2809

King's Town Bank Co., Ltd. and its subsidiaries

Consolidated Financial Statements and Independent Auditor's Review Report

January 1 to September 30, 2019

And January 1 to September 30, 2018

Address: No. 506, Section 1, Ximen Road, West Central District, Tainan City

Tel. No.: (06)213-9171

Consolidated financial statements

Index

Auditor’s Review Report

To: King's Town Bank Co., Ltd.

Introduction

We have reviewed the accompanying consolidated balance sheet of King's Town Bank Co., Ltd. and its subsidiaries as of September 30, 2019 and 2018, and the related consolidated income statement as of July 1 to September 30, 2019 and 2018, January 1 to September 30, 2019 and 2018, and the consolidated statement of changes in shareholders equity, consolidated statement of cash flows, and Note of the consolidated financial statements (including significant accounting policies) for January 1 to September 30, 2019 and 2018. The compilation of fairly presented financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Firms, and IAS 34, “Interim Financial Reporting,” enacted at the recognition of the Financial Supervisory Commission (FSC) is the responsibility of the management. Our responsibility is to express a conclusion on these consolidated financial statements based on our reviews.

Scope

We reviewed the consolidated financial statements in accordance with the Statement of Auditing Standard No. 65-“The Review of Financial Statements”. The procedure of reviewing the consolidated financial statements consists of the query (mainly interviews with the personnel charged with management responsibilities in finance and accounting), analysis, and other reviews. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

The review findings indicated that the consolidated financial statements as presented, in all material aspects, were compiled in conformity with the Regulations Governing the Preparation of Financial Reports by Public Banks, the Regulations Governing the Preparation of Financial Reports by Securities Firms, and IAS 34, “Interim Financial Reporting,” enacted at the recognition of the Financial Supervisory Commission (FSC), and nothing is in defiance of the aforementioned rules and standards which otherwise distorts the fair presentation of the consolidated financial position of King's Town Bank Co., Ltd. and its subsidiaries as of September 30, 2019 and 2018, and the consolidated financial performance as of July 1 to September 30, 2019 and 2018, January 1 to September 30, 2019 and 2018 and consolidated cash flow as of January 1 to September 30, 2019 and 2018 of respective fiscal year.

Remarks - application of new accounting standards

As stated in Note III in the consolidated financial statements, King's Town Bank Co., Ltd., and its subsidiaries have applied IFRS 16 "Leases" since January 1, 2019 and have chosen not to re-prepare the consolidated financial statements for the comparison periods. We did not revise the conclusion as a result.

Ernst & Young Global Limited

The competent authority approves the financial report of the public company

Auditing and Certification No.: Jin-Guan-Cheng-6-Zi No. 0950104133

Jin-Guan-Cheng-Shen-Zi No.: 1030025503

Shih Chieh Huang

CPA

Cheng Tao Chang

October 28, 2019

King's Town Bank Co., Ltd. and its subsidiaries

Consolidated Balance Sheet

September 30, 2019, December 31 and September 30, 2018

(Reviewed only on September 30, 2019 and 2018, not audited in accordance with the auditing standards generally accepted in the ROC)

