32,530	85,385	57,535	61,145
Total assets	1,153,069,352	130,285,314	66,614,300	30,833,840	73,082,272
Liabilities					
Due to the Central Bank and banks	328,028,947	2,007,669	4,894,036	1,818,821	26,335,065
Funds borrowed from the Central Bank and other banks	29,632,968	-	-	-	-
Financial liabilities at fair value through profit or loss	7,841,121	8,739	285	2,123	1,461
Securities sold under repurchase agreement	-	461,983	-	-	-
Payables	16,751,875	277,300	807,331	756,222	1,810,574
Tax liabilities	199,276	-	43,713	48,696	127,550
Deposits and remittances	866,530,769	37,581,977	95,858,190	31,147,010	28,192,669
Other liabilities	6,544,922	1,889,487	975,266	779,480	315,718
Total liabilities	1,255,529,878	42,227,155	102,578,821	34,552,352	56,783,037
On-balance sheet foreign exchange gap	($ 102,460,526)	$ 88,058,159	($ 35,964,521)	($ 3,718,512)	$ 16,299,235
Off-balance sheet commitments	$ 62,735,767	$ 915,439	$ 1,774,825	$ 11,643,677	$ 3,102,882
NTD exchange rate	29.6480	23.0988	4.5382	35.4056	0.2629

K. Risk management for equity securities

Due to needs of proprietary, make market and tactic, etc., the Bank held equity securities within the regulations of the law. That market risk comprises the risk of individual equity security arising from the security's market price changes and the general market risk arising from overall equity securities market price changes.

The investment operating group mainly selects blue chip stocks which have high liquidity and sets the investment price according to fundamentals and market transactions. After the investment has been approved by the investment deliberation committee, the operational personnel purchase the stock within the maximum percentage of the approved price, as the case may be.

Daily trading records, details of investment portfolios and overview of profit or loss shall report to the management and measurement of the extent of the impact of systematic risk on investment portfolios using β value monthly. The Bank and subsidiaries generally set a stop loss, stop interest, pre-warning and exception handling requirements, and limit control to held individual stock and industry concentration.

L. Sensitivity analysis

Sensitivity analysis of the Bank and subsidiaries' financial instruments (including trading book and non-trading book):

December 31, 2018 UNIT：In NT Thousand Dollars

Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%	($ 37,300)	$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	37,300	-
Interest rate risk	Major increases in interest rates 1BPS	20,256	(72,749)
Interest rate risk	Major declines in interest rates 1BPS	(20,256)	72,749
Equity securities risk	TAIEX declined by 1%	(59,459)	(11,305)
Equity securities risk	TAIEX increased by 1%	59,459	11,305

December 31, 2018 UNIT：In US Thousand Dollars

Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%	($ 1,214)	$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY,to EUR and to each of other currencies depreciated by 1%	1,214	-
Interest rate risk	Major increases in interest rates 1BPS	659	(2,367)
Interest rate risk	Major declines in interest rates 1BPS	(659)	2,367
Equity securities risk	TAIEX declined by 1%	(1,935)	(368)
Equity securities risk	TAIEX increased by 1%	1,935	368

December 31, 2017 UNIT：In NT Thousand Dollars

Risks	Extent of Variation	Effect on Profit or Loss	Effect on Equity
Foreign exchange risk	xchange rate of NTD to USD, to JPY, to EUR and to each of other currencies appreciated by 1%	($ 51,576)	$ -
Foreign exchange risk	Exchange rate of NTD to USD, to JPY, to EUR and to each of other currencies depreciated by 1%	51,576	-
Interest rate risk	Major increases in interest rates 1BPS	3,293	(58,801)
Interest rate risk	Major declines in interest rates 1BPS	(3,293)	58,801
Equity securities risk	TAIEX declined by 1%	(43,918)	(30,452)
Equity securities risk	TAIEX increased by 1%	43,918	30,452

M. Disclosure requirements in the "Regulations Governing the Preparation of Financial Reports by Public Banks"

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)
December 31, 2018

UNIT：In NT Thousand Dollars, %

Item	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 558,902,865	$ 899,190,180	$ 4,358,505	$ 109,856,695	$ 1,572,308,245
Interest rate sensitive liabilities	483,807,476	672,422,365	59,938,189	18,486,744	1,234,654,774
Interest rate sensitive gap	$ 75,095,389	$ 226,767,815	($ 55,579,684)	$ 91,369,951	$ 337,653,471
Net worth					$ 271,669,355
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					127.35%
Ratio of interest rate sensitivity gap to net worth					124.29%

Interest rate sensitivity analysis on assets and liabilities (US Dollars)
December 31, 2018

UNIT：In US Thousand Dollars, %

Item	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 18,185,757	$ 29,258,132	$ 141,818	$ 3,574,552	$ 51,160,259
Interest rate sensitive liabilities	15,742,280	21,879,490	1,950,287	601,528	40,173,585
Interest rate sensitive gap	$ 2,443,477	$ 7,378,642	($ 1,808,469)	$ 2,973,024	$ 10,986,674
Net worth					$ 8,839,663
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					127.35%
Ratio of interest rate sensitivity gap to net worth					124.29%

Interest rate sensitivity analysis on assets and liabilities (NT Dollars)
December 31, 2017

UNIT：In NT Thousand Dollars, %

Item	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 529,230,345	$ 940,173,141	$ 19,231,002	$ 93,939,541	$ 1,582,574,029
Interest rate sensitive liabilities	498,686,298	689,370,550	90,374,554	19,925,814	1,298,357,216
Interest rate sensitive gap	$ 30,544,047	$ 250,802,591	($ 71,143,552)	$ 74,013,727	$ 284,216,813
Net worth					$ 251,183,190
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					121.89%
Ratio of interest rate sensitivity gap to net worth					113.15%

Notes:

1. The above amounts included only New Taiwan dollar amounts by the onshore branches of the Bank (i.e. excluding foreign currency).
2. Interest rate sensitive assets and liabilities refer to the interest-earning assets and interest-bearing liabilities of which the income or costs are affected by the fluctuations in interest rates.
3. Interest rate sensitivity gap = Interest rate sensitive assets - Interest rate sensitive liabilities
4. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in New Taiwan dollars)

Interest rate sensitivity analysis on assets and liabilities (US Dollars)
December 31, 2018

UNIT：In US Thousand Dollars, %

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 35,707,396	$ 732,547	$ 290,516	$ 281,240	$ 37,011,699
Interest rate sensitive liabilities	35,991,078	2,171,658	1,434,465	-	39,597,201
Interest rate sensitive gap	($ 283,682)	($ 1,439,111)	($ 1,143,949)	$ 281,240	($ 2,585,502)
Net worth					$ 420,926
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					93.47%
Ratio of interest rate sensitivity gap to net worth					(614.24%)

Interest rate sensitivity analysis on assets and liabilities (US Dollars)
December 31, 2017

UNIT：In US Thousand Dollars, %

	1-90 days	91-180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitive assets	$ 36,339,034	$ 1,048,181	$ 424,577	$ 341,939	$ 38,153,731
Interest rate sensitive liabilities	37,432,085	2,088,035	1,361,413	-	40,881,533
Interest rate sensitive gap	($ 1,093,051)	($ 1,039,854)	($ 936,836)	$ 341,939	($ 2,727,802)
Net worth					$ 534,498
Ratio of interest rate sensitive assets to interest rate sensitive liabilities					93.33%
Ratio of interest rate sensitivity gap to net worth					(510.35%)

Note:

1. The above amounts included only US dollars denominated assets and liabilities of head office, domestic and foreign branches, and the OBU branch. Contingent assets and liabilities are excluded.
2. Interest rate sensitivity gap = Interest rate sensitive assets - Interest rate sensitive liabilities.
3. Ratio of interest rate sensitive assets to interest rate sensitive liabilities = Interest rate sensitive assets ÷ Interest rate sensitive liabilities (referring to the current interest rate sensitive assets and liabilities denominated in US dollars)

(6) Transfer of financial assets

Transferred financial assets that are not derecognised in their entirety

The Bank and subsidiaries' transferred financial assets that do not meet derecognition conditions are mainly debt instruments with purchase agreements or equity securities lent out based on security lending agreements. The financial assets have been transferred when collecting the cash flow of the contract, and related liabilities of transferred financial assets that will be repurchased at a fixed price in the future have been reflected. The Bank and subsidiaries may not use, sell or pledge the transferred financial assets during the valid period of the transaction. The financial assets were not derecognised as the consolidated company is still exposed to interest rate risk and credit risk. Financial assets that do not meet the derecognition conditions and related financial liabilities are analysed as follows:

UNIT：In NT Thousand Dollars

December 31, 2018		
Financial assets category	Carrying amount of financial assets transferred	Carrying amount of associated financial liabilities
Financial assets at fair value through profit or loss Repurchase agreement	$ 2,255,767	$ 2,142,600
Financial assets at fair value through other comprehensive income Repurchase agreement	$ 25,433,062	$ 23,884,042

UNIT: In US Thousand Dollars

December 31, 2018		
Financial assets category	Carrying amount of financial assets transferred	Carrying amount of associated financial liabilities
Financial assets at fair value through profit or loss Repurchase agreement	$ 73,399	$ 69,717
Financial assets at fair value through other comprehensive income Repurchase agreement	$ 827,549	$ 777,146

The Bank and subsidiaries does not have any financial asset securitisation transaction and do not have any derecognised and transferred financial assets as of December, 31, 2017.

(7) Offsetting financial assets and financial liabilities

The Bank and subsidiaries have engaged in financial instrument transactions that apply the offsetting requirements in Paragraph 42 of IAS 32 as endorsed by the FSC. Financial assets and financial liabilities related to these transactions are reported at net amount on the balance sheet.

The Bank and subsidiaries have also engaged in offsetting terms that do not conform to the IFRSs. However, they have entered into enforceable master netting arrangements or similar agreements with counterparties. For example: global master repurchase agreements or similar repurchase or reverse repurchase agreements. When the above-mentioned enforceable master netting arrangements or similar agreements are elected by both parties to be settled by net amount, settlements may be made by using the net amount after the offsetting of financial assets and financial liabilities. Conversely if no such arrangements are made, settlements are made using the gross amount. However, upon the event of a default of a party, the counterparty may choose settle by net amount.

The following table lists information related to the above-mentioned offsetting of financial assets and financial liabilities:

December 31, 2018

Financial assets that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

UNIT：In NT Thousand Dollars

Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities offset in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivatives	$ 4,735,350	$ -	$ 4,735,350	$ 2,412,159	$ 57,841	$ 2,265,350
Resell agreement	802,900	-	802,900	802,900	-	-
Total	$ 5,538,250	$ -	$ 5,538,250	$ 3,215,059	$ 57,841	$ 2,265,350

Financial liabilities that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets offset in the balance sheet (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral pledged	
Derivative instruments	$ 2,228,708	$ -	$ 2,228,708	$ 563,380	$ 11,686	$ 1,653,642
Resell agreement	26,026,642	-	26,026,642	24,825,407	1,201,235	-
Total	$ 28,255,350	$ -	$ 28,255,350	$ 25,388,787	$ 1,212,921	$ 1,653,642

December 31, 2018

Financial assets that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

UNIT：In US Thousand Dollars

Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities offset in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d) Financial instruments (Note)	Not offset in the balance sheet(d) Cash collateral received	Net amount (e)=(c)-(d)
Derivatives	$ 154,080	$ -	$ 154,080	$ 78,488	$ 1,882	$ 73,710
Resell agreement	26,125	-	26,125	26,125	-	-
Total	$ 180,205	$ -	$ 104,613	$ 104,613	$ 1,882	$ 73,710

Financial liabilities that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets offset in the balance sheet (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d) Financial instruments (Note)	Not offset in the balance sheet(d) Cash collateral pledged	Net amount (e)=(c)-(d)
Derivative instruments	$ 72,518	$ -	$ 72,518	$ 18,331	$ 380	$ 53,807
Resell agreement	846,863	-	846,863	807,777	39,086	-
Total	$ 919,381	$ -	$ 919,381	$ 826,108	$ 39,466	$ 53,807

December 31, 2017

Financial assets that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

UNIT：In NT Thousand Dollars

Description	Gross amounts of recognized financial assets (a)	Gross amounts of recognized financial liabilities offset in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d) Financial instruments (Note)	Not offset in the balance sheet(d) Cash collateral received	Net amount (e)=(c)-(d)
Derivatives	$ 3,264,346	$ -	$ 3,264,346	$ 1,243,274	$ 66,650	$ 1,954,422

Financial liabilities that are offset, or can be settled under agreements of net settlement master netting arrangements or similar arrangements

Description	Gross amounts of recognized financial liabilities (a)	Gross amounts of recognized financial assets offset in the balance sheet (b)	Net amounts of financial liabilities presented in the balance sheet (c)=(a)-(b)	Not offset in the balance sheet(d) Financial instruments (Note)	Not offset in the balance sheet(d) Cash collateral pledged	Net amount (e)=(c)-(d)
Derivatives	$ 1,855,204	$ -	$ 1,855,204	$ 365,186	$ 13,556	$ 1,476,462

(Note) Including net settlement master netting arrangements and non-cash collaterals.

9. CAPITAL MANAGEMENT

(1) Objective of capital management

A. The Bank and subsidiaries' qualifying self-owned capital should meet the regulatory requirements and meet the minimum regulated capital adequacy ratio. This is the basic objective of capital management of the Bank and subsidiaries. The calculation and provision of qualifying self-owned capital and regulated capital shall follow the regulations of the competent authority.

B. In order to have adequate capital to take various risks, the Bank and subsidiaries shall assess the required capital with consideration of the risk portfolio it faces and the risk characteristics, and manages risk through capital allocation to realize optimum utilization of capital allocation.

(2) Capital management procedures

A. Following the "Regulations Governing the Capital Adequacy Ratio of Banks" of the Financial Supervisory Commission, the Bank calculates capital adequacy ratio on a consolidated basis and reports this information regularly.

B. The calculation of capital adequacy ratio of subsidiaries shall follow the regulations of regulatory authorities; if without regulations, capital adequacy ratio is computed as net of qualifying self-own capital divided by regulated capital.

(3) Capital adequacy ratio

Capital adequacy shown in the following table was calculated in accordance with "Regulations Governing the Capital Adequacy Ratio of Banks" effective on December 31, 2018 and 2017.

UNIT：In NT Thousand Dollars, %

Items \ Annual			December 31, 2018	December 31, 2017
Self-owned capital	Capital of Common equity		$ 269,019,665	$ 255,953,520
	Other Tier 1 Capital		-	-
	Tier 2 Capital, net		31,163,675	33,131,246
	Self-owned capital, net		300,183,340	289,084,766
Total risk-weighted assets (Note 1)	Credit risk	Standardized Approach	1,996,297,669	1,858,660,700
		Internal Ratings-Based Approach	-	-
		Asset securitization	-	-
	Operation risk	Basic Indicator Approach	95,487,850	93,247,425
		Standardized Approach / Alternative Standardized Approach	-	-
		Advanced Measurement Approaches	-	-
	Market risk	Standardized Approach	47,654,675	44,747,263
		Internal Models Approach	-	-
	Total risk-weighted assets		2,139,440,194	1,996,655,388
Capital adequacy ratio (Note 2)			14.03%	14.48%
Total risk assets based Capital of Common equity, net Ratio			12.57%	12.82%
Total risk assets based Tier 1 Capital, net Ratio			12.57%	12.82%
Leverage ratio			7.68%	7.34%

Note 1: The self-owned capital, risk-weighted assets and exposures amount in the table above should be filled in accordance with "Regulations Governing the Capital Adequacy Ratio of Banks" and "calculation method and table of self-owned capital and risk-weighted assets".

Note 2: Current and prior year's capital adequacy ratio should be disclosed in the annual reports. In addition to current and prior year's capital adequacy, capital adequacy ratio at the end of prior year should be disclosed in the semi-annual reports.

Note 3: The relevant formulas are as follows:

1. Self-owned capital = Tier 1 Capital of Common equity, net + Other Tier 1 Capital, net＋ Tier 2 Capital, net
2. Total risk-weighted assets = credit risk-weighted assets + (operation risk + market risk) * 12.5
3. Capital adequacy ratio = Self-owned capital / Total risk-weighted assets
4. Total risk assets based Tier 1 Capital of Common equity, net Ratio = Tier 1 Capital of Common equity, net / Total risk-weighted assets
5. Total risk assets based Tier 1 Capital, net Ratio = (Tier 1 Capital of Common equity, net + Other Tier 1 Capital, net) / Total risk-weighted assets
6. Gearing ratio = Tier 1 capital/ exposures amount

Note 4: For 1st quarter and 3rd quarter financial reports, the table of capital adequacy ratio is not required to be disclosed.

10. OPERATING SEGMENTS INFORMATION

(1) General information

The Bank and subsidiaries use reported information to the Chief Operating Decision-Maker (CODM) to identify segments and geographic information. The Bank and subsidiaries mainly focus on the businesses in Asia and North America. The disclosed operating segment by the Bank and subsidiaries is stipulated in Article 3 of the Banking Law, and the generated income is the main source of income.

(2) Information of segment profit or loss, assets and liabilities

The Bank and subsidiaries' management mainly focuses on the operating results of the whole bank, which is consistent with that of the consolidated statements of comprehensive income.

(3) Information of major customers

The Bank and subsidiaries' source of income is not concentrated on transactions with a single customer or single trading.

(4) Information by products and services

All operating segments' operating results of the Bank and subsidiaries mainly come from interest income from external clients and is measured on a consistent basis compared with the statement of comprehensive income. The segmental income also consist of internal profit and loss appropriated by the terms agreed amongst segments other than external revenue. Please refer to the information by geography for relevant components of income balances.

(5) Financial Information By Geographic Area

For the year ended December 31, 2018

UNIT: In NT Thousand Dollars

	Domestic Department	Asia (Note)	North America	Other Overseas Operating Department	Adjustment and Write-off	Total
Revenue from customers outside the Bank	$ 40,864,287	$ 6,860,985	$ 2,561,754	$ 2,467,740	($ 340,765)	$ 52,414,001
Revenue from departments within the Bank	2,004,203	(717,728)	(268,762)	(1,010,624)	(7,089)	-
Total revenue	$ 42,868,490	$ 6,143,257	$ 2,292,992	$ 1,457,116	($ 347,854)	$ 52,414,001
Profit or loss	$ 23,280,334	$ 3,355,552	($ 190,378)	$ 668,094	($ 394,651)	$ 26,718,951
Assets attributable to specific departments	$ 2,599,299,403	$ 259,489,880	$ 263,151,039	$ 80,331,745	($ 4,687,288)	$ 3,197,584,779

For the year ended December 31, 2018

UNIT: In US Thousand Dollars

	Domestic Department	Asia (Note)	North America	Other Overseas Operating Department	Adjustment and Write-off	Total
Revenue from customers outside the Bank	$ 1,329,655	$ 223,245	$ 83,355	$ 80,296	($ 11,088)	$ 1,705,463
Revenue from departments within the Bank	65,213	(23,354)	(8,745)	(32,884)	(230)	-
Total revenue	$ 1,394,868	$ 199,891	$ 74,610	$ 47,412	($ 11,318)	$ 1,705,463
Profit or loss	$ 757,503	$ 109,184	($ 6,195)	$ 21,739	($ 12,841)	$ 869,390
Assets attributable to specific departments	$ 84,576,820	$ 8,443,363	$ 8,562,491	$ 2,613,859	($ 152,516)	$ 104,044,017

For the year ended December 31, 2017

UNIT: In NT Thousand Dollars

	Domestic Department	Asia (Note)	North America	Other Overseas Operating Department	Adjustment and Write-off	Total
Revenue from customers outside the Bank	$ 40,513,249	$ 6,238,035	$ 1,525,499	$ 1,985,862	($ 286,042)	$ 49,976,603
Revenue from departments within the Bank	1,318,493	(528,725)	(170,373)	(637,225)	17,830	-
Total revenue	$ 41,831,742	$ 5,709,310	$ 1,355,126	$ 1,348,637	($ 268,212)	$ 49,976,603
Profit or loss	$ 20,201,317	$ 4,322,298	($ 103,001)	$ 146,169	($ 263,741)	$ 24,303,042
Assets attributable to specific departments	$ 2,573,944,419	$ 251,044,085	$ 276,082,931	$ 77,015,604	($ 9,898,944)	$ 3,168,188,095

Note: amounts in Asia do not include those originating from the Republic of China.

11. RELATED PARTY TRANSACTIONS

(1) Parent and ultimate controlling party

The Bank and subsidiaries are controlled by Mega Financial Holding Co., Ltd, which owns 100% of the Bank's shares. The ultimate controlling party of the Bank and subsidiaries is Mega Financial Holding Co., Ltd.

(2) Names of the related parties and their relationship with the Bank

Names of related parties	Short name of related parties	Relationship with the Bank
Mega Bills Finance Co., Ltd.	Mega Bills	Jointly controlled by Mega Financial Holdings
Mega Securities Co., Ltd.	Mega Securities	Jointly controlled by Mega Financial Holdings
Mega Investment Trust Co., Ltd.	Mega Investment Trust	Jointly controlled by Mega Financial Holdings
Chung Kuo Insurance Co., Ltd.	Chung Kuo Insurance	Jointly controlled by Mega Financial Holdings
Mega Asset Management Co., Ltd.	Mega Asset	Jointly controlled by Mega Financial Holdings
Mega CTB Venture Capital Co., Ltd.	Mega Venture	Jointly controlled by Mega Financial Holdings
Mega Life Insurance Agency Co., Ltd.	Mega Life Insurance Agency	Jointly controlled by Mega Financial Holdings
Mega International Investment Service Corp.	Mega International Investment Service	Jointly controlled by Mega Financial Holdings
Mega Futures Co., Ltd.	Mega Futures	Jointly controlled by Mega Financial Holdings
Chunghwa Post Corporation Limited	Chungwha Post	Director of Mega Financial Holdings
Bank of Taiwan Corp.	Bank of Taiwan	Director of Mega Financial Holdings
Yung-Shing Industries Co.	Yung-Shing Industries	Subsidiary of the Bank
China Products Trading Company	China Products	Subsidiary of the Bank
Mega Management Consulting Co., Ltd.	Mega Management Consulting	Subsidiary of the Bank
Cathay Investment & Development Corporation (Bahamas)	Cathay Investment (Bahamas)	Subsidiary of the Bank
Cathay Investment & Warehousing Co., S.A.	Cathay Investment & Warehousing (Panama)	Subsidiary of the Bank
Win Card Co., Ltd.	Win Card	Indirect subsidiary of the Bank
ICBC Assets Management & Consulting Co., Ltd.	ICBC Consulting	Indirect subsidiary of the Bank
Mega 1 Venture Capital Co., Ltd.	Mega 1 Venture	Equity investees
Everstrong Iron & Steel Foundry & Mfg Corp.	Everstrong Iron Steel	Equity investees
China Real Estate Management Co., Ltd.	China Real Estate	Equity investees
Taiwan Finance Co., Ltd.	Taiwan Finance	Equity investees
An Feng Enterprise Co., Ltd.	An Fang	Equity investees
Ramlett Finance Holdings Inc.	Ramlett	Equity investees
Mega Growth Venture Capital Co., Ltd.	Mega Growth Venture Capital	Equity investees
Universal Venture Capital Investment Corporation	Universal Venture Capital	Equity investees
Others		Certain directors, supervisors, managers and relatives of the Bank's chairman and general manager

(3) Major transactions and balances with related parties

A. Due from and due to banks

	For the year ended December 31, 2018			
	Balance as of December 31	Highest Outstanding Balance	Interest Rate (%)	Total Interest Income (Expense)
	(In NT Thousand Dollars)			
Due from banks				
Fellow subsidiary:				
Mega Bills	$ 6,092,917	$ 8,129,344	0.37%~4.80%	$ 68,103
Other related parties:				
Bank of Taiwan	13,413,362	33,638,559	0.02%~4.50%	2,341
Due to banks				
Other related parties:				
China Post	$ 820,114	$ 2,256,652	1.06%~1.14%	($ 15,314)
Bank of Taiwan	1,911,079	11,072,053	0.17%~6.05%	(1,842)

	For the year ended December 31, 2018			
	Balance as of December 31	Highest Outstanding Balance	Interest Rate (%)	Total Interest Income (Expense)
	(In US Thousand Dollars)			
Due from banks				
Fellow subsidiary:				
Mega Bills	$ 198,253	$ 264,515	0.37%~4.80%	$ 2,216
Other related parties:				
Bank of Taiwan	436,448	1,094,542	0.02%~4.50%	76
Due to banks				
Other related parties:				
China Post	$ 26,685	$ 73,428	1.06%~1.14%	($ 498)
Bank of Taiwan	62,183	360,266	0.17%~6.05%	(60)

	For the year ended December 31, 2017			
	Balance as of December 31	Highest Outstanding Balance	Interest Rate (%)	Total Interest Income (Expense)
	(In NT Thousand Dollars)			
Due from banks				
Fellow subsidiary:				
Mega Bills	$ 1,566,832	$ 5,761,713	0.33%~3.10%	$ 24,752
Other related parties:				
Bank of Taiwan	20,025,740	32,849,722	0.04%~16.00%	447
Due to banks				
Other related parties:				
China Post	$ 2,374,693	$ 2,954,934	1.06%~1.16%	($ 31,342)
Bank of Taiwan	2,402,086	21,290,124	0.17%~6.05%	(348)

B. Loans and deposits

	Item	Counterparty	December 31, 2018 NT$	December 31, 2018 US$	% of Total	Total Interest Income (Expense)	% of Total	Interest Rate (%)
For the year ended December 31, 2018	Deposits	All related parties	$ 5,081,791	$ 165,353	0.22%	($ 41,408)	0.15%	0.00%~13.00%
	Loans	All related parties	262,529	8,542	0.01%	4,965	0.01%	1.00%~2.63%

	Item	Counterparty	December 31, 2017 NT$	% of Total	Total Interest Income (Expense)	% of Total	Interest Rate (%)
For the year ended December 31, 2017	Deposits	All related parties	$ 7,354,911	0.31%	($ 48,923)	0.25%	0.00%~13.00%
	Loans	All related parties	65,890	0.00%	2,021	0.00%	1.00%~5.00%

The interest rates shown above are similar, or approximate, to those offered to third parties. But the interest rates for savings deposits of Bank managers within the prescribed amounts are the same as for savings deposits of employees.

In compliance with the Articles 32 and 33 of Banking Law, except for consumer loans and government loans, credits extended by the Bank to any related party are fully secured, and the terms of credits extended to related parties are similar to those for third parties.

The Bank presents its transactions or account balances with related parties, in the aggregate, except for those which the amount represents over 10% of the account balance.

C. Lease agreements

Lessor

For the year ended December 31, 2018

Related Party	Lease Period	Lease Receipt	Rental Revenue (NT$)	Rental Revenue (US$)
The parent:				
Mega Financial Holdings	2016.12-2022.07	Monthly	$ 408	$ 13
Fellow subsidiary:				
Mega Securities	2016.07-2022.10	Monthly	19,277	627
Mega Bills	2016.01-2018.12	Monthly	32,555	1,059
Chung Kuo Insurance	2016.07-2021.04	Quarterly/ Semi-Annually	1,672	54
Mega Asset	2016.01-2018.12	Monthly	7,060	230
Mega Investment Trust	2016.01-2018.12	Monthly	12,134	395
The subsidiary:				
Yung-Shing Industries	2017.07-2021.09	Quarterly/Annually	2,861	93
Mega Management Consulting	2016.01-2018.12	Monthly	1,561	51
The indirect subsidiary:				
Win Card	2014.06-2019.05	Quarterly	3,807	124
ICBC Consulting	2017.07-2020.06	Annually	15	-

Related Party	Lease Period	Lease Receipt	For the year ended December 31, 2017 Rental Revenue (NT$)
The parent:			
Mega Financial Holdings	2014.08-2019.11	Monthly	$ 408
Fellow subsidiary:			
Mega Securities	2013.03-2022.10	Monthly	19,643
Mega Bills	2016.01-2018.12	Monthly	32,598
Chung Kuo Insurance	2015.05-2019.07	Quarterly/ Semi-Annually	2,018
Mega Asset	2016.01-2018.12	Monthly	7,060
Mega Investment Trust	2016.01-2018.12	Monthly	12,134
The subsidiary:			
Yung-Shing Industries	2015.10-2020.06	Quarterly/Annually	2,861
Mega Management Consulting	2016.01-2018.12	Monthly	1,561
The indirect subsidiary:			
Win Card	2014.06-2019.05	Quarterly	4,637
ICBC Consulting	2017.07-2020.06	Annually	97

Lessee

For the year ended December 31, 2018

Related Party	Lease Period	Lease Payment Method	Rental Expense (NT$)	Rental Expense (US$)
The parent:				
Mega Financial Holdings	2016.11-2018.12	Monthly	$ 4,612	$ 150
Fellow subsidiary:				
Mega Securities	Note1	Note1	3,498	114
Mega Bills	2016.01-2018.12	Monthly	79,925	2,601
Chung Kuo Insurance	2003.12-2022.07	Monthly	22,150	721
Subsidiary:				
Yung-Shing Industries	2014.12-2044.11	Monthly	21,600	703
Equity investees:				
Ramlett	2014.06-2019.05	Monthly	6,151	200

For the year ended December 31, 2017

Related Party	Lease Period	Lease Payment Method	Rental Expense (NT$)
The parent:			
Mega Financial Holdings	2016.11-2018.12	Monthly	$ 4,612
Fellow subsidiary:			
Mega Securities	Note1	Note1	3,076
Mega Bills	2016.01-2018.12	Monthly	79,925
Chung Kuo Insurance	2006.12-2022.07	Monthly	22,230
Subsidiary:			
Yung-Shing Industries	2014.12-2044.11	Monthly	21,600
China Products	2015.06-2018.05(Note2)	Monthly	84
Equity investees:			
Ramlett	2014.06-2019.05	Monthly	6,180

Note1: The Bank sets up offices for collection / payment of securities trading for customers in all operating bases of Mega Securities. There are neither formal contracts nor actual lease terms. The rental fees are paid according to a certain percentage of deposit balance of each operating base.

Note2: The lease of Bank and China Products has been terminated on January 31, 2017.

D. Securities purchased under resell agreements

For the year ended December 31, 2018 NT$

	Amount	Ending balance	Interest revenue
Fellow subsidiary:			
Mega Bills	$ 41,950,331	$ 2,466,388	$ 16,821
Mega Securities	43,206,719	-	4,092
	$ 85,157,050	$ 2,466,388	$ 20,913

For the year ended December 31, 2018 US$

	Amount	Ending balance	Interest revenue
Fellow subsidiary:			
Mega Bills	$ 1,364,993	$ 80,252	$ 547
Mega Securities	1,405,874	-	133
	$ 2,770,867	$ 80,252	$ 680

	For the year ended December 31, 2017		
	NT$		
	Amount	Ending balance	Interest revenue
Fellow subsidiary:			
Mega Bills	$ 3,393,024	$ -	$ 808
Mega Securities	46,623,497	-	4,851
	$ 50,016,521	$ -	$ 5,659

E. Current income tax liabilities

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
	Amount	Amount	Amount
Parent company:			
Mega Financial Holdings	$ 3,480,941	$ 113,264	$ 3,044,228

The above-mentioned payables to the parent company are net payables due to the Bank electing to jointly file profit-seeking enterprise income tax returns with its parent company as of 2003.

F. Service fees revenues

	For the year ended December 31,		
	2018		2017
	NT$	US$	NT$
Fellow subsidiary:			
Mega Life Insurance Agency (Note 1)	$ 769,009	$ 25,022	$ 681,418
Mega Investment Trust (Note 2)	33,983	1,106	45,109
Chung Kuo Insurance (Note 1)	17,502	569	17,306
	$ 820,494	$ 26,697	$ 743,833

Note 1: The above amount represents service fee revenues earned from acting as an agent for Mega Life Insurance Agency and Chung Kuo Insurance.

Note 2: The above amount represents service fee of sale funds revenues earned from Mega Investment Trust.

G. Insurance expense

	For the year ended December 31,		
	2018		2017
	NT$	US$	NT$
Fellow subsidiary:			
Chung Kuo Insurance	$ 27,460	$ 894	$ 4,368

H. The Bank's processes of printing, packaging documents and labor outsourcing have been outsourced to Yung-Shing Industries Co. Under this arrangement, the Bank paid operating expenses and labor outsourcing of NT$152,456 thousand and NT$138,456 thousand for the years ended December 31, 2018 and 2017, respectively.

I. As of 2001, a portion of the Bank's credit card business and car loan collection business have been commissioned to its second-tier subsidiary, Win Card Co., Ltd, for operation. For the years ended December 31, 2018 and 2017, operating expenses payable in accordance with agreements were NT$194,737 thousand and NT$173,272 thousand, respectively.

J. Loans

December 31, 2018

(Unit: In NT Thousand dollars)

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default possibility		Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
				Normal loans	Overdue accounts		
Consumer loans for employees	5	$ 3,702	$ 2,982	V		None	None
Home mortgage loans	86	734,852	642,559	V		Real estate	None
Other loans	6	141,519	141,168	V		Real estate	None

December 31, 2018

(Unit: In US Thousand dollars)

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default possibility		Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
				Normal loans	Overdue accounts		
Consumer loans for employees	5	$ 120	$ 97	V		None	None
Home mortgage loans	86	23,911	20,908	V		Real estate	None
Other loans	6	4,605	4,593	V		Real estate	None

December 31, 2017

(Unit: In NT Thousand dollars)

Types	Number of accounts or names of related party	Highest balance	Ending balance	Default possibility: Normal loans	Default possibility: Overdue accounts	Collateral	Whether terms and conditions of the related party transactions are different from those of transactions with third parties.
Consumer loans for employees	7	$ 3,165	$ 2,639	V		None	None
Home mortgage loans	80	560,330	514,268	V		Real estate	None
Other loans	3	66,680	56,291	V		Real estate /The Bank's time deposits	None

K. Financial guarantees for related parties:

(Unit: In NT Thousand dollars)

Date	Names of related party	Highest balance	Ending balance	Provision for guarantee reserve	Rate	Collateral
December 31, 2018	Chung Kuo Insurance	$ 9,163	$ 9,163	$ 129	1%	The bank's deposits

(Unit: In US Thousand dollars)

Date	Names of related party	Highest balance	Ending balance	Provision for guarantee reserve	Rate	Collateral
December 31, 2018	Chung Kuo Insurance	$ 298	$ 298	$ 4	1%	The bank's deposits

(Unit: In NT Thousand dollars)

Date	Names of related party	Highest balance	Ending balance	Provision for guarantee reserve	Rate	Collateral
December 31, 2017	Chung Kuo Insurance	$ 9,066	$ 8,840	$ 126	1%	The bank's deposits

L. Information on remunerations to the Bank's directors, supervisors, general managers and vice general manager:

	For the year ended December 31		
	2018		2017
	NT$	US$	NT$
Salaries and other short-term employee benefits	$ 89,919	$ 2,926	$ 74,055
Post-employment benefits	1,807	59	1,759
Total	$ 91,726	$ 2,985	$ 75,814

12. PLEDGED ASSETS

The details for assets of the Bank and subsidiaries pledged as collateral as of December 31, 2018, are provided in the Notes 6(3), (4), (5), (8) and (11).

The details for assets of the Bank and subsidiaries pledged as collateral as of December 31, 2017, are provided in the Notes 6(8), (11) and 16(11)D(a)(d)(e).

13. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED CONTRACT COMMITMENTS

(1)Please refer to Note 6(31) for details on the contingencies regarding the consent order entered into by the Bank and Mega New York Branch with NYDFS and the consent Order to Cease and Desist and Order of Assessment of a Civil Money Penalty entered by the Bank, the Mega New York Branch, the Mega Chicago Branch, and the Mega Silicon Valley Branch, with FED, and IDFPR, Division of Banking.

(2)As of December 31, 2018 and 2017, the Bank and subsidiaries had the following commitments and contingent liabilities not reflected in the above mentioned financial statements:

	December 31, 2018		December 31, 2017
	NT$	US$	NT$
Irrevocable loan commitments	$ 106,262,607	$ 3,457,606	$ 107,752,677
Securities sold under repurchase agreement	26,988,236	878,152	848,352
Securities purchased under resell agreement	3,997,958	130,087	1,698,567
Credit card line commitments	72,164,865	2,348,123	61,044,582
Guarantees issued	173,965,112	5,660,532	182,968,272
Letters of credit	58,777,320	1,912,515	60,185,575
Customers' securities under custody	241,506,923	7,858,228	221,738,214
Properties under custody	3,304,009	107,507	3,228,472
Guarantee effects	115,254,645	3,750,192	212,814,538
Collections for customers	91,890,545	2,989,963	91,916,408
Agency loans payable	619,034	20,142	763,880
Travelers' checks consigned-in	1,153,653	37,538	1,288,056
Gold coins consigned-in	240	8	404
Payables on consignments-in	807	26	698
Goods and tickets consignments-in	1,710	56	2,433
Agent for government bonds	162,582,200	5,290,151	156,997,800
Short-dated securities under custody	61,895,381	2,013,971	64,572,117
Trust liability	470,035,199	15,294,153	492,615,177
Certified notes paid	5,103,628	166,063	5,775,950
Risk tolerance amount	-	-	9,343

14. SIGNIFICANT DISASTER LOSS

None.

15. SIGNIFICANT SUBSEQUENT EVENT

None.

16. OTHERS

(1) Information for financial assets transfers and liabilities extinguishing

None.

(2) Significant adjustment in the organisation and significant changes in the management system

A. In order to achieve requirements of domestic and foreign Financial Services Authority and compliance with the law and regulation of the prevention of anti-money laundering and countering the financing of terrorism, the Bank and subsidiaries established the Anti-Money Laundering & Financial Crime Compliance Committee under the Regulatory Compliance Committees to ensure the measures for the prevention of anti-money laundering and countering the financing of terrorism are implemented continuously and effectively . The Bank and subsidiaries established Legal Affairs Office in the first quarter of 2018, and renamed Office of Legal Compliance as Regulatory Compliance Department to enforce the risk management mechanism and solve the conflict of interests between efficiency of regulatory compliance and legal affairs or other services.

B. The Bank and subsidiaries expanded its operating scale in Canada to increase its competitiveness, transforming MICB Canada into a full-function commercial bank branch following an approval from the local competent authority on March 13, 2018. The bank was officially opened on April 16, 2018.

C. The following reorganisation framework became effective on June 1, 2018 as resolved at the 35th of the 15th Board of Directors meeting on April 20, 2018:

(a) Established the Auditing Department, which is subordinate to the Board of Directors and supervised by the Chief Auditor.

(b) Established Planning Department under the head office which is subordinate to and supervised by the President.

(c) Apart from Legal Compliance and Business Centers, the Bank and subsidiaries established four Business Groups and three Administration Groups according to their attributes.

(i) Legal Compliance: Widely managing the regulatory compliance affairs, supervised by Chief compliance officer, and consisting Compliance Department and the Anti-Money Laundering & Financial Crime Compliance Department.

(ii) Corporate Banking Business Group: Widely managing deposits and remittances service, corporate banking loan and other general service of domestic branches and Offshore Banking Branch, supervised by Senior Executive Vice President, and consisting Corporate Banking Business Department, Business Administration Department and Operation Center.

(iii) International Business Group: Widely managing the planning, supervision, promotion and management of all services of foreign branches including Offshore Banking Branch, supervised by associate general manager, and consisting Overseas Business Management Department and Overseas Business Planning Department.

(iv) Financial Market Business Group: Widely managing all financial market services provided by the Bank, supervised by Senior Executive Vice President, and consisting Treasury Department and Direct Investment Department.

(v) Consumer Banking Business Group: Widely managing consumer finance, credit card, trust and custody as well as wealth management service of the Bank's domestic branches, supervised by Senior Executive Vice President, and consisting Consumer Banking Business Department, Card Department, Trust Department and Wealth Management Department.

(vi) Risk Management Administration Group: Widely managing credit investigation and overdue collection service of lending examination, risk control and domestic credit case for the Bank, supervised by Senior Executive Vice President, and consisting Credit Control Department, Risk Management Department, Credit Analysis Department and Overdue Loan & Control Department.

(vii) Information Technology Administration Group: Widely managing the planning and management of digital finance and information service, supervised by Senior Executive Vice President, and consisting Digital Banking Department, Data processing & Information Department and Information Security Department.

(viii)General Administration Group: Widely managing accounting, human resource, legal affairs, public relation and other administration affairs, supervised by Senior Executive Vice President, and consisting Controller's Department, Human Resources Department, General Affairs and Occupational Safety and Health Department, Legal Affairs Office and Public Relations Department.

(ix) Business Centers: Widely managing credit analysis, collateral valuation, investigation, review and collection assistant of domestic branch's credit case within the delegated range and supporting all service promotions within the regional.

(3) Significant impact arising from changes in government laws and regulations

None.

(4) Information for Company's share held by subsidiaries

None.

(5) Information for private placement securities

None.

(6) Information for discontinued operations

None.

(7) Major operating assets or liabilities transferred from (or to) other financial institutions

None.

(8) Profitability of the Bank and subsidiaries

Units：%

Items		December 31, 2018	December 31, 2017
Return on total assets (%)	Before tax	0.84	0.79
	After tax	0.76	0.70
Return on stockholders' equity (%)	Before tax	9.65	9.32
	After tax	8.73	8.26
Net profit margin ratio (%)		46.12	43.07

Note 1: Return on total assets = Income before (after) income tax/average total assets.

Note 2: Return on stockholders' equity = Income before (after) income tax / average stockholders' equity.

Note 3: Net profit margin ratio = Income after income tax / total operating income.

Note 4: The term "Income before (after) income tax" represents net income from January 1 to the balance sheet date of the reporting period.