Unit: NTD thousand

Assets			September 30, 2019		December 31, 2018		September 30, 2018	
Code	Account titles	Additional notes	Amount	%	Amount	%	Amount	%
10000	Assets							
11000	Cash and cash equivalents	IV/ VI.1	$2,837,985	1	$4,342,341	2	$4,408,747	2
11500	Due from Central Bank and lend to Banks	IV/ VI.2	9,750,530	3	13,844,758	5	13,442,379	5
12000	Financial assets at fair value through profit and loss	IV/ VI.3/ VIII	35,325,528	13	31,786,797	11	28,353,605	10
12100	Financial assets at fair value through other comprehensive income	IV/ VI.4, 26/ VIII	52,966,830	19	53,487,356	19	56,054,124	20
12200	Investment in debt instruments at amortised cost	IV/ VI.5, 26	17,998,103	6	17,597,996	6	16,598,110	6
12500	Bonds and securities sold under repurchase agreements	IV/ VI.6	105,070	-	624,167	-	954,043	-
13000	Receivables- net	IV/ VI.7	4,730,887	2	3,642,416	2	3,710,354	1
13200	Current income tax assets	IV/ VI.30	61,223	-	-	-	-	-
13500	Discounts and loans – net	IV/ V/ VI.8	152,857,642	55	152,229,752	54	158,218,276	56
15500	Other financial assets – net	IV/ VI.9	383	-	4,705	-	4,210	-
18500	Property, plant, and equipment – net	IV/ VI.10	2,613,967	1	2,388,923	1	2,385,153	-
18600	Right-of-use assets	III/ IV/ VI.27	220,528	-	-	-	-	-
19300	Deferred income tax assets	IV/ VI.30	159,106	-	266,927	-	270,003	-
19500	Other assets – net	VI.11	820,207	-	878,581	-	619,217	-
	Total assets		$280,447,989	100	$281,094,719	100	$285,018,221	100

(Refer to Note to the consolidated financial statements)

Chairman: Chen-Chih Tai Manager: Jih-Cheng Chang Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Balance Sheet (Continued)
September 30, 2019, December 31 and September 30, 2018
(Reviewed only on September 30, 2019 and 2018, not audited in accordance with the auditing standards generally accepted in the ROC)

Unit: NTD thousand

Liabilities and equity			September 30, 2019		December 31, 2018		September 30, 2018	
Code	Account titles	Additional notes	Amount	%	Amount	%	Amount	%
20000	Liabilities							
21000	Deposits from Central Bank and other banks	IV/ VI.12	$18,751,988	7	$19,937,251	7	$27,946,927	10
21500	Funds borrowed from Central Bank and other banks	VI.13	2,616,050	1	3,438,640	1	3,651,794	1
22000	Financial liabilities at fair value through profit and loss	IV/ VI.14	8,943	-	25,784	-	22,051	-
22500	Bills and bonds sold under repurchase agreements	IV/ VI.15	28,742,493	10	29,316,496	10	28,406,549	10
23000	Payables	VI.16	1,809,021	1	2,311,881	1	2,960,909	1
23200	Current Tax Liability	IV/ VI.30	-	-	404,846	-	447,865	-
23500	Customer deposits and remittances	VI.17	187,193,566	67	188,432,924	67	181,647,605	64
25500	Other financial liabilities	VI.18	1,190,000	-	1,230,000	1	1,500,000	1
25600	Provisions for liabilities	IV/ VI.19, 26	399,926	-	420,427	-	429,995	-
26000	Lease liabilities	III/ IV/ VI.27	221,804	-	-	-	-	-
29300	Deferred tax liabilities	IV/ VI.30	95,808	-	59,890	-	61,066	-
29500	Other liabilities	VI.21	309,992	-	332,519	-	316,625	-
	Total liabilities		241,339,591	86	245,910,658	87	247,391,386	87
31000	Equity of the parent company	VI.22						
31100	Capital stock		11,312,343	4	11,512,343	4	11,512,343	4
31500	Capital surplus		56,095	-	99,585	-	99,585	-
32000	Retained earnings							
32001	Legal reserve		10,418,637	4	9,555,297	3	9,555,297	3
32003	Special reserve		538,481	-	100,930	-	100,930	-
32011	Undistributed earnings		13,314,452	5	14,699,482	6	15,489,110	6
32500	Other equity	IV	3,468,390	1	(468,711)	-	869,570	-
32600	Treasury stock	IV	-	-	(314,865)	-	-	-
	Total equity		39,108,398	14	35,184,061	13	37,626,835	13
	Total Liabilities and Equity		$280,447,989	100	$281,094,719	100	$285,018,221	100

(Refer to Note to the consolidated financial statements)