(9) In accordance with Article 17 of the Trust Enterprise Law, the disclosures of the trust balance sheet, trust income statement and trust property list are as follows:

A. Trust Balance Sheet

(In NT Thousand Dollars)

Trust Balance Sheet
December 31, 2018

Trust assets			Trust liabilities		
Bank deposits	$	12,669,729	Capital borrowed	$	4,500,525
Receivables		6,220	Payables		15,025
Bonds		13,931,999	Account collected in advance		27,347
Stocks		41,725,622	Tax payable		29,882
Mutual funds		122,679,092	Accounts withholding		950
Structured products		25,955,620	Customers' securities under custody		140,447,359
Properties, net		33,621	Other liabilities		1,423,324
Real estate			Trust capital		317,453,322
Land		84,295,855	Accumulated profit or loss for reserves		
Buildings and Structures, net		13,721,514	Net income for current period		2,065,685
Construction in Process		11,165,506	Accumulated profit		4,071,780
Customers' securities under custody		140,447,359			
Other assets		3,403,062			
Total trust assets	$	470,035,199		$	470,035,199

(In US Thousand Dollars)

Trust Balance Sheet
December 31, 2018

Trust assets			Trust liabilities		
Bank deposits	$	412,252	Capital borrowed	$	146,439
Receivables		202	Payables		489
Bonds		453,324	Account collected in advance		890
Stocks		1,357,681	Tax payable		972
Mutual funds		3,991,771	Accounts withholding		31
Structured products		844,552	Customers' securities under custody		4,569,920
Properties, net		1,094	Other liabilities		46,313
Real estate			Trust capital		10,329,396
Land		2,742,845	Accumulated profit or loss for reserves		
Buildings and Structures, net		446,475	Net income for current period		67,214
Construction in Process		363,307	Accumulated profit		132,489
Customers' securities under custody		4,569,920			
Other assets		110,730			
Total trust assets	$	15,294,153		$	15,294,153

(In NT Thousand Dollars)

Trust Balance Sheet
December 31, 2017

Trust assets		Trust liabilities	
Bank deposits	$ 17,792,462	Capital borrowed	$ 4,500,525
Receivables	5,899	Payables	14,831
Bonds	15,535,206	Account collected in advance	36,039
Stocks	41,303,161	Tax payable	30,184
Mutual funds	115,635,091	Accounts withholding	1,025
Structured products	25,067,890	Customers' securities under custody	151,313,982
Properties, net	22,414	Other liabilities	1,475,340
Real estate		Trust capital	331,082,582
Land	96,246,473	Accumulated profit or loss for reserves	
Buildings and Structures, net	14,559,373	Net income for current period	2,190,373
Construction in Process	12,163,861	Accumulated profit	1,970,297
Customers' securities under custody	151,313,982		
Other assets	2,969,366		
Total trust assets	$ 492,615,178		$ 492,615,178

B. Trust Income Statement

	For the years ended December 31, 2018 NT$	2018 US$	2017 NT$
Trust income:			
Interest income	$ 52,165	$ 1,697	$ 51,943
Rental income	1,168,786	38,030	1,163,290
Dividend income	1,289,148	41,947	1,375,850
Realized capital gain-Stock	1,192	39	334,715
Realized capital gain-Funds	9,567	311	7,064
Other income	44,872	1,460	40,161
Total trust income	2,565,730	83,484	2,973,023
Trust expenses:			
Management expenses	(88,746)	(2,888)	(87,473)
Repairing expenses	(46,733)	(1,521)	(56,872)
Insurance	(12,636)	(411)	(12,706)
Depreciation expense	(3,508)	(114)	(2,269)
Land and housing tax	(137,664)	(4,479)	(141,429)
Interest expense	(71,584)	(2,329)	(72,555)
Service charge abstract	(8,404)	(273)	(116,313)
Accoutant fees	(1,440)	(47)	(1,440)
Lawyer fees	(42)	(1)	(96)
Realized capital loss-Stock	(33,313)	(1,084)	(199,601)
Realized capital loss-Funds	(3)	(-)	(27)
Other expenses	(95,972)	(3,123)	(91,869)
Total trust expense	(500,045)	(16,270)	(782,650)
Net income before income tax (Net investment income)	2,065,685	67,214	2,190,373
Income tax expense	-	-	-
Net income after income tax(Note)	$ 2,065,685	$ 67,214	$ 2,190,373

C. Trust Property List

	December 31, 2018 NT$	December 31, 2018 US$	December 31, 2017 NT$
Bank deposits	$ 12,669,729	$ 412,252	$ 17,792,462
Bonds	13,931,999	453,324	15,535,206
Stock	41,725,622	1,357,681	41,303,161
Mutual funds	122,679,092	3,991,771	115,635,091
Structured products	25,955,620	844,552	25,067,890
Properties, net	33,621	1,094	22,414
Real estate			
Land	84,295,855	2,742,845	96,246,473
Buildings and structures, net	13,721,514	446,475	14,559,373
Construction in Process	11,165,506	363,307	12,163,861
Customers' securities under custody	140,447,359	4,569,920	151,313,982
Other assets	3,403,062	110,730	2,969,366
Total	$ 470,028,979	$ 15,293,951	$ 492,609,279

Note: The amount of designated investment trust on foreign equity of OBU branch is NT$32,155,680 thousand and NT$31,462,740 thousand as of December 31, 2018 and 2017, respectively.

(10) Information for cross-sales between the Bank and subsidiaries and subsidiaries

A. Transactions between the Bank and subsidiaries: Please refer to Note 11.

B. Joint promotion of businesses:
In order to create synergies within the Bank and subsidiaries and provide customers financial services in all aspects, the Bank has

continuously established other financial consulting service centers (including banking services, securities trading services, and insurance services) in its subsidiaries and simultaneously promoted service business in banking, securities and insurances areas.

C. Sharing of information or operating facilities or premises

Under the Financial Holding Company Act, Computer Process of Personal Data Protection Law, and the related regulations stipulated by MOF, when customers' information of a financial holding company's subsidiary is disclosed to the other subsidiaries under the Bank and subsidiaries or exchanged between the subsidiaries for the purpose of cross selling of products, the subsidiaries receiving, utilizing, managing or maintaining the information are restricted to use the information for the joint promotion purposes only. In addition, the Bank is required to disclose its "Measures for Protection of Customers' Information" in its website. Customers also reserve the right to have their information withdrawn from the information sharing mechanism.

(11) Effects on initial application of IFRS 9 and the information about application of IAS 39 in 2017

A. Summaries of adopting significant accounting policies in 2017 were set out below:

(A) Financial assets or liabilities

The financial assets and liabilities of the Bank and subsidiaries including derivatives are recognized in the consolidated balance sheet and are properly classified in accordance with IFRSs as endorsed by the FSC.

a. Financial assets

The IFRSs as endorsed by the Financial Supervisory Commission apply to the entire Bank and subsidiaries' financial assets, which are classified into four categories: loans and receivables, financial assets at fair value through profit or loss, available-for-sale financial assets and held-to-maturity financial assets.

(a) A regular way purchase or sale

Financial assets that are purchased or sold on a regular way purchase or sale basis should be recognized and derecognized using trade date accounting or settlement date accounting. The uniform accounting principles should be applied in the accounting for purchase and sale of financial assets of the same type. All the Bank and subsidiaries' financial assets are accounted for using trade date accounting.

(b) Loans and receivables

Loans and receivables are non-derivatives with fixed or determinable payments that are not quoted in an active market.

There are two types of loans and receivables: one is originated by the Bank and subsidiaries; the other is not originated by the Bank and subsidiaries. Loans and receivables originated by the entity refer to the direct provision by the Bank and subsidiaries of money, merchandise or services to debtors, and loans and receivables not originated by the Bank and subsidiaries are loans and receivables other than those originated by the Bank and subsidiaries.

Loans and receivables are initially recognized at fair value, which includes the price of transaction, significant costs of transaction, significant handling fees paid or received, discount and premium, etc., and subsequently measured using the effective interest method. However, if the effect of discount is insignificant, following the "Regulations Governing the Preparation of Financial Reports by Public Banks", loans and receivables can be measured at initial amount.

Interest accruing on loans and receivables is recognized as 'interest revenue'. An impairment loss is recognized when there is an objective evidence of impairment on loans and receivables. Allowance for impairment is a deduction to carrying amount of loans and receivables, which is under the 'allowance for bad debts and reserve for guarantee liabilities' account.

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

Financial assets are classified as financial assets at fair value through profit or loss if they are acquired principally for the purpose of selling or repurchasing or gaining profit in the short-term, or if they are derivatives. These financial assets are initially recognized at fair value.

Financial assets that meet one of the following criteria are designated as at fair value through profit or loss on initial recognition:

I. Hybrid (combined) contracts; or

II. They eliminate or significantly reduce a measurement or recognition inconsistency; or. inconsistency; or

III. They are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Any changes in fair value of financial assets at fair value through profit or loss and financial assets designated as at fair value through profit or loss on initial recognition are recognized under the 'gain/loss on financial assets and liabilities at fair value through profit or loss' account in the consolidated statement of comprehensive income.

(d) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivatives with fixed or determinable payments and fixed maturity date that the Bank and subsidiaries have the positive intention and ability to hold to maturity other than those that meet the definition of loans and receivables, designated as available-for-sale financial assets and those that are designated as at fair value through profit or loss on initial recognition by the Bank and subsidiaries.

Interest accruing on held-to-maturity financial assets is recognized as 'interest revenue'. An impairment loss is recognized when there is an objective evidence of impairment on financial assets. Impairment loss is a deduction to carrying amount of financial assets, which is recognized under the 'impairment loss on financial assets' account.

(e) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are not classified in held-to-maturity financial assets, financial assets at fair value through profit or loss and loans and receivables. Financial assets and liabilities that are attributed to equity and debt investments on initial recognition are assessed at fair value. Transaction costs which are attributable to the acquisition should be capitalized.

Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive income. When the financial asset is no longer recognized, the cumulative unrealized gain or loss that was previously recognized in other comprehensive income is recognized in profit or loss.

An impairment loss is recognized when there is an objective evidence of impairment. If financial assets have not been derecognized, accumulated impairment loss related to the financial assets that was previously recognized in other comprehensive income shall be reclassified to profit or loss. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss. Any subsequent increases in fair value of an investment in an equity instrument are recognized in other comprehensive income. If the impairment loss of bond investments decreases with objective evidence indicating that an impairment loss has been incurred after the impairment is recognized, the impairment amount is reversed and recognized in current profit and loss.

Equity instruments with no quoted price in an active market are initially recognized at fair value plus acquisition or issuance cost. The fair value can be reasonably estimated when the following criteria are met at the balance sheet date: (a) the variability in the range of reasonable fair value estimate is not significant for that equity instrument; or (b) probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value.

(f) Other financial assets

Other financial assets include investments in debt instruments without active market, nonaccrual loan transferred from overdue receivables, remittance purchased, and financial assets measured at cost.

I. Debt investments with no active market

Investments in debt instruments without active market are initially recognized at fair value on the trade date plus transaction costs of acquisition or issuance. Disposal gain or loss is recognized when such investments are derecognized. Bond investments without active market are measured at amortized cost using the effective interest method.

II. Equity investments carried at cost

Investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured or derivatives that are linked to and must be settled by delivery of such unquoted equity instruments are presented in 'equity investments carried at cost'.

b. Financial liabilities

Financial liabilities held by the Bank and subsidiaries comprise financial liabilities at fair value through profit or loss (including financial liabilities designated as at fair value through profit or loss on initial recognition) and financial liabilities measured at amortized cost.

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

This category includes financial liabilities held for trading or financial liabilities designated as at fair value through profit or loss on initial recognition.

A financial liability shall be classified as held for trading, if it is incurred principally for the purpose of repurchasing it in the near term; or on initial recognition, 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. A derivative is also classified as held for trading, except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument. Financial liability held for trading also includes the obligations of delivery of financial assets borrowed by the seller. Above financial liability is shown as "financial liability at fair value through profit or loss" in the consolidated balance sheet.

At initial recognition, it is not revocable if a debt instrument is designated at fair value through profit and loss. When the fair value method is adopted, the main contract and the embedded derivatives need not be recognized respectively.

Any changes in fair value of financial liabilities at fair value through profit or loss and financial liabilities designated as at fair value through profit or loss on initial recognition are recognized under the 'gain/loss on financial assets and liabilities at fair value through profit or loss' account in the consolidated statement of comprehensive income.

(b) Financial liabilities measured at amortized cost

All other financial liabilities that are not classified as financial liabilities at fair value through profit or loss are classified as financial liabilities measured at amortized cost.

c. Determination of fair value

Fair value and level information of financial instruments are provided in Note 7.

d. Derecognition of financial instruments

The Bank and subsidiaries derecognize a financial asset when one of the following conditions is met:

(a) The contractual rights to receive cash flows from the financial assets expire.

(b) The contractual rights to receive cash flows from the financial assets have been transferred and the Bank and subsidiaries have transferred substantially all risks and rewards of ownership of the financial assets.

(c) The contractual rights to receive cash flows from the financial assets have been transferred; however, it has not retained control of the financial assets.

A financial liability is derecognized when the obligation under the liability specified in the contract is discharged or cancelled or expires.

In case of securities lending or borrowing by the Bank and subsidiaries or provision of bonds or stocks as security for repo trading, the Bank and subsidiaries does not derecognize the financial assets, because substantially all risks and rewards of ownership of the financial assets are still retained in the Bank and subsidiaries.

(B) Financial asset-evaluation, provision and reversal of impairment losses

a. The Bank and subsidiaries would presume that a financial asset or a group of financial assets is impaired and recognize the impairment losses only if there is objective evidence that a financial asset or a group of financial assets is impaired as a result of a loss event that occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial assets or group of financial assets.

b. The criteria that the Bank and subsidiaries use to determine whether there is objective evidence of an impairment loss is as follows:

(a) Significant financial difficulty of the issuer or debtor;

(b) A breach of contract, such as a default or delinquency in interest or principal payments;

(c) The Bank and subsidiaries, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession that a lender would not otherwise consider;

(d) It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) The disappearance of an active market for that financial assets because of financial difficulties;

(f) Observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank and subsidiaries, including adverse changes in the payment status of borrowers in the Bank and subsidiaries or national or local economic conditions that correlate with defaults on the assets in the Bank and subsidiaries;

(g) Information about significant changes with an adverse effect that have taken place in the technology, market, economic or legal environment in which the issuer operates, and indicates that the cost of the investment in the equity instrument may not be recovered; or

(h) A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

(i) Others are implemented in accordance with the Bank and subsidiaries' internal policies.

c. The assessment methods of impairment on loans and receivables are based on two categories: individual and collective assessments. Individual assessments are classified as different groups based on whether there is objective evidence of significant impairment of the asset or whether the individual asset has to be specially supervised. If no objective evidence of impairment exists for an individually assessed financial assets, the asset will be classified into a group of financial assets with similar credit risk characteristics for collective assessments.

d. After assessed impairment of loans and receivables, the Bank and subsidiaries recognizes' impairment loss measured as the difference between the asset's carrying amount and the present value of estimated future cash flows of credit enhancement factors discounted at the asset's original effective interest rate. The credit enhancement factors include financial guarantee and net of collateral. If, in a subsequent period, the amount of the impairment loss decreased and such decrease is objectively related to an event occurred after the impairment was recognized, the amount of impairment loss recognized previously shall be reversed by adjusting the allowance for doubtful debts. The reversal shall not cause a carrying amount of the financial assets that exceeds the amortized cost of the period before recognition of the impairment loss. The amount of reversal shall be recognized in profit or loss.

e. Aforementioned assessment of loans and receivables were in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", Financial-Supervisory-Banks Letter. No. 10300329440 of the FSC related to strengthening domestic banks' tolerance of real estate mortgage risk on December 4, 2014 and Financial-Supervisory-Banks Letter. No.10410001840 of the FSC related to strengthening domestic banks' controls and tolerance of risk exposure in Mainland China on April 23, 2015.

f. Equity investments carried at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at current market return rate of similar financial assets, and is recognized in profit or loss. Impairment loss recognized for this category shall not be reversed subsequently. Impairment loss is recognized by adjusting the carrying amount of the asset directly.

(C) Financial guarantee contracts

A financial guarantee contract is a contract that requires the Bank and subsidiaries to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

The Bank and subsidiaries initially recognize financial guarantee contracts at fair value on the date of issuance. The Bank and subsidiaries charge a service fee when the contract is signed and therefore the service fee income charged is the fair value at the date that the financial guarantee contract is signed. Service fee received in advance is recognized in deferred accounts and amortized through straight-line method during the contract term.

Subsequently, the Bank and subsidiaries should measure the financial guarantee contract issued at the higher of:

a. The amount determined in accordance with IAS 37; and

b. The amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18, "Revenue".

The best estimate of the liability amount of a financial guarantee contract requires management to exercise their judgment combined with historical loss data based on the similar transaction experiences.

The increase in liabilities due to financial guarantee contract is recognized in "provision for loan losses and guarantee reserve".

Assessment of above guarantee reserve is in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans" announced by the FSC.

B. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

(In NT Thousand Dollars)

	Amount under IAS 39 at December 31, 2017	Reclassification	Remeasurement	Amount under IFRS 9 at January 1, 2018	Effect from retained earnings at January 1, 2018	Effect from other equity at January 1, 2018	Note
Financial assets at fair value through profit or loss	$ 41,616,462	$ -	$ -	$ 41,616,462	$ -	$ -	
Addition:							
From available-for-sale (IAS 39)	-	5,781,732	-	5,781,732	(428,860)	428,860	(4)
From measured at cost (IAS 39)	-	4,497,106	874,538	5,371,644	874,538	-	(4)
From accrued interest (IAS 39)	-	16,020	26	16,046	26	-	(5)
Financial assets at fair value through profit or loss	$ 41,616,462	$ 10,294,858	$ 874,564	$ 52,785,884	$ 445,704	$ 428,860	
Financial assets at fair value through other comprehensive income	$ -	$ -	$ -	$ -	$ -	$ -	
Addition-debt instrument:							
From available-for-sale(IAS 39)	-	232,141,475	-	232,141,475	(128,712)	128,712	(2)
Addition-equity instrument:							
From measured at cost (IAS 39)	-	4,833,186	6,166,763	10,999,949	299,195	5,867,568	(3)
Financial assets at fair value through other comprehensive income	$ -	$ 236,974,661	$ 6,166,763	$ 243,141,424	$ 170,483	$ 5,996,280	
Investments in debt instruments at amortised cost	$ -	$ -	$ -	$ -	$ -	$ -	
Addition							
From available-for-sale(IAS 39)	-	40,166,793	(452)	40,166,341	(5,561)	5,109	(1)
From held-to-maturity (IAS 39)	-	282,443,736	(6,996)	282,436,740	(6,996)	-	(1)
Investments in debt instruments at amortised cost	$ -	$ 322,610,529	($ 7,448)	$ 322,603,081	($ 12,557)	$ 5,109	
Receivables	$ 59,206,809	$ -	$ -	$ 59,206,809	$ -	$ -	
Deduction:							
To fair value through profit or loss (IFRS 9)	-	(16,020)	-	(16,020)	-	-	(5)
To other liabilties	-	(64)	-	(64)	-	-	(5)
Adjustment of loss on impairment	-	-	(28,185)	(28,185)	(28,185)	-	(6)
Receivables	$ 59,206,809	($ 16,084)	($ 28,185)	$ 59,162,540	($ 28,185)	$ -	
Cash and cash equivalents	$ 137,710,247	$ -	($ 516)	$ 137,709,731	($ 516)	$ -	(6)
Due from the Central Bank and call loans to banks	$ 568,768,766	$ -	($ 2,121)	$ 568,766,645	($ 2,121)	$ -	(6)
Loans and discounted	$ 1,762,160,756	$ -	($ 47)	$ 1,762,160,709	($ 47)	$ -	(6)
Provisions	$ 14,820,870	$ -	$ 39,719	$ 14,860,589	($ 39,719)	$ -	(6)
Deferred tax liabilities	$ 2,216,847	$ -	($ 13,962)	$ 2,202,885	$ -	$ 13,962	(2)

(In US Thousand Dollars)

	Amount under IAS 39 at December 31, 2017	Reclassification	Remeasurement	Amount under IFRS 9 at January 1, 2018	Effect from retained earnings at January 1, 2018	Effect from other equity at January 1, 2018	Note
Financial assets at fair value through profit or loss	$ 1,354,130	$ -	$ -	$ 1,354,130	$ -	$ -	
Addition:							
From available-for-sale (IAS 39)	-	188,128	-	188,128	(13,954)	13,954	(4)
From measured at cost (IAS 39)	-	146,328	28,456	174,784	28,456	-	(4)
From accrued interest (IAS 39)	-	521	1	522	1	-	(5)
Financial assets at fair value through profit or loss	$ 1,354,130	$ 334,977	$ 28,457	$ 1,717,564	$ 14,503	$ 13,954	
Financial assets at fair value through other comprehensive income	$ -	$ -	$ -	$ -	$ -	$ -	
Addition-debt instrument:							
From available-for-sale(IAS 39)	-	7,553,492	-	7,553,492	(4,188)	4,188	(2)
Addition-equity instrument:							
From measured at cost (IAS 39)	-	157,264	200,656	357,920	9,735	190,921	(3)
Financial assets at fair value through other comprehensive income	$ -	$ 7,710,756	$ 200,656	$ 7,911,412	$ 5,547	$ 195,109	
Investments in debt instruments at amortised cost	$ -	$ -	$ -	$ -	$ -	$ -	
Addition							
From available-for-sale(IAS 39)	-	1,306,960	(15)	1,306,945	(181)	166	(1)
From held-to-maturity (IAS 39)	-	9,190,243	(228)	9,190,015	(228)	-	(1)
Investments in debt instruments at amortised cost	$ -	$ 10,497,203	($ 243)	$ 10,496,960	($ 409)	$ 166	

	Amount under IAS 39 at December 31, 2017	Reclassification	Remeasurement	Amount under IFRS 9 at January 1, 2018	Effect from retained earnings at January 1, 2018	Effect from other equity at January 1, 2018	Note
Receivables	$ 1,926,490	$ -	$ -	$ 1,926,490	$ -	$ -	
Deduction:							
To fair value through profit or loss (IFRS 9)	-	(521)	-	(521)	-	-	(5)
To other liabilties	-	(2)	-	(2)	-	-	(5)
Adjustment of loss on impairment	-	-	(917)	(917)	(917)	-	(6)
Receivables	$ 1,926,490	($ 523)	($ 917)	$ 1,925,050	($ 917)	$ -	
Cash and cash equivalents	$ 4,480,859	$ -	($ 17)	$ 4,480,842	($ 17)	$ -	(6)
Due from the Central Bank and call loans to banks	$ 18,506,777	$ -	($ 69)	$ 18,506,708	($ 69)	$ -	(6)
Loans and discounted	$ 57,337,740	$ -	($ 2)	$ 57,337,738	($ 2)	$ -	(6)
Provisions	$ 482,246	$ -	$ 1,292	$ 483,538	($ 1,292)	$ -	(6)
Deferred tax liabilities	$ 72,132	$ -	($ 454)	$ 71,678	$ -	$ 454	(2)

(1) Under IAS 39, because the cash flows of debt instruments, which were classified as: available-for-sale financial assets, held-to-maturity financial assets, amounting to NT$40,166,793 thousand, and NT$282,443,736 thousand, respectively, met the criteria wherein the asset's contractual cash flows represent solely payment of principal and interest, they were reclassified as "financial assets at amortised cost" amounting to increase of NT$322,603,081 thousand resulting in a decrease in retained earnings of NT$12,557 thousand and increase in other interest of NT$5,109 thousand on initial application of IFRS 9.

(2) Under IAS 39, because the cash flows of debt instruments, which were classified as: available-for-sale financial assets, amounting to NT$232,141,475 thousand, met the criteria wherein the asset's contractual cash flows represent solely payment of principal and interest, they were reclassified as " financial assets at fair value through other comprehensive income (debt instruments)" amounting to NT$232,141,475 thousand, resulting in a decrease in retained earnings, increase in other equity interest, decrease in deferred income tax liabilities and increase in other equity interest in the amounts of NT$128,712 thousand, NT$128,712 thousand, NT$13,962 thousand and NT$13,962 thousand on initial application of IFRS 9, respectively.

(3) Under IAS 39, the equity instruments, which were classified as financial assets at cost, amounted to NT$4,833,186 thousand, The Bank and subsidiaries has made an irrevocable election to designate certain equity investments including strategic investments and stable dividend yield stocks, with the initial application of IFRS 9, these investments are classified as "financial assets at fair value through other comprehensive income (equity instruments)" in the amount of NT$10,999,949 thousand and increased retained earnings, and other equity interest in the amounts of NT$299,195 thousand, NT$5,867,568 thousand, respectively.

(4) Under IAS 39, the equity instruments, which were classified as: available-for-sale financial assets and financial assets at cost, amounting to NT$5,781,732 thousand and NT$4,497,106 thousand, respectively, were reclassified as "financial assets at fair value through profit or loss (equity instruments)" amounting to NT$11,153,376 thousand, resulting in an increase in retained earnings and other equity interest in the amounts of NT$445,678 thousand and NT$428,860 thousand respectively, under IFRS 9.

(5) Under IAS 39, the interests receivable, which were classified as: receivables, amounting to NT$16,084 thousand, were reclassified as "financial assets at fair value through profit or loss (debt instruments)" amounting to NT$16,046 thousand, resulting in an increase in retained earnings and decrease in other liabilities in the amounts of NT$26 thousand and NT$64 thousand, respectively, under IFRS 9.

(6) In line with the regulation under IFRS 9 on provision for impairment, accounts receivable decreased by NT$28,185, loan discounted decreased by NT$47, cash and cash equivalents decreased by NT$516, due from the central bank and call loans to banks decreased by NT$2,121, provisions increased by NT$39,719 and retained earnings decreased by NT$70,588.

C. The reconciliation of allowance for impairment and provision from December 31, 2017, as these are impaired under IAS 39 and IAS 37, to January 1, 2018, as these are expected to be impaired under IFRS 9, are as follows:

(In NT Thousand Dollars)

	Allowance for impairment under IAS 39 at December 31, 2017, and provision under IAS 37	Reclassification	Remeasurement	Allowance for impairment under IFRS 9 at January 1, 2018	Note
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)					
Cash and cash equivalents	$ 1,293	$ -	$ 516	$ 1,809	(6)
Due from the Central Bank and call loans to banks	-	-	2,121	2,121	(6)
Receivables	1,664,722	-	28,185	1,692,907	(5)(6)
Discounts and loans, net	28,355,505	-	47	28,355,552	(6)
Available-for-sale financial instruments (IAS 39) / Financial assets at fair value through other comprehensive income (IFRS 9)					
Investments in bonds	-	-	128,712	128,712	(2)
Available-for-sale financial instruments(IAS 39) / Financial assets at amortised cost (IFRS 9)					
Investments in bonds	-	-	5,561	5,561	(1)
Held to maturity(IAS 39) / Financial assets at amortised cost (IFRS 9)					
Investments in bonds	-	-	6,996	6,996	(1)
Provisions	14,820,870	-	39,719	14,860,589	(6)

(In US Thousand Dollars)

	Allowance for impairment under IAS 39 at December 31, 2017, and provision under IAS 37	Reclassification	Remeasurement	Allowance for impairment under IFRS 9 at January 1, 2018	Note
Loans and receivables (IAS 39) / Financial assets at amortised cost (IFRS 9)					
Cash and cash equivalents	$ 42	$ -	$ 17	$ 59	(6)
Due from the Central Bank and call loans to banks	-	-	69	69	(6)
Receivables	54,167	-	917	55,084	(5)(6)
Discounts and loans, net	922,640	-	2	922,642	(6)
Available-for-sale financial instruments (IAS 39) / Financial assets at fair value through other comprehensive income (IFRS 9)					
Investments in bonds	-	-	4,188	4,188	(2)
Available-for-sale financial instruments(IAS 39) / Financial assets at amortised cost (IFRS 9)					
Investments in bonds	-	-	181	181	(1)
Held to maturity(IAS 39) / Financial assets at amortised cost (IFRS 9)					
Investments in bonds	-	-	228	228	(1)
Provisions	482,246	-	1,292	483,538	(6)

D. The significant accounts as of December 31, 2017 and for the year ended, 2017, are as follows:

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

	December 31, 2017 NT$
Financial assets held for trading	
Stocks	$ 4,060,454
Derivatives	3,264,346
Corporate bonds	20,601,506
Financial bonds	12,508,766
Government bonds	1,181,390
	$ 41,616,462

i. Gain or loss on financial assets and liabilities held for trading and financial assets and liabilities designated as at fair value through profit or loss for the year ended 2017 are provided in Note 6(27).

ii. As of December 31, 2017, the above financial assets had not provided as provisions and collaterals.

iii. As of December 31, 2017, the above financial assets had not used as underlying assets for repurchase agreements.

(b) Receivables, net

	December 31, 2017 NT$
Factoring receivable	$ 33,152,887
Acceptances receivable	10,344,104
Accrued interest	5,962,835
Accounts receivable -Credit card	4,860,248
Accounts receivable -Usance L/C buyout	3,038,711
Earned revenue receivable	920,035
Other receivables	2,592,711
Total	60,871,531
Less: Allowance for bad debts	(1,664,722)
Receivables, net	$ 59,206,809

(c) Discounts and loans, net

	December 31, 2017 NT$
Bills and notes discounted	$ 9,660
Overdrafts	3,180,332
Short-term loans	509,194,785
Medium-term loans	690,056,078
Long-term loans	576,100,312
Import/export bills negotiated	9,895,964
Loans transferred to non-accrual loans	2,079,130
Total	1,790,516,261
Less: Allowance for bad debts	(28,355,505)
Bills discounted and loans, net	$ 1,762,160,756

i. As of December 31, 2017, the amounts of reclassified non-performing loans to overdue loans were NT$2,079,130 thousand, including interest receivable of NT$8,236 thousand.

ii. Movements in allowance for credit losses

Information on the evaluations of impairment of the Bank and subsidiaries' loans and receivables as of December 31, 2017 was as follows:.

a. Loans:

(In NT Thousand Dollars)

item		Loans	Allowance for credit losses
		December 31, 2017	December 31, 2017
With existing objective evidence of individual impairment	Individualassessment	$ 15,232,401	$ 2,656,718
	Group assessment	969,486	142,804
Without existing objective evidence of individual impairment	Group assessment	1,774,314,374	25,555,983

b. Receivables:

(In NT Thousand Dollars)

item		Receivables	Allowance for credit losses
		December 31, 2017	December 31, 2017
With existing objective evidence of individual impairment	Individual assessment	$ 1,107,222	$ 917,911
	Group assessment	237,005	26,524
Without existing objective evidence of individual impairment	Group assessment	59,527,304	720,287

The Bank and subsidiaries considers asset quality in respect of accounts receivable, discounts and loans, non-accrual loans transferred from overdue receivables, and import and export loans from banks in the period in order to set aside appropriate allowance for bad debts. For the year ended 2017, details of recognised allowance for bad debts and relevant movement are as follows:

(In NT Thousand Dollars)

	For the year ended, 2017				
	Accounts receivable	Discounts and loans, net	Non-accrual loans transferred from overdue receivables	Remittance Acquired	Total
Balance at January 1,	$ 1,428,738	$ 26,694,232	$ 2,879	$ 155	$ 28,126,004
Provision (reversal)	314,228	4,058,408	(1,501)	(139)	4,370,996
Write-off-net	(73,626)	(3,584,836)	(23,827)	-	(3,682,289)
Recovery of written-off credits	83,726	1,364,605	1,391	-	1,449,722
Effects of exchange rate changes and others	(88,344)	(176,904)	22,567	-	(242,681)
Balance at December 31,	$ 1,664,722	$ 28,355,505	$ 1,509	$ 16	$ 30,021,752

(d) Available-for-sale financial assets, net

	December 31, 2017
	NT$
Stocks	$ 6,389,301
Short-term bills	39,171,853
Bonds	219,529,048
Certificates of deposit	12,881,281
Subtotal	277,971,483
Valuation adjustment	297,226
Less: Accumulated impairment	(178,709)
Total	$ 278,090,000

i. As of December 31, 2017, the aforementioned available-for-sale financial assets amounted to NT$7,917,224 thousand, were pledged to other parties as collateral for business reserves and guarantees.

ii. As of December 31, 2017, available-for-sale financial assets were sold under repurchase agreements with fair values of NT$828,726 thousand.

iii. The Bank and subsidiaries recognized gain of NT$2,093,917 thousand in other comprehensive income for fair value change for the years ended December 31, 2017.

iv. The Bank and subsidiaries recognized impairment loss for the long-term operating losses of the investee for the years ended December 31, 2017. Details are provided in Note 16(11)D(j).

v. The Bank and subsidiaries recognized interest income of NT$4,041,592 thousand on holding debt instruments for the years ended December 31, 2017, respectively.

vi. For the years ended December 31, 2017, amount realised and transferred from other equity in the statements of change in equity to current profit was NT$1,294,331 thousand.

vii. In consideration of increasing capital returns, the Bank and subsidiaries have invested in structured entities issued and managed by independent third parties-Residential Mortgage Backed Security, which are accounted for by the Bank and subsidiaries under available-for-sale financial assets-beneficiary securities. The above-mentioned asset securitization products have maturity dates within April, 2035 to December, 2035.

viii. As of December 31, 2017, the book value and the maximum credit risk exposure of structured entities is NT$0 thousand. The Bank and subsidiaries recognized interest income of NT$54,421 thousand on structured entities for the years ended December 31, 2017.

(e) Held-to-maturity financial assets, net

	December 31, 2017
	NT$
Central Bank's certificates of deposits	$ 251,900,000
Bank's certificates of deposits	11,199,845
Financial bonds	14,375,848
Government bonds	3,147,783
Corporate bonds	1,820,260
Total	$ 282,443,736

i. As of December 31, 2017, the aforementioned held-to-maturity financial assets amounted to NT$5,262,900 thousand were pledged to other parties as collateral of business reserves and guarantees.

ii. The Bank and subsidiaries recognized interest income of NT$2,213,346 thousand on holding held-to-maturity financial assets for the years ended December 31, 2017.

(f) Other financial assets, net

	December 31, 2017
	NT$
Remittance purchased	$ 4,089
Nonaccrual loans transferred from overdue receivables	4,830
Equity investments carried at cost	10,214,744
Subtotal	10,223,663
Less: Allowance for bad debts - Remittance purchased	(16)
Less: Allowance for bad debts - Nonaccrual loans transferred from overdue receivables	(1,509)
Less: Accumulated impairment - Equity investments carried at cost	(884,452)
Total	$ 9,337,686

i. As unlisted shares the Bank owns have no quoted market price available in an active market and cannot be measured reliably, they are measured at cost.

ii. For the years ended December 31, 2017, the Bank and subsidiaries recognized the impairment loss due to investees operating at a loss over an extended period of time, please refer to Note 16(11)D(j).

iii. For the years ended December 31, 2017, gain or loss arising from disposal and dividend income received from shares of the investee was NT$619,151 thousand.

(g) Reserves for liabilities

Reserve for guarantee liabilities

The Bank and subsidiaries sets aside appropriate reserve for guarantee liabilities based on the guarantee reserve assessed. Changes in provided (reversed) guarantee reserve for the year ended 2017 are as follows:

	December 31, 2017
Balance at January 1	$ 3,691,076
Provision	(26,187)
Effects of exchange rate changes and others	(5,055)
Balance at December 31	$ 3,659,834

(h) Other equity

	Cumulative translation differences of foreign operations	Available-for-sale financial assets	Total
		NT$	
January 1, 2017	($ 926,233)	($ 535,566)	($ 1,461,799)
Available-for-sale financial assets			
Evaluation adjustment for the year	-	2,093,917	2,093,917
Realized gain and loss for the year	-	(1,294,331)	(1,294,331)
Cumulative translation differences of foreign operations	(1,777,256)	-	(1,777,256)
Share of other comprehensive income of associates and joint ventures accounted for using equity method	(9,881)	31,006	21,125
December 31, 2017	($ 2,713,370)	$ 295,026	($ 2,418,344)

(i) Realized gains on available-for-sale financial assets

	2017
	NT$
Dividend income	$ 190,116
Realized net gains or losses	
Short coupon	(87)
Bond	(18,126)
Stock	1,312,544
Total	$ 1,484,447

(j) Loss on asset impairment

	2017
	NT$
Equity investments carried at cost	$ 92,028
Available-for-sale-financial assets	137,760
Gain on reversal of impairment loss on property and equipment	(24,609)
Total	$ 205,179

E. The management objectives and policies of financial risks-Credit risk

(A) The source and definition of credit risk

Credit risk pertains to the risk of loss that the borrowers, issuers or counterparties might default on contracts due to deterioration in their finance or other factors.

The Bank and subsidiaries are exposed to credit risk mainly on businesses of corporate and individual loans, guarantees, trade financing, interbank deposits and call loans and securities investments.

Credit risk is the primary risk of the Bank and subsidiaries' capital charge.

(B) Credit risk management policies

The objectives of the Bank and subsidiaries' credit risk management are to maintain stable asset allocation strategy, careful loaning policy and excellent asset quality to secure assets and earnings.

The management mechanism of the Bank and subsidiaries for credit risk includes:

The establishment of Risk Management, Loan and Investment committees which adopt responding measures to market environment, changes in industry, and capital limits, and review relevant regulations and cases of significant lending and investments.

Setting careful prior review procedures for lending and criteria of handling subsequent matters, regular post-lending follow-up, understanding of clients' operation and capital outflows, and increase in the frequency of review on clients with higher risk.

Classifying credit ratings based on clients' probability of default or behavior scoring with management put in practice.

Controlling concentration of credit risk by setting credit limits for individuals, corporate groups, industries, areas, and different types of collaterals.

Setting credit risk limits by reference to external ratings and prospects with attention to changes in market credit spread and risk concentration of counterparties.

The establishment of credit pre-warning list and reporting system.

Assessing assets quality regularly and setting aside sufficient reserve for losses.

Setting creditor's rights management unit and advisory committee in charge of accelerating collection of non-performing loans.

The procedures for credit risk management of the Bank and subsidiaries and related measurement approaches are outlined below:

(a) Credit extensions

Classification of credit assets and internal risk ratings are as follows:

a. Classification of credit assets

Corporate credit risk is measured by using the borrower's default probability model with logistic regression analysis in which financial and non-financial factors are incorporated, which predicts the default probability of borrower within the next year. Besides, the extent of risk is measured by using credit rating table and taking into account the characteristics and scale of business. Lending examination and post management are dealt with based on clients' credit rating. Individual borrowers are grouped into different risk levels and managed by using application scoring and behavior scoring cards. Back-testing is conducted on internal models regularly; those models are subject to adjustments when necessary. Clients' credit ratings are reviewed annually and subject to adjustments when there is significant change in their credit ratings.

b. Internal risk rating

The internal rating for lending is classified as excellent, satisfactory, fair and weak, and corresponds to the Standard & Poor's rating as follows:

Internal risk rating	Excellent	Satisfactory	Fair	Weak
Corresponding to S&P	AAA~BBB-	BB+~BB-	B+	B and bellow

(b) Interbank deposits and call loans

Before trading with other banks, the Bank and subsidiaries must assess the credit of the counterparty; generally referencing external rating agencies, assets and scale of equity of the counterparty, and the credit rating of the counterparty's country of origin in order to set different transaction limits, as well as periodically examining the ratings and changes in stock prices of the counterparty in order to monitor the risks of counterparty.

(c) Bonds and derivatives

The limits of bonds purchased by the Bank and subsidiaries are set by considering the credit rating of bond issuers or guarantors (ex. S&P, Moody's, Fitch, Taiwan ratings or Fitch Taiwan), which needs to meet the minimum rating set by the Board of (Managing) Directors, and country risk at the application, changes in CDS quoted prices and market condition.

The Bank and subsidiaries have set trading units and overall total risk limit for non-hedging derivatives, and use positive trading contract evaluation and the potential exposure as the basis for calculating credit risk and add the limit to the total credit risk limit for monitoring.

(d) Asset quality

The Bank and subsidiaries have set the minimum requirements and examination procedures for the quality of financial assets of each type, and controls risk concentration of assets portfolios of each type based on the risk limit of each type. The Bank and subsidiaries also monitor the changes in assets quality regularly during the duration of the assets and takes measures to maintain their quality. According to the policies and regulations, reserve for losses is provided adequately for those assets to actually reflect and safeguard the value of owners' equity.

(e) Impairment of financial assets and provision for reserves

The Bank and subsidiaries assess at each balance sheet date whether a financial asset is impaired. If there is objective evidence that an event that occurred after the initial recognition of the asset has an impact on the future cash flows of the financial assets, the impairment loss on the financial assets should be recognized.

The objective evidence of an impairment loss is as follows:

Significant financial difficulty of the issuer or debtor;

The issuer or debtor has breached the contract;

The Creditor, for economic or legal reasons relating to the borrower's financial difficulty, granted the borrower a concession;

It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;

The disappearance of an active market for that financial assets because of financial difficulties; or observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank and subsidiaries, including:

Adverse changes are in the payment status of borrowers in the Bank and subsidiaries; or adverse changes in national or local economic conditions that correlate with defaults on the assets in the the Bank and subsidiaries.

Financial assets that are not impaired are included in the Bank and subsidiaries of financial assets sharing similar credit risk characteristics for collective assessment. Financial assets that are assessed individually with impairment recognized need not be included in the collective assessment.

The amount of the impairment loss is the difference between the financial assets' book value and the estimated future cash flow discounted using the original effective interest rate. The present value of estimated future cash flows must reflect the cash flows that might generate from collaterals less acquisition or selling cost regarding the collateral.