Chairman: Chen-Chih Tai　　Manager: Jih-Cheng Chang　　Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries

Consolidated Income Statement

July 1 to September 30, 2019 and 2018, January 1 to September 30, 2019 and 2018

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

Unit: NTD thousand

Code	Account titles	Additional notes	July 1 to September 30, 2019		July 1 to September 30, 2018		January 1 to September 30, 2019		January 1 to September 30, 2018	
			Amount	%	Amount	%	Amount	%	Amount	%
41000	Interest revenue	IV	$1,690,644	87	$1,759,248	90	$5,125,631	81	$5,079,581	89
51000	Less: interest expense	IV	(518,624)	(27)	(477,080)	(25)	(1,593,951)	(25)	(1,327,278)	(23)
	Net interest income	VI.23	1,172,020	60	1,282,168	65	3,531,680	56	3,752,303	66
	Net income other than interest income									
49100	Service Fee, Net	IV/ VI.24	365,815	19	480,060	25	1,392,707	22	1,427,498	25
49200	Gain on financial assets and liabilities at fair value through profit and loss	IV/ VI.25	245,890	13	137,665	7	1,063,811	17	282,065	5
49310	Realized gain on financial assets at fair value through other comprehensive income	IV	79,656	4	37,111	2	93,188	1	43,341	1
49600	Net exchange gain (loss)	IV	11,436	1	(6,831)	-	161,169	2	79,047	1
49700	Gain (loss) on reversal of assets impairment	IV/ VI.26	472	-	(574)	-	(27,749)	-	60,474	1
49800	Net income other than interest income									
49863	Net gain from asset trade	IV	(64)	-	(62)	-	9,222	-	(24)	-
49899	Other net income		64,139	3	17,097	1	109,617	2	54,416	1
	Net revenue		1,939,364	100	1,946,634	100	6,333,645	100	5,699,120	100
58200	Bad debts, commitments, and guarantees reserve reversed (provision)	IV/ VI.7, 8, 26	(101,412)	(5)	(74,462)	(4)	(2,632,688)	(42)	(30,506)	(1)
58400	Operating expenses									
58500	Employee benefits expenses	VI.20, 28	(163,742)	(8)	(155,917)	(8)	(684,728)	(11)	(652,899)	(11)
59000	Depreciation and amortization expenses	IV/ VI.10, 27, 28	(32,298)	(2)	(13,080)	-	(92,394)	(1)	(36,115)	(1)
59500	Business and administrative expenses	IV	(204,391)	(11)	(194,334)	(10)	(583,875)	(9)	(593,699)	(10)
61000	Net profit before tax from continuing operations		1,437,521	74	1,508,841	78	2,339,960	37	4,385,901	77
61003	Income tax benefit (expense)	IV/ VI.30	(181,492)	(9)	(186,573)	(10)	(313,147)	(5)	(725,631)	(13)
64000	Current year net income after tax		1,256,029	65	1,322,268	68	2,026,813	32	3,660,270	64
65000	Other comprehensive income									
65200	Items not reclassified to income	IV/ VI.29, 30								
65204	Unrealized gain/loss on valuation of investment in equity instrument measured at fair value through other comprehensive income		112,570	6	22,733	1	313,338	5	(27,585)	-
65220	Incomes tax related to titles not subject to reclassification		-	-	-	-	-	-	6,841	-
65300	Items may be reclassified to income subsequently	IV/ VI.29, 30								
65301	Exchange differences from the translation of financial statements of foreign operations		(3,289)	-	(15,986)	(1)	(36,003)	-	58,351	1
65308	Capital gain/loss of debts instrument at fair value through comprehensive income statement as other comprehensive income		812,656	42	(41,749)	(2)	3,636,535	57	(1,984,903)	(35)
65320	Income tax related to items possibly be reclassified		395	-	3,197	-	7,164	-	(10,799)	-
	Current period other comprehensive income (net, after tax)		922,332	48	(31,805)	(2)	3,921,034	62	(1,958,095)	(34)
66000	Current period other comprehensive income (after tax)		$2,178,361	113	$1,290,463	66	$5,947,847	94	$1,702,175	30
67100	Net income attributable to									
67101	Parent company		$1,256,029		$1,322,268		$2,026,813		$3,660,270	
67111	Non-controlling interest		$ -		$ -		$ -		$ -	
67300	Current period comprehensive income (after tax) attributable to									
67301	Parent company		$2,178,361		$1,290,463		$5,947,847		$1,702,175	
67311	Non-controlling interest		$ -		$ -		$ -		$ -	
	Earnings per share (NTD)	VI.31								
67500	Basic earnings per share		$1.10		$1.15		$1.78		$3.19	
67700	Diluted earnings per share		$1.10		$1.15		$1.78		$3.19	