Financial assets through collective assessment are grouped based on similar credit risk characteristics, such as types of assets, industry and collaterals. Such credit risk characteristics represent the ability of the debtors to pay all the amounts at maturities according to the contract term, which is related to future cash flows of group of financial assets. The future cash flows of group of financial assets for collective assessment are estimated based on historical impairment experience, reflecting the change in observable data for each period, and the estimation of the future cash flows should move in the same direction. The Bank and subsidiaries review the assumptions and methods for estimation of the future cash flows regularly.

For loan loss provision and guarantee reserve, the Bank and subsidiaries have established the regulations for assets assessment and loss reserve. According to the regulations of the Financial Supervisory Commission for banks, bills companies and insurance companies, all assets in balance sheets and off balance sheets are classified as five categories. For credit assets on balance sheets and off balance sheets, in addition to normal credit assets which shall be classified as "Category One", the remaining unsound credit assets that required special attention shall be evaluated based on the status of the creditor's the length of time overdue financial situation, and loan collaterals, and 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". "Category Two" to "Category Five" shall be assessed one by one for possible loss and set aside sufficient loss provision. And loss provision shall be also set aside for "Category One" proportionately in accordance with regulations of competent authorities.

(C) Policies of hedging and mitigation of credit risk

To reduce credit risk, the Bank and its subsidiaries adopt the following policies:

(a) Obtaining collaterals and guarantors

The Bank and subsidiaries have established policies on collateral management, mortgage loan line setting, scope of collaterals, collateral valuation, collateral management and disposal. Besides, protection of creditor's right, collateral terms and offsetting terms are all addressed in the credit extension contract in case of any occurrence of credit event, of which the amount may be deductible, loan repayment schedule may be shortened or deemed as matured, or the debtor's deposits can be used to offset its liabilities to mitigate credit risks.

(b) Loan limit control

To avoid extreme credit risk concentration, subsidiaries established policies for control of credit risk concentration and set up credit extension limit for a single individual, a single group, a single industry, a single area/country, and single collateral.

(c) Master netting arrangements

The Bank' s and subsidiaries' transactions predominantly settle at gross amount. A portion of transactions have entered into master netting arrangements with counterparties or upon the event of a default may cease all transactions with the counterparties and settle by net amount in order to further reduce credit risk.

(d) Other credit enhancements

The Bank and subsidiaries have offsetting terms within their credit contracts, which clearly define that all deposits in the Bank and subsidiaries from debtors may be offset against their liabilities upon a credit event, and have guarantees from third parties or financial institutions, in order to decrease credit risk.

(D) Maximum credit risk exposure

The maximum credit risk exposure of financial assets within the balance sheets is presented in book values. The maximum credit risk exposure of guarantees and irrevocable commitments off balance sheets is calculated based on their limits. Letters of credit and the guarantee refer to those issued but not used.

a. The maximum credit risk exposure of financial assets of the Bank and subsidiaries excluding collaterals or other credit enhancement instruments is approximately equal to book value. The maximum exposure to credit risk of items off balance sheet is listed below:

	December 31, 2017 NT$
Credit risk exposure of items off balance sheet:	
Irrevocable commitments	$ 168,797,259
Guarantee and letters of credit	243,153,847
Total	$ 411,951,106

b. Assets of the Bank and subsidiaries with credit risk are analyzed as follows:

Unit: In NT Thousand Dollars

December 31, 2017	Cash and cash equivalents, due from the Central Bank and call loans to banks	Bills discounted and loans	Receivables	Securities purchased under resell agreement and debt instruments	Derivative financial instruments	Other items included in balance sheet	Credit commitments	Total
Government organization	$ 333,644,271	$ 9,986,629	$ 547,504	$ 59,162,635	$ 45	$ 24,069	$ 85,422,512	$ 488,787,665
Financial institution, investment and insurance	372,836,035	186,336,651	6,500,716	457,341,745	2,538,097	2	17,823,331	1,043,376,577
Enterprise and commerce	-	1,174,996,432	45,325,943	73,883,422	432,451	2,238,281	245,373,373	1,542,249,902
Individuals	-	408,737,114	5,193,819	-	25,425	304,848	61,148,036	475,409,242
Others	-	10,459,435	3,303,549	353,450	268,328	38,503	2,183,854	16,607,119
Total	706,480,306	1,790,516,261	60,871,531	590,741,252	3,264,346	2,605,703	411,951,106	3,566,430,505
Less: Allowance for probable losses	(1,293)	(28,355,505)	(1,664,722)	-	-	(1,525)	-	(30,023,045)
Net	$ 706,479,013	$ 1,762,160,756	$ 59,206,809	$ 590,741,252	$ 3,264,346	$ 2,604,178	$ 411,951,106	$ 3,536,407,460

Trade finance to enterprises accounted for10.82%, totaling NT$127,089,636 thousand. Housing mortgage loans to individuals accounted for 75.32%, totaling NT$307,847,048 thousand.

c. Relevant financial information on effect of the Bank's and subsidiaries' assets exposed to credit risk, net settlement master netting arrangements and other credit improvements is as follows:

Unit: In NT Thousand Dollars

December 31, 2017	Collateral	Net settlement master netting arrangements	Other credit improvements	Total
On-Balance-Sheet Items				
Financial assets at fair value through profit or loss				
- debt instrument	$ -	$ -	$ 8,404,988	$ 8,404,988
- derivatives	944,738	365,186	-	1,309,924
Securities purchased under resell agreements	1,697,586	-	-	1,697,586
Discounts and loans	1,145,290,237	-	52,161,524	1,197,451,761
Available-for-sale financial assets - debt instrument	-	-	32,001,024	32,001,024
Held-to-maturity financial assets - debt instrument	-	-	2,824,775	2,824,775
Off-Balance-Sheet Items				
Irrevocable commitments	84,307,140	-	1,030,909	85,338,049
Guarantees and letters of credit	48,168,107	-	1,559,811	49,727,918

Note 1: Collaterals include property, movable property, certification of authorization, securities, certificates of deposits, letter of credit and rights in property.

(1)Value of collaterals pledged for assets that arise from lending is the lower of collateral value/ market value and maximum exposure amount. If the collateral value cannot be obtained, value of collaterals must be assessed.

(2)Value of collaterals pledged for assets that do not arise from lending is the lower of market value and maximum exposure amount.

Note 2: Details of improvement to net settlement master netting arrangements and other credits are provided in Note 16(11) E. (C) c and d.

(E) Financial assets credit quality and analysis of past due and impairment

a. The Bank and subsidiaries' financial assets credit quality and analysis of past due and impairment

Unit: In NT Thousand Dollars

December 31, 2017	Neither past due nor impaired						Past due but not impaired						Impaired	Reserve for losses	Net amount
	Excellent	Satisfactory	Fair	Weak	No rating	Subtotal	Excellent	Satisfactory	Fair	Weak	No rating	Subtotal			
Maximum credit risk exposure of financial assets in balance sheet:															
Cash and cash equivalents	$ 135,365,175	$ 1,727,405	$ 38,424	$ 6,105	$ 574,431	$ 137,711,540	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,293	$ 137,710,247
Due from the Central Bank and call loans to banks	559,952,989	2,941,969	1,801,911	4,071,897	-	568,768,766	-	-	-	-	-	-	-	-	568,768,766
Financial assets at fair value through profit or loss															
- Debt instruments	32,591,741	1,378,921	-	-	321,000	34,291,662	-	-	-	-	-	-	-	-	34,291,662
- Derivatives	2,470,354	193	-	-	793,799	3,264,346	-	-	-	-	-	-	-	-	3,264,346
Securities purchased under resell agreements	1,697,586	-	-	-	-	1,697,586	-	-	-	-	-	-	-	-	1,697,586
Receivables	27,124,392	13,393,893	6,477,979	4,196,801	8,313,078	59,506,143	1,764	505	321	580	17,991	21,161	1,344,227	1,664,722	59,206,809
Discounted and loans	731,391,266	434,747,626	245,350,596	81,794,353	278,753,442	1,772,037,283	1,526,617	242,386	169,487	234,891	103,710	2,277,091	16,201,887	28,355,505	1,762,160,756
Available-for-sale financial assets-Debt instruments	272,308,268	-	-	-	-	272,308,268	-	-	-	-	-	-	-	-	272,308,268
Held-to-maturity financial assets-Debt instruments	282,425,087	-	-	-	18,649	282,443,736	-	-	-	-	-	-	-	-	282,443,736
Other assets	61,420	730,431	-	-	1,809,022	2,600,873	-	-	-	-	-	-	4,830	1,525	2,604,178
Total	$ 2,045,388,278	$ 454,920,438	$ 253,668,910	$ 90,069,156	$ 290,583,421	$ 3,134,630,203	$ 1,528,381	$ 242,891	$ 169,808	$ 235,471	$ 121,701	$ 2,298,252	$ 17,550,944	$ 30,023,045	$ 3,124,456,354

a. As of December 31, 2017, according to the internal requirements of assets internal rating, the rate of liabilities instruments belonging to excellent level was 99.71%.

b. As of December 31, 2017, the rate of due from commercial banks and call loans to bank belonging to excellent level was 98.45% .

c. As of December 31, 2017, the rate of loans belonging to excellent level was 41.27%.

d. Discounts and loans of the Bank and its subsidiaries were all in accordance with requirements of credit extensions and the relevant regulations, and classified by internal rating table.

Discounts and loans of the Bank and its subsidiaries were all in accordance with requirements of credit extensions and the relevant regulations, and classified by internal rating model or table, the internal rating is classified as excellent, satisfactory, fair and weak, the probability of default can corresponds to the Standard & Poor's rating; Besides, those without credit ratings are risk exposures classified by credit rating (score) table, corresponding credit default rates are yet to be confirmed, mainly as a sovereign state, banks and overseas branches customers. The Bank adopted qualified external rating as the quality control tools for sovereign states and banks, and classified by rating table for overseas branches.

b. The Bank and subsidiaries' aging analysis of financial assets that were past due but not impaired

Financial assets might be past due but not impaired due to borrower's processing delay or other administrative reasons. According to subsidiaries' internal management rules for assets assessment, financial assets which are past due within 90 days are not regarded as impaired unless there is objective evidence that the financial assets are impaired. There are very few conditions where financial assets are past due over 90 days but not impaired.

Unit: In NT Thousand Dollars

	December 31, 2017				
	Overdue for less than 1 month	Overdue for 1~3 months	Overdue for 3~6 months	Overdue for more than 6 months	Total
Account receivable	$ 14,227	$ 6,934	$ -	$ -	$ 21,161
Discounts and loans					
- Government	44,049	-	-	-	44,049
- Enterprise and commerce	48,662	97,015	-	-	145,677
- Individuals	2,087,365	-	-	-	2,087,365
Total	$ 2,194,303	$ 103,949	$ -	$ -	$ 2,298,252

c. The Bank and subsidiaries' provisions for doubtful accounts analysis of impaired loans

Unit: In NT Thousand Dollars

	December 31, 2017									
	Loans					Allowance for probable losses				
	Not impaired		Impaired							
	Individual assessment	Collective assessment	Individual assessment	Collective assessment	Total	Individual assessment	Collective assessment	Total	Loans net amount	Provisions for doubtful accounts/ impaired loans %
ROC	$ -	$ 1,332,698,395	$ 9,848,528	$ 786,023	$ 1,343,332,946	$ 1,650,536	$ 19,323,124	$ 20,973,660	$ 1,322,359,286	197.22
Asia	-	285,696,724	1,386,692	6,520	287,089,936	331,413	4,117,269	4,448,682	282,641,254	319.31
North America	-	67,656,193	273,114	-	67,929,307	46,001	976,859	1,022,860	66,906,447	374.52
Others	-	88,263,062	3,724,067	176,943	92,164,072	628,768	1,281,535	1,910,303	90,253,769	48.97
Total	$ -	$ 1,774,314,374	$ 15,232,401	$ 969,486	$ 1,790,516,261	$ 2,656,718	$ 25,698,787	$ 28,355,505	$ 1,762,160,756	

17. SUPPLEMENTARY DISCLOSURES

(1) Related information on material transaction items of the Bank and subsidiaries:

A. Information regarding stock of short-term equity investment for which the purchase or sale amount for the period exceeded NT$300 million or 10% of the Bank's paid-in capital:

Investor	Marketable securities	General ledger account	Counterparty	Relationship	Balance as of January 1, 2018		Additon		Disposal			Balance as of December 31, 2018	
					Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Gain (loss) on disposal	Number of shares (in thousands)	Amount
The Bank	St. Shine Optical Co., Ltd.	Financial assets at fair value through profit income	-	-	117	$ 101,116	604	$ 472,210	721	$ 536,243	($ 37,083)	-	$ -
〃	Win Semiconductors Co., Ltd.	〃	-	-	340	88,993	5,820	1,280,935	6,160	1,248,523	(121,405)	-	-
〃	Parade Technologies Ltd.	〃	-	-	110	61,512	1,713	829,364	1,720	788,926	(57,519)	103	44,431
〃	Taiwan Top 50 Tracker Fund	〃	-	-	-	-	7,785	600,769	2,335	177,099	(8,418)	5,450	415,252
〃	Taiwan Cement Corp.	〃	-	-	1,650	56,713	10,491	391,104	7,891	301,283	8,148	4,250	154,682
〃	Uni-President Enterprises Corporation	〃	-	-	1,210	78,180	7,831	553,083	8,321	588,173	8,126	720	51,216
〃	Formosa Plastics Corporation	〃	-	-	2,080	191,286	8,528	882,089	7,828	806,323	12,792	2,780	279,844
〃	China Petrochemical Development Corp.	〃	-	-	3,900	60,305	29,404	366,970	30,904	383,617	(16,446)	2,400	27,212
〃	Formosa Chemicals Fibre Co., Ltd.	〃	-	-	650	61,748	8,113	879,246	7,603	831,594	11,323	1,160	120,723
〃	Far Eastern New Century Corp.	〃	-	-	1,500	38,509	15,008	447,500	13,188	394,352	4,763	3,320	96,420
〃	HiWin Technologies Corp.	〃	-	-	335	97,900	1,004	344,278	1,339	490,391	48,213	-	-
〃	United Microelectronics Corp.	〃	-	-	-	-	18,800	298,919	18,800	307,244	8,325	-	-
〃	COMPEQ Manufacturing Co., Ltd	〃	-	-	850	33,207	10,496	349,503	11,346	374,274	(8,436)	-	-
〃	Hon Hai Precision Industry Company	〃	-	-	1,850	179,280	10,960	953,024	12,810	1,088,288	(44,016)	-	-

Investor	Marketable securities	General ledger account	Counterparty	Relationship	Balance as of January 1, 2018		Additon		Disposal			Balance as of December 31, 2018	
					Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Number of shares (in thousands)	Amount	Gain (loss) on disposal	Number of shares (in thousands)	Amount
The Bank	Taiwan Semiconductor Manufacturing Company	Financial assets at fair value through profit income	-	-	3,330	$698,445	17,998	$4,235,537	18,363	$ 4,305,325	$ 45,108	2,965	$673,765
〃	Micro-Star International Co., Ltd.	〃	-	-	-	-	3,849	363,005	3,849	327,807	(35,198)	-	-
〃	Realtek Semiconductor Corp.	〃	-	-	-	-	2,622	320,209	2,622	315,256	(4,953)	-	-
〃	MediaTek Inc.	〃	-	-	140	42,342	3,425	983,697	3,565	990,812	(35,227)	-	-
〃	Chunghwa Telecom Co., Ltd.	〃	-	-	-	-	3,272	354,100	3,272	349,307	(4,793)	-	-
〃	Catcher Co., Ltd.	〃	-	-	100	33,147	2,784	974,621	2,884	966,835	(40,933)	-	-
〃	Chang Hwa Commercial Bank	〃	-	-	10,000	154,326	20,000	341,862	-	-	-	30,000	496,188
〃	Cathy Financial Holdings Co., Ltd.	〃	-	-	5,750	283,857	14,943	765,514	18,843	966,053	4,040	1,850	87,358
〃	SinoPac Financial Holdings Co., Ltd.	〃	-	-	-	-	28,405	307,818	18,525	195,629	(9,007)	9,880	103,182
〃	CTBC Financial Holding Co., Ltd.	〃	-	-	6,100	122,489	16,024	335,829	18,600	382,151	(3,482)	3,524	72,685
〃	Largan Precision Co., Ltd.	〃	-	-	16	68,361	212	866,628	228	887,508	(47,481)	-	-
〃	Chailease Finance Co., Ltd.	〃	-	-	700	55,037	2,873	286,453	3,133	303,315	4,718	440	42,893
〃	Taiwania Capital Buffalo II Ventures, LP	〃	-	-	-	-	-	300,000	-	$ -	-	-	300,000
〃	Formosa Petrochemical Corporation	〃	-	-	500	57,332	770	86,773	1,270	148,528	4,423	-	-
〃	Taiwan Cement Corp.	Financial assets at fair value through other comprehensive income	-	-	-	-	3,152	109,655	602	25,097	5,381	2,550	89,939
〃	Formosa Plastics Corporation	〃	-	-	-	-	7,100	745,912	5,500	607,573	23,088	1,600	161,427
〃	Nan Ya Plastics Corporation	〃	-	-	-	-	5,900	491,046	5,900	495,158	4,112	-	-
〃	Formosa Chemicals Fibre Co., Ltd.	〃	-	-	-	-	5,320	587,337	3,900	457,495	21,505	1,420	151,347
〃	Chunghwa Telecom Co., Ltd.	〃	-	-	-	-	7,500	820,482	6,100	655,370	(12,231)	1,400	152,881
〃	Taiwanmobile Co., Ltd.	〃	-	-	-	-	7,815	850,703	6,443	695,118	(7,094)	1,372	148,491
〃	Far EasTone Telecommunications Co., Ltd.	〃	-	-	-	-	10,000	761,222	7,610	559,983	(21,011)	2,390	180,228
〃	Formosa Petrochemical Corporation	〃	-	-	-	-	4,700	550,926	3,800	455,418	6,646	900	102,154

B. Information on the acquisition of real estate for which the purchase amount exceeded NT$300 million or 10% of the Bank's paid-in capital: None.

C. Information on the disposal of real estate for which the sale amount exceeded NT$300 million or 10% of the Bank's paid-in capital: None.

D. Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT$5 million: None.

E. Information regarding receivables from related parties for which the amount exceeded NT$300 million or 10% of the Bank's paid-in capital: None.

F. Information regarding selling non-performing loans: None.

G. Information on and categories of securitized assets which are approved by the authority pursuant to Financial Asset Securitization Act or the Real Estate Securitization Act: None.

H. Other material transaction items which were significant to the users of the financial statements: None.

(2) Supplementary disclosure regarding investee companies:

A. Supplementary disclosure regarding investee companies as of December 31, 2018:

(In NT Thousand Dollars)

Investee companies	Address	Main service	Percentage of ownership %	Book value	Investment income (loss)	Share-holdings of the Bank and related enterprises: Share (in thousands)	Proforma information on number of stock held	Total: Share (in thousands)	Total: Percentage of ownership (%)	Note
Cathay Investment & Development Corporation (Bahamas)	Post Office Box 3937 Nassau, Bahamas	International investment and exploration	100.00%	$ 73,363	$ 12,021	5	None	5	100.00%	
Cathay Investment & Warehousing Co., S.A.	Calle 16 Colon Free Zone Local NO.4 Edificio NO.49 P. O. Box 4036 Colon Free Zone, Colon, Republic of Panama	1. Storage and warehousing of imported commodities 2. Manage and make the investment for the business in foreign trade business 3. Office rental	100.00%	49,438	(3,476)	1	None	1	100.00%	
Mega Management Consulting Co., Ltd.	7F., No.91, Hengyang Rd., Taipei City	Venture capital and management consulting etc.	100.00%	68,089	32,451	1,000	None	1,000	100.00%	
Ramlett Finance Holdings Inc.	Calle 50 y Esquina Margarita A de Vallarino Entrada Nuevo Campo Alegre Edificio ICBC, Panama	Real estate investment industry	100.00%	5,654	(2,050)	2	None	2	100.00%	
Yung-Shing Industries Co.	7F., No.100, Jilin Rd., Taipei City	Packaging, printing and agency of manpower service	99.56%	689,681	45,898	299	None	299	99.56%	
China Products Trading Company	7F., No.100, Jilin Rd., Taipei City	Investments in products businesses, storage businesses and other businesses	68.27%	27,819	771	68	None	68	68.27%	
Mega 1 Venture Capital Co., Ltd.	7F., No.91, Hengyang Rd., Taipei City	Investment industry	25.00%	17,391	(8,378)	8,438	None	8,438	25.00%	
An Feng Enterprise Co., Ltd.	3F., No.139, Jhengjhou Rd., Taipei City	Automatic Teller Machine rental, configure and maintain	25.00%	11,914	763	900	None	900	30.00%	
Taiwan Finance Co., Ltd.	3F., No.123, Sec. 2, Nanjing E. Rd., Taipei City	Brokerage underwriting attestation guarantee and endorsement of commercial papers, proprietary trading of government bonds and corporate bonds	24.55%	1,650,156	95,797	126,714	None	126,714	24.55%	
Everstrong Iron & Steel Foundry & Mfg Corp.	NO.1 Shiquan Rd., Xiaogang Dist., Kaohsiung City	Iron and steel making	22.22%	46,049	4,492	1,760	None	1,760	22.22%	

(In NT Thousand Dollars)

Investee companies	Address	Main service	Percentage of ownership %	Book value	Investment income (loss)	Share-holdings of the Bank and related enterprises: Share (in thousands)	Proforma information on number of stock held	Total: Share (in thousands)	Total: Percentage of ownership (%)	Note
China Real Estate Management Co., Ltd.	11F., No.35, Guangfu S. Rd., Taipei City	Real estate and property selling	20.00%	$ 179,080	$ 1,753	9,000	None	9,000	20.00%	
Universal Venture Capital Investment Corporation	7F., No.91, Hengyang Rd., Taipei City	Venture capital	11.84%	124,267	(60)	14,250	None	14,250	11.84%	
Mega Growth Venture Capital Co., Ltd.	7F., No.91, Hengyang Rd., Taipei City	Venture capital	11.81%	142,659	(303)	15,000	None	15,000	11.81%	
Win Card Co., Ltd.	4F., No.99, Sec. 3, Chongyang Rd., Sanchong Dist., New Taipei City	Corporate management consulting, data processing business and general advertising services	100.00%	37,425	5,363	200	None	200	100.00%	Indirect subsidiary of the Bank
ICBC Asset Management & Consulting Co., Ltd	No.100, Jilin Rd., Taipei City	Investment consulting, corporate management consulting and venture investment management consulting	100.00%	23,730	2,823	2,000	None	2,000	100.00%	Indirect subsidiary of the Bank

B. For those investee companies that the Bank has direct or indirect control interest over, further disclosures are as follows:

(A) Information on the acquisition of real estate for which the purchase amount exceeded NT$300 million or 10% of the Bank's paid-in capital: None.