(Refer to Note to the consolidated financial statements)

Chairman: Chen-Chih Tai Manager: Jih-Cheng Chang Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
January 1 to September 30, 2019 and 2018
(Reviewed only, not audited in accordance with the auditing standards generally accepted in the ROC)

Unit: NTD thousand

			Retained earnings			Other equity			
Item	Capital stock	Capital surplus	Legal reserve	Special reserve	Undistributed earnings	Exchange differences from the translation of financial statements of foreign operations	Unrealize gain (loss) on financial assets at fair value through other comprehensive income	Treasury stock	Total equity
Balance as of January 1, 2018	$11,512,343	$62,323	$7,872,137	$72,877	$15,261,794	$(24,117)	$2,850,763	$(129,640)	$37,478,480
The 2017 appropriation and distribution of earnings									
Legal reserve appropriated			1,683,160		(1,683,160)				-
Appropriation of special reserve				28,053	(28,053)				-
Common stock cash dividends					(1,720,722)				(1,720,722)
Other capital									
Share-based payment transaction	-	37,262	-	-	-	-	-	129,640	166,902
Net income for the period	-	-	-	-	3,660,270	-	-	-	3,660,270
Other comprehensive income for the period	-	-	-	-	6,841	47,552	(2,012,488)	-	(1,958,095)
Total comprehensive income	-	-	-	-	3,667,111	47,552	(2,012,488)	-	1,702,175
Equity instrument at fair value through other comprehensive income statement					(7,860)		7,860		-
Balance as of September 30, 2018	$11,512,343	$99,585	$9,555,297	$100,930	$15,489,110	$23,435	$846,135	$ -	$37,626,835
Balance as of January 1, 2019	$11,512,343	$99,585	$9,555,297	$100,930	$14,699,482	$28,431	$(497,142)	$(314,865)	$35,184,061
The 2018 appropriation and distribution of earnings									
Legal reserve appropriated			863,340		(863,340)				-
Appropriation of special reserve				437,551	(437,551)				-
Common stock cash dividends					(1,711,852)				(1,711,852)
Net income for the period	-	-	-	-	2,026,813	-	-	-	2,026,813
Other comprehensive income for the period	-	-	-	-	-	(28,839)	3,949,873	-	3,921,034
Total comprehensive income	-	-	-	-	2,026,813	(28,839)	3,949,873	-	5,947,847
Treasury stock repurchase cost								(311,658)	(311,658)
Deregistration of treasury stock	(200,000)	(43,490)			(383,033)			626,523	-
Equity instrument at fair value through other comprehensive income statement					(16,067)		16,067		-
Balance as of September 30, 2019	$11,312,343	$56,095	$10,418,637	$538,481	$13,314,452	$(408)	$3,468,798	$ -	$39,108,398

(Refer to Note to the consolidated financial statements)

Chairman: Chen-Chih Tai Manager: Jih-Cheng Chang Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Consolidated Statements of Cash Flow
January 1 to September 30, 2019 and 2018
(Reviewed only, not audited in accordance with the auditing standards generally accepted in the ROC)

Unit: NTD thousand

Item	January 1 to September 30, 2019 Amount	January 1 to September 30, 2018 Amount
Cash flows from operating activities:		
Current year net profit before tax	$2,339,960	$4,385,901
Adjustments:		
Revenue, expense and loss that do not affect the cash flows		
Anticipated credit impairment/ Bad debt expense	2,632,688	30,506
Loss (gain) on reversal of assets impairment	27,749	(60,474)
Depreciation and amortization expenses	92,394	36,115
Net interest income	(3,531,680)	(3,752,303)
Cost of share-based payment service	-	37,262
Disposal and obsolescence (gain) loss of property and equipment	(9,222)	4
(Gain) Loss on disposal of other assets	(1)	20
Changes in assets/liabilities relating to operating activities		
Due from Central Bank and lend to Banks (increase)	(56,958)	(203,870)
Financial assets at fair value through profit and loss (increase)	(3,538,731)	(5,467,079)
Receivables (increase)	(1,198,075)	(1,027,206)
Discounts and loans (increase)	(3,210,179)	(15,329,696)
Financial assets at fair value through other comprehensive income decrease	4,442,543	2,653,356
Investment in debt instruments at amortised cost (increase) decrease	(400,000)	1,000,000
Other financial assets decrease (increase)	422	(2,854)
Other assets decrease	58,374	131,797
Deposits from Central Bank and other banks (decrease) increase	(1,185,263)	5,677,499
Financial liabilities at fair value through profit and loss (decrease):	(16,841)	(105,851)
Payables (decrease) increase	(507,268)	504,120
Customer deposits and remittances (decrease) increase	(1,239,358)	1,259,204
Other financial liabilities (decrease) increase	(40,000)	600,000
Provisions for liabilities (decrease)	(27,892)	(33,585)
Other liabilities (decrease)	(22,527)	(17,637)
Interest received	5,196,127	5,051,133
Interest paid	(1,586,583)	(1,302,300)
Income tax paid	(628,313)	(829,976)
Net cash (outflows) from operating activities	(2,408,634)	(6,765,914)

Item	January 1 to September 30, 2019 Amount	January 1 to September 30, 2018 Amount
Cash flows from investing activities:		
Purchase of property, plant and equipment	(283,849)	(27,046)
Proceeds from disposal of property, plant and equipment	32,427	80
Net cash (outflows) from investing activities	(251,422)	(26,966)
Cash flows from financing activities:		
Funds borrowed from Central Bank and other banks (decrease)	(822,590)	(1,663,886)
Bills and bonds sold under repurchase agreements (decrease) increase	(574,003)	7,046,744
Cash dividends paid	(1,711,852)	(1,720,722)
Principal repayment of lease liabilities	(58,477)	-
Treasury stock repurchase cost	(311,658)	-
Treasury stock purchased by employees	-	129,640
Net cash inflows (outflows) from financing activities	(3,478,580)	3,791,776
Effect of changes in exchange rate on cash and cash equivalents	(36,003)	58,351
Current cash and cash equivalents (decrease)	(6,174,639)	(2,942,753)
Balance of cash and cash equivalents, beginning of period	13,496,670	16,522,376
Balance of cash and cash equivalent, end of period	$7,322,031	$13,579,623
Composition of cash and cash equivalents		
Cash and cash equivalents on the consolidated balance sheet	$2,837,985	$4,408,747
The “Due from the Central Bank and call loans to banks” that meet the definitions of IAS 7 “Definition of Cash and cash equivalents” approved by the FSC	4,378,976	8,216,833
The “Bonds and securities sold under re-purchase agreements” comply with the IAS 7 “Definition of Cash and cash equivalents” approved by the FSC.	105,070	954,043
Balance of cash and cash equivalent, end of period	$7,322,031	$13,579,623

(Refer to Note to the consolidated financial statements)

Chairman: Chen-Chih Tai   Manager: Jih-Cheng Chang   Accounting Officer: Yu-Hsuan Chen