(B) Information on the disposal of the real estate for which the sale amount exceeded NT$300 million or 10% of the Bank's paid-in capital: None.

(C) Information regarding discounted processing fees on transactions with related parties for which the amount exceeded NT$5 million: None.

(D) Information regarding receivables from related parties for which the amount exceeded NT$300 million or 10% of the Bank's paid-in capital: None.

(E) Information regarding selling non-performing loans: None.

(F) Information on and categories of securitized assets which are approved by the authority pursuant to the Financial Asset Securitization Act or the Real Estate Securitization Act: None.

(G) Lending to other parties: None.

(H) Guarantees and endorsements for other parties: None.

(I) Information regarding securities held as of December 31, 2018:

(Expressed in NT Thousand Dollars)

Name of Holding Company	Type and Name of Marketable Securities	Relationship with the Securities Issuer	Account	At year-end: Share / Units (in thousands)	Book value	Ownership Percentage (%)	Market value	Note
Yung-Shing Industries Co.	Stocks							
"	SysJust Corporation	None	Financial assets carried at cost	602	$ 6,171	2.31%	$ 6,171	
"	Hi-Scene World Enterprise Co., Ltd.	None	Financial assets carried at cost	2,370	5,272	1.54%	5,272	
"	Hua-sheng Venture Capital Investment Corp.	None	Financial assets carried at cost	439	4,386	1.67%	4,386	
"	Win Card Co., Ltd.	Equity investees	Investments accounted for by equity method	200	37,425	100.00%	37,425	
"	ICBC Assets Management & Consulting Co., Ltd.	Equity investees	Investments accounted for by equity method	2,000	23,730	100.00%	23,730	
"	An Feng Enterprise Co., Ltd.	Equity investees	Investments accounted for by equity method	150	2,211	5.00%	2,211	
	Total				$79,195			

(J) Information regarding securities for which the purchase or sale amount for the period exceeded NT$300 million or 10% of the Bank's paid-in capital: None.

(K) Information regarding trading in derivatives: None.

(L) Other material transaction items which were significant to the users of the financial statements: None.

(3) Investments in People’s Republic of China:

Unit：In NT Thousand Dollars

Name of Investee Company in Mainland China	Main Business	Paid-in Capital	Investment method	Accumulated amount of investment as of January 1, 2018	For the year ended December 31, 2018: Reinvestment	For the year ended December 31, 2018: Withdrawal	Accumulated amount of investments as of December 31, 2018	Net income of investee as of December 31, 2018	The Company's Direct/ Indirect Percentage of Ownership (%)	Investment Income (Loss) for the period (Note 2)	Carrying amount of investment as of December 31, 2018	Investment income remitted as of December 31, 2018
Mega International Commercial Bank Suzhou Branch (Including Wujiang Sub-Branch and Kunshan Sub-Branch)	Banking businesses approved by the local government	$ 4,796,000 (Note 3)	Branch	$ 4,796,000 (Note 3)	$ -	$ -	$ 4,796,000 (Note 3)	($ 255,608)	None	($ 255,608)	$ -	$ -
Mega International Commercial Bank Ningbo Branch	Banking businesses approved by the local government	$ 5,122,458 (Note 4)	Branch	$ 5,122,458 (Note 4)	$ -	$ -	$ 5,122,458 (Note 4)	($ 1,161)	None	($ 1,161)	$ -	$ -

Accumulated investment amounts in Mainland China as of December 31, 2018	Investment amount approved by the investment audit committee of the Ministry of Economic Affairs	Limits on investment amounts established by the investment audit committee of the Ministry of Economic Affairs (Note 1)
$ 9,918,458(Note 3)(Note 4)	$ 9,918,458(Note 3)(Note 4)	$ 169,716,440

Note 1: Limit calculation is as follows (The Bank's net worth is NT$282,860,734 thousand) NT$282,860,734 thousand x 60% = NT$169,716,440 thousand.

Note 2: Relevant operating income and expense of the subsidiary, Mega International Commercial Bank Suzhou(Including Wujiang Sub-Branch and Kunshan Sub-Branch) and Ningbo Branch have been included the gains and losses of the Bank.

Note 3: Based on the approved investment amount (RMB$1 billion, approximately US$160,000 thousand) pursuant to Jing-Shen-II-Zi Letter No. 10000045990 issued by the Investment Commission of the Ministry of Economic Affairs on March 31, 2011. The actual remitted amount, converted using the exchange rate at the date of remittance, was approximately US$157,347 thousand, which converted to NTD was NT$4,796,000 thousand.

Note 4: Based on the approved investment amount (RMB$1 billion, approximately US$167,000 thousand) pursuant to Jing-Shen-II-Zi Letter No. 10300306930 issued by the Investment Commission of the Ministry of Economic Affairs on December 9, 2014. The actual remitted amount, converted using the exchange rate at the date of remittance, was approximately US$162,411 thousand, which converted to NTD was NT$5,122,458 thousand.

Note5: Unit: NT thousand dollars (unless otherwise noted).

(4) Significant transactions between parent company and subsidiaries

Unit: In NT Thousand Dollars

No. (Note 1)	Company	Counterparty	Relationship (Note 2)	Details of transactions			
				Account	Amount	Conditions	Percentage (%) of total consolidated net revenues or assets (Note 3)
0	Mega International Commercial Bank Co., Ltd.	Mega ICBC (Canada)	1	Due from Commercial Banks	$ -	No significant difference from general customers	0.00%
0	〃	〃	1	Call Loans to Banks	-	〃	0.00%
0	〃	〃	1	Due to Other Banks	-	〃	0.00%
0	〃	〃	1	Receivables	-	〃	0.00%
0	〃	〃	1	Interest Revenue	1,153	〃	0.00%
0	〃	〃	1	Interest Expenses	102	〃	0.00%
0	〃	Mega ICBC (Thailand)	1	Due from Commercial Banks	38,211	〃	0.00%
0	〃	〃	1	Call Loans to Banks	769,060	〃	0.02%
0	〃	〃	1	Due to Other Banks	584,274	〃	0.02%
0	〃	〃	1	Call Loans from other banks	40,303	〃	0.00%
0	〃	〃	1	Interest Revenue	5	〃	0.00%
0	〃	〃	1	Interest Expenses	3,204	〃	0.01%
1	Mega ICBC (Canada)	Mega International Commercial Bank Co., Ltd.	2	Due from Commercial Banks	-	〃	0.00%
1	〃	〃	2	Due to Other Banks	-	〃	0.00%
1	〃	〃	2	Call Loans from other banks	-	〃	0.00%
1	〃	〃	2	Payables	-	〃	0.00%
1	〃	〃	2	Interest Revenue	102	〃	0.00%
1	〃	〃	2	Interest Expenses	1,153	〃	0.00%
1	〃	Mega ICBC (Thailand)	3	Due to Other Banks	-	〃	0.00%
2	Mega ICBC (Thailand)	Mega International Commercial Bank Co., Ltd.	2	Due from Commercial Banks	584,274	〃	0.02%
2	〃	〃	2	Call Loans to Banks	40,303	〃	0.00%
2	〃	〃	2	Due to Other Banks	38,211	〃	0.00%
2	〃	〃	2	Call loans from other banks	769,060	〃	0.02%
2	〃	〃	2	Interest Revenue	3,204	〃	0.01%
2	〃	〃	2	Interest Expenses	5	〃	0.00%
2	〃	Mega ICBC (Canada)	3	Due from Commercial Banks	-	〃	0.00%

(Note 1) The numbers in the No. column represent as follows:

1. 0 for the parent company

2. According to the sequential order, subsidiaries are numbered from 1.

(Note 2) Relationship between transaction company and counterparty is classified into the following three categories;

1. Parent company to subsidiary.

2. Subsidiary to parent company.

3. Subsidiary to subsidiary.

(Note 3) Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

<u>**MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.**</u>

BALANCE SHEETS
(EXPRESSED IN THOUSANDS OF DOLLARS)

Assets	December 31, 2018 NT$	December 31, 2018 US$ (Unaudited)	(Adjusted) December 31, 2017 NT$	(Adjusted) January 1, 2017 NT$
Assets				
Cash and cash equivalents	$ 121,851,667	$ 3,964,848	$ 134,573,043	$ 86,952,288
Due from the central bank and call loans to banks	520,043,934	16,921,353	568,191,492	540,639,263
Financial assets at fair value through profit or loss	63,083,937	2,052,645	41,615,571	45,311,254
Financial assets at fair value through other comprehensive income	263,821,804	8,584,317	-	-
Investment in debt instruments at amortised cost	267,773,373	8,712,894	-	-
Securities purchased under resell agreements	3,994,470	129,973	1,697,586	4,255,968
Receivables, net	60,679,755	1,974,417	59,097,182	59,342,642
Current income tax assets	98,117	3,193	99,432	122,108
Discounts and loans, net	1,847,344,912	60,109,488	1,746,168,423	1,699,285,739
Available-for-sale financial assets, net	-	-	278,090,000	205,720,937
Held-to-maturity financial assets, net	-	-	280,013,940	276,724,781
Investments measured by equity method, net	9,273,021	301,728	9,025,778	8,851,388
Other financial assets, net	29,338	955	9,336,419	9,669,542
Property and equipment, net	14,919,392	485,452	14,859,167	14,278,800
Investment property, net	584,291	19,012	584,646	865,039
Deferred income tax assets	6,706,827	218,229	5,525,907	5,049,996
Other assets, net	2,811,165	91,470	2,882,935	1,614,016
Total assets	$ 3,183,016,003	$ 103,569,974	$ 3,151,761,521	$ 2,958,683,761
Liabilities and equity				
Liabilities				
Due to the Central Bank and banks	$ 391,833,101	$ 12,749,588	$ 373,105,406	$ 389,214,332
Funds borrowed from the Central Bank and other banks	53,920,881	1,754,495	29,224,939	35,691,029
Financial liabilities at fair value through profit or loss	26,692,448	868,527	8,774,635	11,393,071
Securities sold under repurchase agreements	26,921,643	875,985	848,125	444,678
Payables	34,185,408	1,112,336	35,363,073	32,010,867
Current income tax liabilities	7,787,642	253,397	7,100,532	8,106,031
Deposits and remittances	2,311,019,303	75,196,671	2,375,199,023	2,159,117,253
Financial bonds payable	13,300,000	432,760	25,900,000	36,200,000
Other financial liabilities	10,529,402	342,609	8,969,641	8,583,989
Provisions	15,412,291	501,490	14,819,979	12,952,174
Deferred income tax liabilities	2,436,593	79,283	2,216,847	2,161,652
Other liabilities	6,116,557	199,022	6,356,448	5,244,438
Total liabilities	2,900,155,269	94,366,163	2,887,878,648	2,701,119,514
Equity				
Capital				
Common stock	85,362,336	2,777,546	85,362,336	85,362,336
Capital surplus	62,219,540	2,024,519	62,219,540	62,219,540
Retained earnings				
Legal reserve	86,147,870	2,803,106	79,690,847	73,987,859
Special reserve	4,535,074	147,564	4,000,055	3,873,832
Unappropriated earnings	39,333,671	1,279,851	35,028,439	33,582,479
Other equity interest	5,262,243	171,225	(2,418,344)	(1,461,799)
Total equity	282,860,734	9,203,811	263,882,873	257,564,247
Total liabilities and equity	$ 3,183,016,003	$ 103,569,974	$ 3,151,761,521	$ 2,958,683,761

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MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.

STATEMENTS OF COMPREHENSIVE INCOME

(EXPRESSED IN THOUSANDS OF DOLLARS, EXCEPT FOR EARNINGS PER SHARE AMOUNTS)

	For the years ended December 31, 2018 NT$	2018 US$ (Unaudited)	2017 NT$	Changes Percentage (%)
Interest income	$ 64,295,176	$ 2,092,057	$ 53,202,794	21
Less: interest expenses	(28,292,331)	(920,585)	(19,650,049)	44
Net interest income	36,002,845	1,171,472	33,552,745	7
Net revenue other than interest				
Net service fee revenue	6,877,209	223,773	6,870,359	-
Gains (losses) on financial assets or liabilities measured at fair value through profit or loss	4,707,750	153,182	5,425,632	(13)
Realized gains (losses) on available-for-sale financial assets	-	-	1,484,447	(100)
Realized gains on financial assets at fair value through other comprehensive income	955,315	31,084	-	-
Gains (losses) arising from derecognition of financial assets measured at amortised cost	1,064	35	-	-
Foreign exchange gains (losses)	2,561,956	83,362	1,853,603	38
(Impairment losses on assets) reversal of impairment losses on assets	82,888	2,697	(205,179)	-
Share of profit of associates and joint ventures accounted for using equity method	470,429	15,307	471,613	-
Net other revenue other than interest income	177,284	5,768	235,497	(25)
Gains (losses) on financial assets at cost	-	-	619,151	(100)
Other miscellaneous revenue (expense)	169,028	5,500	(725,800)	-
Net revenue	52,005,768	1,692,180	49,582,068	5
Bad debts expense, commitment and guarantee liability provisions	(2,083,618)	(67,797)	(4,371,190)	(52)
Operating expenses				
Employee benefits expenses	(14,567,854)	(474,013)	(13,451,289)	8
Depreciation and amortization expenses	(612,124)	(19,918)	(529,635)	16
Other general and administrative expenses	(8,105,176)	(263,729)	(6,992,465)	16
Income from continuing operations before tax	26,636,996	866,723	24,237,489	10
Income tax expense	(2,464,784)	(80,200)	(2,714,079)	(9)
Income from continuing operations, net of tax	24,172,212	786,523	21,523,410	12
Other comprehensive income (losses)				
Components of other comprehensive income that will not be reclassified to profit or loss				
Gains (losses) on remeasurements of defined benefit plans	(757,090)	(24,634)	(1,739,625)	(56)
Revaluation gains (losses) on investments in equity instruments measured at fair value through other comprehensive income	66,523	2,165	-	-
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	(2,634)	(86)	-	-
Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	325,670	10,597	295,736	10
Components of other comprehensive income that will be reclassified to profit or loss				
Exchange differences on translation	920,631	29,956	(1,803,685)	-
Unrealized gains (losses) on valuation of available-for-sale financial assets	-	-	799,586	(100)
Share of other comprehensive income of subsidiaries, associates and joint ventures accounted for using equity method	146,639	4,771	47,554	208
Revaluation gains (losses) from investments in debt instruments measured at fair value through other comprehensive income	(71,641)	(2,331)	-	-
(Impairment losses) reversal of impairment losses from investments in debt instruments measured at fair value through other comprehensive income	(27,161)	(884)	-	-
Income tax related to components of other comprehensive income that will be reclassified to profit or loss	31,809	1,035	-	-
Other comprehensive income (losses), net of tax	632,746	20,589	(2,400,434)	-
Total comprehensive income	$ 24,804,958	$ 807,112	$ 19,122,976	30
Earnings per share				
Basic and diluted earnings per share (in dollars)	$ 2.83	$ 0.09	$ 2.52	

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN THOUSANDS OF DOLLARS)

			Retained earnings			Other equity interest				
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated Earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Unrealised gains (losses) on financial assets measured at fair value through other comprehensive income	Others	Total
For the year ended December 31, 2018(NT Dollars)										
Balance, January 1, 2018	$ 85,362,336	$ 62,219,540	$ 79,690,847	$ 4,000,055	$ 35,028,439	($ 2,713,370)	$ 295,026	$ -	$ -	$ 263,882,873
Effects of retrospective application and retrospective restatement	-	-	-	-	533,042	-	(295,026)	6,771,816	(32,579)	6,977,253
Balance at January 1 after adjustments	85,362,336	62,219,540	79,690,847	4,000,055	35,561,481	(2,713,370)	-	6,771,816	(32,579)	270,860,126
Net income for the year of 2018	-	-	-	-	24,172,212	-	-	-	-	24,172,212
Other comprehensive income (loss) for the year of 2018	-	-	-	-	(431,420)	1,105,348	-	(22,093)	(19,089)	632,746
Total comprehensive income (loss)	-	-	-	-	23,740,792	1,105,348	-	(22,093)	(19,089)	24,804,958
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(172,210)	-	-	172,210	-	-
Earnings distribution for 2017										
Cash dividends	-	-	-	-	(12,804,350)	-	-	-	-	(12,804,350)
Legal reserve	-	-	6,457,023	-	(6,457,023)	-	-	-	-	-
Special reserve	-	-	-	535,745	(535,745)	-	-	-	-	-
Reversal of special reserve	-	-	-	(726)	726	-	-	-	-	-
Balance, December 31, 2018	$ 85,362,336	$ 62,219,540	$ 86,147,870	$ 4,535,074	$ 39,333,671	($ 1,608,022)	$ -	$ 6,921,933	($ 51,668)	$ 282,860,734
For the year ended December 31, 2018 (US Dollars - Unaudited)										
Balance, January 1, 2018	$ 2,777,546	$ 2,024,519	$ 2,593,006	$ 130,155	$ 1,139,766	($ 88,288)	$ 9,600	$ -	$ -	$ 8,586,304
Effects of retrospective application and retrospective restatement	-	-	-	-	17,344	-	(9,600)	220,343	(1,060)	227,027
Balance at January 1 after adjustments	2,777,546	2,024,519	2,593,006	130,155	1,157,110	(88,288)	-	220,343	(1,060)	8,813,331
Net income for the year of 2018	-	-	-	-	786,523	-	-	-	-	786,523
Other comprehensive income (loss) for the year of 2018	-	-	-	-	(14,037)	35,966	-	(719)	(621)	20,589
Total comprehensive income (loss)	-	-	-	-	772,486	35,966	-	(719)	(621)	807,112
Disposal of investments in equity instruments designated at fair value through other comprehensive income	-	-	-	-	(5,604)	-	-	5,604	-	-
Earnings distribution for 2017										
Cash dividends	-	-	-	-	(416,632)	-	-	-	-	(416,632)
Legal reserve	-	-	210,100	-	(210,100)	-	-	-	-	-
Special reserve	-	-	-	17,432	(17,432)	-	-	-	-	-
Reversal of special reserve	-	-	-	(23)	23	-	-	-	-	-
Balance, December 31, 2018	$ 2,777,546	$ 2,024,519	$ 2,803,106	$ 147,564	$ 1,279,851	($ 52,322)	$ -	$ 225,228	($ 1,681)	$ 9,203,811

(Continued)

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
STATEMENTS OF CHANGES IN EQUITY
(EXPRESSED IN THOUSANDS OF DOLLARS)

			Retained earnings			Other equity interest				
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated Earnings	Exchange differences on translation of foreign financial statements	Unrealized gains (losses) on available-for-sale financial assets	Unrealised gains (losses) on financial assets measured at fair value through other comprehensive income	Others	Total
For the year ended December 31, 2017(NT Dollars)										
Balance, January 1, 2017	$ 85,362,336	$ 62,219,540	$ 73,987,859	$ 3,873,832	$ 33,582,479	($ 926,233)	($ 535,566)	$ -	$ -	$ 257,564,247
Net income for the year of 2017	-	-	-	-	21,523,410	-	-	-	-	21,523,410
Other comprehensive income (loss) for the year of 2017	-	-	-	-	(1,443,889)	(1,787,137)	830,592	-	-	(2,400,434)
Total comprehensive income (loss)	-	-	-	-	20,079,521	(1,787,137)	830,592	-	-	19,122,976
Earnings distribution for 2016										
Cash dividends	-	-	-	-	(12,804,350)	-	-	-	-	(12,804,350)
Legal reserve	-	-	5,702,988	-	(5,702,988)	-	-	-	-	-
Special reserve	-	-	-	126,223	(126,223)	-	-	-	-	-
Balance, December 31, 2017	$ 85,362,336	$ 62,219,540	$ 79,690,847	$ 4,000,055	$ 35,028,439	($ 2,713,370)	$ 295,026	$ -	$ -	$ 263,882,873

(Blank below)

MEGA INTERNATIONAL COMMERCIAL BANK CO., LTD.
STATEMENTS OF CASH FLOWS
(EXPRESSED IN THOUSANDS OF DOLLARS)

	For the years ended December 31,		
	2018		2017
	NT$	US$	NT$
CASH FLOWS FROM OPERATING ACTIVITIES		(Unaudited)	
Profit before tax	$ 26,636,996	$ 866,723	$ 24,237,489
Adjustments			
Adjustments to reconcile profit (loss)			
Bad debts expense, commitment and guarantee liability provisions	2,083,618	67,797	4,371,190
Depreciation expense	606,527	19,736	523,596
Amortization expense	5,597	182	6,039
Interest income	(64,295,176)	(2,092,057)	(53,202,794)
Dividend income	(1,296,312)	(42,180)	(962,590)
Interest expense	28,292,331	920,585	19,650,049
Share of loss (profit) of associates and joint ventures accounted for using equity method	(470,429)	(15,307)	(471,613)
Gain on disposal of property and equipment	(752)	(24)	(1,262)
(Reversal of impairment loss) impairment loss on assets	(82,888)	(2,697)	205,179
Loss on retirement of property and equipment	3,965	129	32
Changes in operating assets and liabilities			
Decrease in due from the central bank and call loans to banks	17,456,985	568,021	34,950,178
(Increase) decrease in financial assets at fair value through profit or loss	(10,298,944)	(335,110)	3,695,683
Increase in financial assets at fair value through other comprehensive income	(20,598,506)	(670,241)	-
Decrease in investments in debt instruments measured at amortised cost	52,400,304	1,705,018	-
(Increase) decrease in receivables	(1,011,718)	(32,920)	785,631
Increase in discounts and loans	(103,665,449)	(3,373,099)	(50,966,689)
Increase in available-for-sale financial assets	-	-	(71,282,208)
Increase in held-to-maturity financial assets	-	-	(3,289,159)
Increase in other financial assets	(24,793)	(807)	(569,350)
Decrease (increase) in other assets	66,173	2,153	(1,258,268)
Increase (decrease) in due to the Central Bank and banks	18,727,695	609,368	(16,108,926)
Increase (decrease) in financial liabilities at fair value through profit or loss	17,917,813	583,015	(2,618,436)
Increase in securities sold under repurchase agreements	26,073,518	848,388	403,447
(Decrease) increase in payable	(2,167,147)	(70,515)	2,739,396
(Decrease) increase in deposits and remittances	(64,179,720)	(2,088,300)	216,081,770
Increase in other financial liabilities	1,559,761	50,752	385,652
Increase in provisions for employee benefits	467,696	15,218	159,054
Decrease in other liabilities	(603,501)	(19,637)	(38,645)
Interest received	63,672,911	2,071,809	52,347,611
Dividends received	1,721,281	56,008	1,307,367
Interest paid	(27,302,849)	(888,389)	(19,037,239)
Income taxes paid	(2,416,890)	(78,641)	(3,821,882)
Net cash flows from operating activities	(40,721,903)	(1,325,022)	138,220,302
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from capital reduction of financial assets at cost	-	-	387,056
Acquisitions of property and equipment	(668,114)	(21,739)	(848,802)
Proceeds from disposal of property and equipment	752	24	6,621
Net cash used in investing activities	(667,362)	(21,715)	(455,125)
CASH FLOWS FROM FINANCING ACTIVITIES			
Increase in guarantee deposits received	363,674	11,833	1,150,655
Increase (decrease) in due to the central bank and banks	24,695,942	803,564	(6,466,090)
Cash dividends paid	(12,804,350)	(416,632)	(12,804,350)
Decrease in financial bonds payable	(12,600,000)	(409,982)	(10,300,000)
Net cash flows used in financing activities	(344,734)	(11,217)	(28,419,785)
EFFECT OF EXCHANGE RATE CHANGES	619,448	20,156	(1,780,612)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(41,114,551)	(1,337,798)	107,564,780
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	527,754,119	17,172,229	420,189,855
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 486,639,568	$ 15,834,431	$ 527,754,635
CASH AND CASH EQUIVALENTS COMPOSITION:			
Cash and cash equivalents reported in the statement of financial position	$ 121,851,667	$ 3,964,848	$ 134,573,043
Due from the central bank and call loans to banks qualifying for cash and cash equivalents under the definition of IAS 7	360,793,431	11,739,610	391,484,006
Securities purchased under resell agreements qualifying for cash and cash equivalents under the definition of IAS 7	3,994,470	129,973	1,697,586
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 486,639,568	$ 15,834,431	$ 527,754,635

Head Office

No.100, Chi-lin Rd., Chung-shan Dist., Taipei 10424, Taiwan
Tel: +886-2-25633156
Fax: +886-2-23568936

As of May 30, 2019

Management Team

Chao-Shun Chang, Chairman of the Board
Yong-Yi Tsai, President
Shiow Lin, Senior Executive Vice President
Chen-Shan Lee, Senior Executive Vice President
Ruey-Yuan Fu, Senior Executive Vice President
Yu-Mei Hsiao Senior Executive Vice President
Kuo-Pao Chen, Senior Executive Vice President
Chao-Jung Chen, Senior Executive Vice President
Fu-Yung Chen, Senior Executive Vice President & General Manager
Hui-Lin Wu, Chief Compliance Officer
Yung-Chen Huang, Chief Auditor

Department	Manager & Title	Fax Number
Auditing Department	Yung-Chen Huang Chief Auditor	+886-2-23569801
Planning Department	Tzu-Yuan Yang Vice President & General Manager	+886-2-25633122
Compliance Department	Hung Tseng Vice President & General Manager	+886-2-25632004
Anti-Money Laundering & Financial Crime Compliance Department	Nian-Tzy Yeh Senior Vice President & General Manager	+886-2-25230081
Corporate Banking Business Department	Jian-Pyng Lee Vice President & General Manager	+886-2-25625669
Business Administration Department	Ming-Jong Lin Vice President & General Manager	+886-2-23935116
Foreign Exchange Business Management Department	Su-Mei Lin Vice President & General Manager	+886-2-25230081
Operation Center	Jin-Chich Lee Senior Vice President & General Manager	+886-2-23569445
Overseas Business Planning Department	Cheng-Chian Tsao Senior Vice President & General Manager	+886-2-23569169
Overseas Business Management Department	Ta-Sheng Chen Senior Vice President & General Manager	+886-2-23569465
Treasury Department	Shiow-Ling Wu Vice President & General Manager	+886-2-25613395
Direct Investment Department	Pi-Tien Chen Vice President & General Manager	+886-2-25630950

Department	Manager & Title	Fax Number
Consumer Banking Business Department	Wen-Yung Hsieh Senior Vice President & General Manager	+886-2-25377632
Card Department	Chung-Hsiang Lin Vice President & General Manager	+886-2-89822202
Trust Department	Yu-Mei Chiu Vice President & General Manager	+886-2-25235002
Wealth Management Department	Chun-Fu Chen Senior Vice President & General Manager	+886-2-25631601
Credit Control Department	Tung-Lung Wu Senior Vice President & General Manager	+886-2-25310691
Risk Management Department	Hui-Ling Yu Vice President & General Manager	+886-2-23568506
Credit Analysis Department	Te-Jen Hsu Vice President & General Manager	+886-2-25711352
Overdue Loan & Control Department	Chi-Ho Chen Vice President & General Manager	+886-2-23560580
Digital Banking Department	Hsiu-Ho Hsu Senior Vice President & General Manager	+886-2-25633267
Data Processing & Information Department	Kao-Hui Hsu Senior Vice President & General Manager	+886-2-23416430
Information Security Department	Ing-Jun Kuo Vice President & General Manager	+886-2-23416430
Controller's Department	Ching-Yi Li Senior Vice President & Controller	+886-2-23568601
Human Resources Department	Yue-Gean Kuo Senior Vice President & General Manager	+886-2-23569531
General Affairs and Occupational Safety & Health Department	Yia-Shu Lin Senior Vice President & General Manager	+886-2-23568936
Legal Affairs Office	Ling-Chiun Lin Vice President & General Manager	+886-2-25317230
Public Relations Office	Hsiu-Ling Tsai Vice President & General Manager	+886-2-25516530

Domestic Branches

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Foreign Department	Yu-Chuan Lu Senior Vice President & General Manager	No.100, Chi-lin Rd., Chung-shan Dist., Taipei 10424, Taiwan	+886-2-25633156	+886-2-25632614
Heng Yang Branch	Wei-Shing Fan Vice President & General Manager	No.91, Heng-yang Rd., Chung-cheng Dist., Taipei 10009, Taiwan	+886-2-23888668	+886-2-23885000
Cheng Chung Branch	Shu-Chin Chen Vice President & General Manager	No.42, Hsu-chang St., Chung-cheng Dist., Taipei 10047, Taiwan	+886-2-23122222	+886-2-23111645
Ministry of Foreign Affairs Branch	Hsiu- Junj Kan Vice President & General Manager	Room 129, No.2, Kaitakelan Blvd., Chung-cheng Dist., Taipei 10048, Taiwan	+886-2-23482065	+886-2-23811858
Central Branch	Shiou-Mei Lin Senior Vice President & General Manager	No.123, Sec.2, Jhong-siao E. Rd., Chung-cheng Dist., Taipei 10058, Taiwan	+886-2-25633156	+886-2-23569750
South Taipei Branch	Hseigh-Fang Chuang Vice President & General Manager	No.9-1, Sec.2, Roosevelt Rd., Chung-cheng Dist., Taipei 10093, Taiwan	+886-2-23568700	+886-2-23922533
Ta Tao Cheng Branch	Chien-Ting Liu Vice President & General Manager	No.62-5, Hsi-ning N. Rd., Dah-tong Dist., Taipei 10343, Taiwan	+886-2-25523216	+886-2-25525627
Dah Tong Branch	Chun-Ju Lin Vice President & General Manager	No.113, Nan-king W. Rd., Dah-tong Dist., Taipei 10355, Taiwan	+886-2-25567515	+886-2-25580154
Yuan Shan Branch	Yu-Sheng Cheng Vice President & General Manager	No.133, Sec.2, Zhong-shan N. Rd., Zhong-shan Dist., Taipei 10448, Taiwan	+886-2-25671488	+886-2-25817690
Chung Shan Branch	Lian-Yuh Tsai Vice President & General Manager	No.15, Sec.2, Chung-shan N. Rd., Chung-shan Dist., Taipei 10450, Taiwan	+886-2-25119231	+886-2-25635554
Nanking East Road Branch	Shu-Ching Tung Vice President & General Manager	No.53, Sec.2, Nan-king E. Rd., Chung-shan Dist., Taipei 10457, Taiwan	+886-2-25712568	+886-2-25427152
North Taipei Branch	Choun-Chau Tsai Vice President & General Manager	No.156-1, Sung-chiang Rd., Chung-shan Dist., Taipei 10459, Taiwan	+886-2-25683658	+886-2-25682494
Taipei Fusing Branch	Shaw-Hwa Su Senior Vice President & General Manager	No.198, Sec.3, Nan-king E. Rd., Chung-shan Dist., Taipei 10488, Taiwan	+886-2-27516041	+886-2-27511704
Taipei Airport Branch	Wei-Chen Lee Vice President & General Manager	Taipei Sungshan Airport Building, No.340-9, Tun-hua N. Rd., Sung-shan Dist., Taipei 10548, Taiwan	+886-2-27152385	+886-2-27135420
Dun Hua Branch	Tsu-yung Ni Vice President & General Manager	No.88-1, Dun-hua N. Rd., Sung-shan Dist., Taipei 10551, Taiwan	+886-2-87716355	+886-2-87738655
Sung Nan Branch	Hsiu-Chu Wu Vice President & General Manager	No.234, Sec.5, Nan-king E. Rd., Sung-shan Dist., Taipei 10570, Taiwan	+886-2-27535856	+886-2-27467271
East Taipei Branch	Hsun-Chin Chan Vice President & General Manager	No.52, Sec.4, Min-sheng E. Rd., Sung-shan Dist., Taipei 10574, Taiwan	+886-2-27196128	+886-2-27196261

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Ming Sheng Branch	Su-Ting Cheng Vice President & General Manager	No.128, Sec.3, Ming-sheng E. Rd., Sung-shan Dist., Taipei 10596, Taiwan	+886-2-27190690	+886-2-27190688
Ta An Branch	Ping-Sen Liang Vice President & General Manager	No.182, Sec.3, Hsin-yi Rd., Ta-an Dist., Taipei 10658, Taiwan	+886-2-27037576	+886-2-27006352
An Ho Branch	Chih-Haw Liu Vice President & General Manager	No.62, Sec.2, An-ho Rd., Ta-an Dist., Taipei 10680, Taiwan	+886-2-27042141	+886-2-27042075
Tun Nan Branch	Ben-Min Liao Vice President & General Manager	No.62, Sec.2, Tun-hua S. Rd., Ta-an Dist., Taipei 10683, Taiwan	+886-2-27050136	+886-2-27050682
Chung Hsiao Branch	Tsuey-Ping Chang Vice President & General Manager	No.233, Sec.4, Chung-hsiao E. Rd., Ta-an Dist., Taipei 10692, Taiwan	+886-2-27711877	+886-2-27711486
World Trade Center Branch	Hui-Ru Kang Vice President & General Manager	1F, No.333, Sec.1, Keelung Rd., Hsin-yi Dist., Taipei 11012, Taiwan	+886-2-27203566	+886-2-27576144
Hsin Yi Branch	Shih-Tsung Hsu Vice President & General Manager	No.65, Sec.2, Keelung Rd., Hsin-yi Dist., Taipei 11052, Taiwan	+886-2-23788188	+886-2-23772515
Taipei Branch	Ray-Lin Liao Senior Vice President & General Manager	No.550, Sec.4, Chung-hsiao E. Rd., Hsin-yi Dist., Taipei 11071, Taiwan	+886-2-27587590	+886-2-27581265
Lan Ya Branch	Teh-Ming Wang Senior Vice President & General Manager	No.126, Sec.6, Chung-shan N. Rd., Shih-lin Dist., Taipei 11155, Taiwan	+886-2-28385225	+886-2-28341483
Tien Mou Branch	Wen-Yann Wang Vice President & General Manager	No.193, Sec.7, Chung-shan N. Rd., Shih-lin Dist., Taipei 11156, Taiwan	+886-2-28714125	+886-2-28714374
Nei Hu Branch	Hong-Yeh Lee Vice President & General Manager	No.68, Sec.4, Cheng-kung Rd., Nei-hu Dist., Taipei 11489, Taiwan	+886-2-27932050	+886-2-27932048
Nei Hu Science Park Branch	Ming-Feng Lee Vice President & General Manager	No.472, Jui-kuang Rd., Nei-hu Dist., Taipei 11492, Taiwan	+886-2-87983588	+886-2-87983536
East Nei Hu Branch	Chun-Yi Hou Vice President & General Manager	No.202, Kang-chien Rd., Nei-hu Dist., Taipei 11494, Taiwan	+886-2-26275699	+886-2-26272988
Nan Gang Branch	Hsiu-Yuan Lu Vice President & General Manager	No.21-1, Sec.6, Jhong-siao E. Rd., Nan-gang Dist., Taipei 11575, Taiwan	+886-2-27827588	+886-2-27826685
Keelung Branch	Chuen-Yeou Yeh Vice President & General Manager	No.24, Nan-jung Rd., Ren-ai Dist., Keelung 20045, Taiwan	+886-2-24228558	+886-2-24294089
Ban Qiao Branch	Meng-Hsia Tsai Vice President & General Manager	No.51, Sec.1, Wen-hua Rd., Banqiao Dist., New Taipei City 22050, Taiwan	+886-2-29608989	+886-2-29608687
South Banqiao Branch	Jen-Huei Chen Vice President & General Manager	No.148, Sec.2, Nan-ya S. Rd., Banqiao Dist., New Taipei City 22060, Taiwan	+886-2-89663303	+886-2-89661421
Xin Dian Branch	Pei-Hong Wu Vice President & General Manager	No.173, Sec.2, Bei-xin Rd., Xindian Dist., New Taipei City 23143, Taiwan	+886-2-29182988	+886-2-29126480
Shuang He Branch	Chi-Huang Wu Vice President & General Manager	No.67, Sec.1, Yong-he Rd., Yonghe Dist., New Taipei City 23445, Taiwan	+886-2-22314567	+886-2-22315288

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Yong He Branch	Yu-Chyong Luo Vice President & General Manager	No.201, Fuhe Rd., Yong-he Dist., New Taipei City 23450, Taiwan	+886-2-29240086	+886-2-29240074
Zhong He Branch	Hsiu-Chin Hsin Vice President & General Manager	No.124, Sec.2, Zhong-shan Rd., Zhonghe Dist., New Taipei City 23555, Taiwan	+886-2-22433567	+886-2-22433568
Tu Cheng Branch	Yen-Hsing Yu Vice President & General Manager	No.276, Sec.2, Zhong-yang Rd., Tucheng Dist., New Taipei City 23669, Taiwan	+886-2-22666866	+886-2-22668368
South San Chong Branch	Chung-Hao Liao Vice President & General Manager	No.128, Sec.3, Chong-xin Rd., Sanchong Dist., New Taipei City 24143, Taiwan	+886-2-29748811	+886-2-29724901
San Chong Branch	Shoei-Bin Lin Vice President & General Manager	No.99, Sec.3, Chong-yang Rd., Sanchong Dist., New Taipei City 24145, Taiwan	+886-2-29884455	+886-2-29837225
Xin Zhuang Branch	An-Chang Chen Vice President & General Manager	No.421, Si-yuan Rd., Xinzhuang Dist., New Taipei City 24250, Taiwan	+886-2-22772888	+886-2-22772881
Si Yuan Branch	Chin-Kun Kuo Vice President & General Manager	No.169, Si-yuan Rd., Xinzhuang Dist., New Taipei City 24250, Taiwan	+886-2-29986661	+886-2-29985973
Yi Lan Branch	Chyi-Yee Chen Senior Vice President & General Manager	No.338, Min-zu Rd., Yilan City, Yilan County 26048, Taiwan	+886-3-9310666	+886-3-9311167
Lo Tung Branch	Peng-Cheng Tai Vice President & General Manager	No.195, Sec.2, Chun-ching Rd., Lo-tung Town, Ilan County 26549, Taiwan	+886-3-9611262	+886-3-9611260
Chung Li Branch	Su-Min Liu Vice President & General Manager	No.46, Fu-hsing Rd., Chung-li Dist.,, Tao-yuan City 32041, Taiwan	+886-3-4228469	+886-3-4228455
North Chung Li Branch	Po-Tien Tsai Vice President & General Manager	No.406, Huan-bei Rd., Chung-li Dist., Tao-yuan City 32070, Taiwan	+886-3-4262366	+886-3-4262135
Tao Yuan Branch	Fu-San Lin Vice President & General Manager	No.2, Sec.2, Cheng-kung Rd., Tao-yuan Dist., Tao-yuan City 33047, Taiwan	+886-3-3376611	+886-3-3351257
Tao Hsin Branch	Tsung-Che Liang Vice President & General Manager	No.180, Fu-hsin Rd., Tao-yuan Dist., Tao-yuan City 33066, Taiwan	+886-3-3327126	+886-3-3339434
Pa Teh Branch	Ling-Hua Lin Vice President & General Manager	No.19, Da-jhih Rd., Pa-teh Dist., Tao-yuan City 33450, Taiwan	+886-3-3665211	+886-3-3764012
Tao Yuan International Airport Branch	Kuo-Liang Sun Vice President & General Manager	No.15, Hang-jan S. Rd., Da-yuan Dist., Tao-yuan City 33758, Taiwan	+886-3-3982200	+886-3-3834315
Nan Kan Branch	Hsin-Yuan Cheng Vice President & General Manager	No.33, Zhong-zheng Rd., Luzhu Dist., Tao-yuan City 33861, Taiwan	+886-3-3525288	+886-3-3525290
Hsinchu Branch	Sun-Ho Lee Vice President & General Manager	1F, 2F, No.417-419, Sec.2, Gongdao 5th Rd., Hsinchu City 30069, Taiwan	+886-3-5733399	+886-3-5733311

Branch Name	Manager & Title	Address	Phone Number	Fax Number
North Hsinchu Branch	Shu-Te Hsu Vice President & General Manager	No.129, Chung-cheng Rd., Hsinchu City 30051, Taiwan	+886-3-5217171	+886-3-5262642
Hsinchu Science Park Chu-tsuen Branch	Chien-Chih Kuo Vice President & General Manager	No.21, Chu-tsuen 7th Rd., Hsinchu Science Park, Hsinchu City 30075, Taiwan	+886-3-5773155	+886-3-5778794
Hsinchu Science Park Hsin-an Branch	Yung-Cheng Yeh Senior Vice President & General Manager	No.1, Hsin-an Rd., Hsinchu Science Park, Hsinchu City 30076, Taiwan	+886-3-5775151	+886-3-5774044
Jhu Bei Branch	Hui-Ming Lin Vice President & General Manager	No.155, Guang-ming 1st Rd., Jhu-bei City, Hsinchu County 30259, Taiwan	+886-3-5589968	+886-3-5589998
Zhunan Science Park Branch	Su-jen Chen Vice President & General Manager	Rm.105, 1F No.36, Ke-yan Rd., Zhunan Township, Miaoli County 35053, Taiwan	+886-37-682288	+886-37-682416
Tou Fen Branch	Tsan-Yu Yang Vice President & General Manager	No.916, Chung-hwa Rd., Tou-fen City, Miao-li County 35159, Taiwan	+886-37-688168	+886-37-688118
Taichung Branch	Rei-Chan Tsai Senior Vice President & General Manager	No.216, Ming-chuan Rd., Central Dist., Taichung 40041, Taiwan	+886-4-22281171	+886-4-22241855
Central Taichung Branch	Chung-Yang Liao Vice President & General Manager	No.194, Sec.1, San-min Rd., West Dist., Taichung 40343, Taiwan	+886-4-22234021	+886-4-22246812
South Taichung Branch	Ming-Kuang Lee Senior Vice President & General Manager	No.257, Sec.1, Wu-chuan W. Rd., West Dist., Taichung 40347, Taiwan	+886-4-23752529	+886-4-23761670
East Taichung Branch	Yow-Der Wang Vice President & General Manager	No.330, Chin-hwa N. Rd., North Dist., Taichung 40457, Taiwan	+886-4-22321111	+886-4-22368621
North Taichung Branch	Shu-Er Huang Senior Vice President & General Manager	No.96, Sec.3, Taiwan Blvd., Xitun Dist., Taichung 40756, Taiwan	+886-4-23115119	+886-4-23118743
Pouchen Branch	De-Chung Liao Vice President & General Manager	No.600, Sec.4, Taiwan Blvd., Xitun Dist., Taichung 40764, Taiwan	+886-4-24619000	+886-4-24613300
Rung Tzung Branch	Ching-Shien Li Vice President & General Manager	No.1650, Sec.4, Taiwan Blvd., Xitun Dist., Taichung 40705, Taiwan	+886-4-23500190	+886-4-23591281
Tai Ping Branch	Hung-Fuh Wu Vice President & General Manager	No.152, Zhong-xing E. Rd., Taiping Dist., Taichung 41167, Taiwan	+886-4-22789111	+886-4-22777546
Da Li Branch	Ya-Ling Chen Vice President & General Manager	No.600, Shuang-wen Rd., Dali Dist., Taichung 41283, Taiwan	+886-4-24180929	+886-4-24180629
Feng Yuan Branch	Tzu-Chen Kung Senior Vice President & General Manager	No.519, Zhong-zheng Rd., Fengyuan Dist., Taichung 42056, Taiwan	+886-4-25285566	+886-4-25274580
Hou Li Branch	Su-Li Lai Vice President & General Manager	No.666, Sec.1, Jia-hou Rd., Houli Dist., Taichung 42144, Taiwan	+886-4-25588855	+886-4-25580166
Tan Zi Branch	Chien-Ping Wu Vice President & General Manager	No.3, Nan 2nd Rd., T.E.P.Z., Tanzi Dist., Taichung 42760, Taiwan	+886-4-25335111	+886-4-25335110

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Central Taiwan Science Park Branch	Chih-Hung Chen Vice President & General Manager	2F., No.28, Ke-ya Rd., Daya Dist., Taichung 42881, Taiwan	+886-4-25658108	+886-4-25609230
Sha Lu Branch	Hsu-Kuang Hsu Vice President & General Manager	No.533, Zhong-shan Rd., Shalu Dist., Taichung 43344, Taiwan	+886-4-26656778	+886-4-26656399
Da Jia Branch	Teih-Tsang Liang Vice President & General Manager	No.1033, Sec.1, Zhong-shan Rd., Dajia Dist., Taichung 43744, Taiwan	+886-4-26867777	+886-4-26868333
North Changhua Branch	Wu-Hsin Tsai Vice President & General Manager	No.39, Kuang-fuh Rd., Changhua City, Changhua County 50045, Taiwan	+886-4-7232111	+886-4-7243958
South Changhwa Branch	Kuo-Chih Hsu Vice President & General Manager	No.401, Sec.1, Chung-shan Rd., Changhwa City, Changhwa County 50058, Taiwan	+886-4-7613111	+886-4-7622656
Lu Gang Branch	Kuan-Yu Wu Vice President & General Manager	No.254, Zhong-shan Rd., Lu-gang Town, Changhua County 50564, Taiwan	+886-4-7788111	+886-4-7788600
Yuan Lin Branch	Fu-Kuei Wu Vice President & General Manager	No.338, Sec.1, Da-tong Rd., Yuan-lin City, Changhua County 51056, Taiwan	+886-4-8332561	+886-4-8359359
Nan Tou Branch	Chia-Ming Dia Vice President & General Manager	No.45, Wen-chang St., Nan-tou City, Nan-tou County 54048, Taiwan	+886-49-2232223	+886-49-2232758
Dou Liu Branch	Chui-Ping Chiang Vice President & General Manager	No.1, Shang-hai Rd., Dou-liu City, Yun-lin County 64048, Taiwan	+886-5-5361779	+886-5-5337830
Chia Yi Branch	Shu-Kwei Chang Vice President & General Manager	No.259, Wen-hua Rd., Chia-yi City 60044, Taiwan	+886-5-2241166	+886-5-2255025
Chia Hsin Branch	Shoh-Chi Doong Vice President & General Manager	No.379, Wu-fong N. Rd., Chia-yi City 60045, Taiwan	+886-5-2780148	+886-5-2769252
Tainan Branch	Hsuan-Shu Chen Senior Vice President & General Manager	No.14, Sec.2, Chung-yi Rd., Tainan 70041, Taiwan	+886-6-2292131	+886-6-2224826
Tainan Fucheng Branch	Chyi-Fure Jiang Vice President & General Manager	No.90, Chung-shan Rd., Tainan 70043, Taiwan	+886-6-2231231	+886-6-2203771
East Tainan Branch	Yi-Ren Hwang Vice President & General Manager	No.225, Sec.1, Chang-jung Rd., Tainan 70143, Taiwan	+886-6-2381611	+886-6-2378008
Yong Kang Branch	Yaw-Ching Tseng Vice President & General Manager	No.180, Zhong-shan Rd., Yongkang Dist., Tainan 71090, Taiwan	+886-6-2019389	+886-6-2016251
Tainan Science Park Branch	Ya-Li Tseng Vice President & General Manager	No.13, Nan-ke 3rd Rd., Xinshi Dist., Tainan 74147, Taiwan	+886-6-5052828	+886-6-5051791
Cheng Gong Branch	Ming-Jane Lin Vice President & General Manager	No.88, Chenggong 2nd Rd., Qianzhen Dist., Kaohsiung 80661, Taiwan.	+886-7-5352000	+886-7-3312866
Wu Fu Branch	Wen-Jiaw Hung Vice President & General Manager	No.82, Wu-fu 2nd Rd., Hsin-hsing Dist., Kaohsiung 80043, Taiwan	+886-7-2265181	+886-7-2260919
Hsin Hsing Branch	Guang-Huei Lu Vice President & General Manager	No.308, Chung-shan 1st Rd., Hsin-hsing Dist., Kaohsiung 80049, Taiwan	+886-7-2353001	+886-7-2350962

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Kaohsiung Branch	Tsair-Quey Chang Vice President & General Manager	No.235, Chung-cheng 4th Rd., Qian-jin Dist., Kaohsiung 80147, Taiwan	+886-7-2515111	+886-7-2212554
Kaohsiung Metropolitan Branch	Chen-Hui Chen Vice President & General Manager	No.253, Chung-cheng 4th Rd., Qian-jin Dist., Kaohsiung 80147, Taiwan	+886-7-2510141	+886-7-2811426
Ling Ya Branch	Chun-Hsia Chien Vice President & General Manager	No.8, Sze-wei 4th Rd., Ling-ya Dist., Kaohsiung 80247, Taiwan	+886-7-3355595	+886-7-3355695
San Tuo Branch	Feng-Wen Chen Vice President & General Manager	No.93, San-tuo 2nd Rd., Ling-ya Dist., Kaohsiung 80266, Taiwan	+886-7-7250688	+886-7-7211012
San Min Branch	Shih-Hsun Chien Vice President & General Manager	No.225, Chung-hua 1st Rd., Gu-shan Dist., Kaohsiung 80455, Taiwan	+886-7-5536511	+886-7-5224202
Kaohsiung Fishing Port Branch	Chun-Nan Chen Vice President & General Manager	Room 107, No.3, Yu-kang E. 2nd Rd., Kaohsiung 80672, Taiwan	+886-7-8219630	+886-7-8117912
Kaohsiung Export Processing Zone Branch	Chong-Yin Lee Vice President & General Manager	No.2, Chung 4th Rd., Kaohsiung Export Processing Zone, Kaohsiung 80681, Taiwan	+886-7-8316131	+886-7-8314393
North Kaohsiung Branch	Yao-Yu Kuo Vice President & General Manager	No.532, Chiu-ju 2nd Rd., Kaohsiung 80745, Taiwan	+886-7-3157777	+886-7-3155506
East Kaohsiung Branch	Charng-Er Kuo Vice President & General Manager	No.419, Ta-shun 2nd Rd., Kaohsiung 80787, Taiwan	+886-7-3806456	+886-7-3806608
Nan Tze Branch	Hsiao-Chin Ma Vice President & General Manager	No.600-1, Chia-chang Rd., Nantze Export Processing Zone, Kaohsiung 81170, Taiwan	+886-7-3615131	+886-7-3633043
Chung Kang Branch	Yu-Chuan Chu Vice President & General Manager	No.1, Chung-kang Rd., Kaohsiung 81233, Taiwan	+886-7-8021111	+886-7-8034911
Kaohsiung International Airport Branch	Her-Song Pan Vice President & General Manager	Kaohsiung International Airport, No.2, Chung-shan 4th Rd., Kaohsiung 81252, Taiwan	+886-7-8067866	+886-7-8068841
Ren Wu Branch	Hui-Ling Yang Vice President & Acting General Manager	No.2, Zhong-zheng Rd., Renwu Dist., Kaohsiung 81451, Taiwan	+886-7-3711144	+886-7-3740764
Gang Shan Branch	Yeon-Chuan Chen Vice President & General Manager	No.138, Zhong-shan N. Rd., Gangshan Dist., Kaohsiung 82065, Taiwan	+886-7-6230300	+886-7-6230608
Feng Shan Branch	Yen-Ju Lee Vice President & General Manager	No.248, Zhong-shan W. Rd., Fengshan Dist., Kaohsiung 83068, Taiwan	+886-7-7473566	+886-7-7477566
Ping Tung Branch	Huey-Ru Chao Vice President & General Manager	No.213, Ming-tsu Rd., Ping-tung City, Ping-tung County 90078, Taiwan	+886-8-7323586	+886-8-7321651
Hua Lien Branch	Jen-Jhi Chen Vice President & General Manager	No.26, Kung-yuan Rd., Hua-lien City, Hua-lien County 97048, Taiwan	+886-3-8350191	+886-3-8360443
Kin Men Branch	Hung-Chi Lai Vice President & General Manager	No.37-5, Min-sheng Rd., Jin-cheng Town, Kin-men County 89345, Taiwan	+886-82-375800	+886-82-375900

Offshore Banking Branch, Overseas Branches & Representative Offices

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Offshore Banking Branch	Chien-Chuang Chien Vice President & General Manager	No.100, Chi-lin Rd., Chung-shan Dist., Taipei 10424, Taiwan	+886-2-25633156	+886-2-25637138
New York Branch	Fu-Yung Chen Senior Executive Vice President & General Manager	65 Liberty Street, New York, NY 10005, U.S.A. / 120, Broadway 13th & 21st Floor New York, NY 10271, U.S.A.	+1-212-6084222	+1-212-6084943
Los Angeles Branch	Yi-Ming Ko Senior Vice President & General Manager	445 South Figueroa Street, Suite 1900, Los Angeles, CA 90071, U.S.A.	+1-213-4893000	+1-213-4891183
Chicago Branch	Hung-Hui Chen Senior Vice President & General Manager	2 North La Salle Street, Suite 1803, Chicago, IL 60602, U.S.A.	+1-312-7829900	+1-312-7822402
Silicon Valley Branch	Szu-Yao Huang Vice President & General Manager	333 West San Carlos Street, Suite 100, Box 8, San Jose, CA 95110, U.S.A.	+1-408-2831888	+1-408-2831678
Canada Branch-Toronto Principal Office	Chi-Chu Liao Vice President & General Manager	4950 Yonge Street, Suite 1002, Toronto, Ontario, M2N 6K1, Canada	+1-416-9472800	+1-416-9479964
Canada Branch-Vancouver Office	Ming-Shan Wu Vice President & General Manager	1095 West Pender Street, Suite 1250, Vancouver, British Columbia, V6E 2M6, Canada	+1-604-6895650	+1-604-6895625
Panama Branch	Shih-Kuan Chuang Vice President & General Manager	Calle 50 Y Esquina Margarita A, de Vallarino, Entrada Nuevo Campo Alegre, Edificio MEGAICBC No.74, P.O. Box 0832-01598, Panama City, Republic of Panama	+507-2638108	+507-2638392
Paris Branch	Jing-Fong Chiou Vice President & General Manager	133 Rue de Tolbiac, 75013 Paris, France	+33-1-44230868	+33-1-45821844
Amsterdam Branch	Kuo-Hsiung Chen Vice President & General Manager	World Trade Center, Strawinskylaan 1203, 1077XX, Amsterdam, The Netherlands	+31-20-6621566	+31-20-6649599
London Branch	Li-Wen Kao Vice President & General Manager	4th Floor, Michael House, 35 Chiswell Street, London, EC1Y 4SE, United Kingdom	+44-20-75627350	+44-20-75627369
Sydney Branch	Chun-Yu Kuo Vice President & General Manager	Level 8, 10 Spring Street, Sydney NSW 2000, Australia	+61-2-92301300	+61-2-92335859
Brisbane Branch	Hung-Shi Chou Vice President & General Manager	Suite 1-3, 3 Zamia Street, Sunnybank, QLD 4109, Australia	+61-7-32195300	+61-7-32195200
Melbourne Branch	Yu-Song Chen Vice President & General Manager	Level 20, 459 Collins Street, Melbourne VIC 3000, Australia	+61-3-86108500	+61-3-96200600
Tokyo Branch	Chih-Liang Chen Senior Vice President & General Manager	7F, Kishimoto Bldg. No.2-1, Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-0005, Japan	+81-3-32116688	+81-3-32165686
Osaka Branch	Tsung-Hao Tsai Vice President & General Manager	4-11, 3-chome, Doshomachi, Chuo-ku, Osaka 541-0045, Japan	+81-6-62028575	+81-6-62023127
Manila Branch	Hsin-Tsai Tai Vice President & General Manager	3rd Floor, Pacific Star Bldg., Makati Avenue, Makati City, Philippines	+63-2-8115807	+63-2-8115815

Branch Name	Manager & Title	Address	Phone Number	Fax Number
Ho Chi Minh City Branch	Mao-Jung Chu Vice President & General Manager	Ground Floor, Landmark Building, 5B Ton Duc Thang, Dist 1, Ho Chi Minh City, Vietnam	+84-28-38225697	+84-28-38229191
Singapore Branch	Wen-Sheng Chiang Senior Vice President & General Manager	80 Raffles Place#23-20 UOB Plaza 2 Singapore 048624	+65-62277667	+65-62271858
Labuan Branch	Ching-Tsung Wang Vice President & General Manager	Level 7 (E2), Main Office Tower, Financial Park Labuan Complex, Jalan Merdeka, 87000 F. T. Labuan, Malaysia	+60-87-581688	+60-87-581668
Kuala Lumpur Marketing Office	Ching-Tsung Wang Vice President & General Manager	Suite 12-04, Level 12, Wisma Goldhill 67, Jalan Raja Chulan, 50200 Kuala Lumpur, Malaysia	+60-3-20266966	+60-3-20266799
Hong Kong Branch	Chien-Hung Chen Vice President & General Manager	Suite 2201&2205, 22/F, Prudential Tower, The Gateway, Harbour City, 21 Canton Road, Tsimshatsui, Kowloon, Hong Kong	+852-25259687	+852-25259014
Phnom Penh Branch	Chun-Hung Hsu Vice President & General Manager	No.139, St.274 Independent Monument, BKK I, Chamkarmorn, Phnom Penh, Cambodia	+855-23-988101	+855-23-217982
Phnom Penh Airport Sub-Branch	Yao-Tsung Huang Vice President & General Manager	No.601, Confederation De La Russie Blvd., Phum Porbrork Khangchoeung, Sangkat Karkab, Khan Porsenchey, Phnom Penh, Cambodia	+855-23-969656	+855-23-969661
Olympic Sub-Branch	Pei-Wuu Hsieh Vice President & General Manager	No.38B, Preah Monireth Blvd. (Street 217), Phum 10, Sangkat Toul Svay Prey 2, Khan Chamkarmorn, Phnom Penh, Cambodia	+855-23-988130	+855-23-988134
Tuol Kouk Sub-Branch	Chin-Lung Chou Vice President & General Manager	No.2A-2B, Street 315, Phum 8, Sangkat Boeng Kak 1, Khan Tuol Kouk, Phnom Penh, Cambodia	+855-23-884558	+855-23-884589
Suzhou Branch	Jing-Fu Yang Senior Vice President & General Manager	RM 104,1F, Jianwu Building, No.188, Wangdun Rd., Suzhou Industrial Park, Jiangsu, China	+86-512-62966568	+86-512-62966698
Wujiang Sub-Branch	Zen-Te Lin Vice President & General Manager	NO.768, Yundong Road, Wujiang Economic and Technological Development Zone, Suzhou, Jiangsu, China	+86-512-66086088	+86-512-66086006
Kunshan Sub-Branch	Yung-Chang Chen Vice President & General Manager	1F, No.180, Qianjin Middle Road, Kunshan, Suzhou, Jiangsu, China	+86-512-50376166	+86-512-50376169
Ningbo Branch	Ying-Chin Hsu Vice President & General Manager	No.1880 Zhongshan East Road, Jiangdong District, Ningbo, Zhejiang Province, China	+86-574-87283939	+86-574-87283737
Representative Office in Mumbai	Kuo-Cheng Hsu Vice President & Representative	203, Fl. 2, Accord, Opp. Bus Depot, Station Road., Goregoan (E) Mumbai 400 063, India	+91-22- 64646162	+91- 22-64646162
Representative Office in Yangon	Kuo-Cheng Hsu Vice President & Representative	Room 110, Prime Hill Business Square, No.60, Shwe Dagon Pagoda Road, Dagon Township, Yangon, Myanmar	+95-1-382-710 Ext. 11010	

Subsidiaries

Mega International Commercial Bank Public Co., Ltd.				
Branch Name	**Manager & Title**	**Address**	**Phone Number**	**Fax Number**
Head Office	Juei-Heng Chia President & Chief Executive Officer	36/12 P.S. Tower, Asoke, Sukhumvit 21 Road, Klongtoey-nua, Wattana, Bangkok 10110, Thailand	+66-2-2592000	+66-2-2591330
Chonburi Branch	Chiech Chang Vice President & General Manager	88/89 Moo 1, Sukhumvit Road, Huaykapi Sub-District, Muang District, Chonburi Province 20000, Thailand	+66-38-192158	+66-38-192117
Bangna Branch	Shih-Yung Wu Vice President & General Manager	MD Tower, 2nd Floor, Unit B, No.1, Soi Bangna-Trad 25, Bangna Sub-District, Bangna District Bangkok Province 10260, Thailand	+66-2-3986161	+66-2-3986157
Ban Pong Branch	Chung-Bong Chang Vice President & General Manager	99/47-48 Sonpong Road, Ban Pong, Ratchaburi 70110, Thailand	+66-32-222882	+66-32-221666
Rayong Branch	Yang-Der Fu Vice President & General Manager	500/125 Moo 3 Tambol Tasith, Amphur Pluak Daeng, Rayong Province 21140, Thailand	+66-33-211188	+66-33-211181

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Mega International Commercial Bank
No. 100, Chi-lin Road, Taipei 10424, Taiwan, R. O. C.
Tel:886-2-2563-3156 Fax:886-2-2356-8936
www.megabank.com.tw