King's Town Bank Co., Ltd. and its subsidiaries
Notes to consolidated financial statement
January 1 to September 30, 2019 and 2018
(Reviewed only, not audited in accordance with the auditing standards generally accepted in the ROC)
(In Thousands of New Taiwan Dollars, unless otherwise specified)

I. Organization and operations

1. King's Town Bank Co., Ltd., (hereinafter referred to as the "Group") was restructured from Tainan District Joint Saving Co., Ltd., on January 1, 1978. The Group had applied for restructuring into a commercial bank according to the resolution reached in the extraordinary shareholders meeting on November 29, 2005 and was renamed as "King's Town Bank Co., Ltd." The Group started trading on the Taiwan Stock Exchange Corporation since July 1983. The place of registration and the general management office are located at No. 506, Section 1, Ximen Road, West Central District, Tainan City, and branches are setup nationwide.

2. The Group's main business services are: (1) accepting check deposits, (2) accepting other deposits, (3) issuing financial bonds, (4) handling loans, (5) handling bill discounts, (6) handling various investment businesses, (7) handling domestic and foreign exchange, (8) handling draft acceptance, (9) issuing domestic and foreign letters of credit, (10) handling domestic and foreign guarantees, (11) handling collections and advances, (12) handling the depository and agency services related to the various businesses listed above, and (13) other business chartered by the government.

3. The Company is also the ultimate controller of the Group to which it belongs.

4. The Group had 986 employees as of September 30, 2019 and 2018.

II. Financial reporting date and procedures

The consolidated financial statements of the Group for the period of January 1 to September 30, 2019 and 2018 were approved for publication by the Board of Directors on October 28, 2019.

III. Application of new and revised standards and interpretation

1. Changes in accounting policies resulting from the first-time application of International Financial Reporting Standards

   The Group has adopted International Financial Reporting Standards, International Accounting Standards, International Financial Reporting Interpretations or Notices that have been approved by the Financial Supervisory Commission (hereinafter referred to as the "FSC") for application after January 1, 2018. Except for the nature and impact of the new standards and amendments described below, the first-time application has no significant impact on the Group:

(1) IFRS 16 “Leases”

IFRS 16 “Leases” replaces IAS 17 “Leases”, International Financial Reporting Interpretations Committee (IFRIC) No. 4 “Determining whether an arrangement includes leases”, IFRIC No. 15 “Business Leasing: Incentives”, and IFRIC 27 “Assessing the substance of the transaction in the legal form involving the lease”.

The first-time application date of the Group as stipulated in the transitional provisions of IFRS 16 is on January 1, 2019. The impact of adopting IFRS 16 for the first time is as follows:

A. Please refer to Note IV for the details of the accounting policies applicable to the Group starting from January 1, 2019, and before January 1, 2019.

B. For the definition of lease, the Group chose not to have the contract re-assessed whether it was (or includes) a lease on January 1, 2019. The Group applies IFRS 16 in respect of the contracts that have been identified as leases in the previous application of IAS 17 and IFRIC 4. In addition, the contract that has been identified as not including the lease when IAS 17 and IFRIC 4 were previously applied does not apply to IFRS 16. That is, the Group only assesses whether the contract signed (or modified) after January 1, 2019, is (or includes) a lease after the application of IFRS 16. Compared with IAS 17, according to IFRS 16, if a contract is signed to have the control over the use of an identified asset transferred for a period of time in exchange for a consideration, it is (or includes) a lease. The Group concludes that it is subject to the definition of a new lease in most situations, and the contract is (or includes) an assessment of lease without any significant impact resulting.

C. The Group is a lessee and chooses not to re-compile comparative information according to the transitional provisions of IFRS 16. The cumulative amount of the initial application was recognized on January 1, 2019 and it was adjusted to the beginning balance of the retained earnings (or other composition of equity, if applicable) on the fist-time application date:

(a) A lease that is classified as an operating lease

The Group expects to have the present value (discounted at the incremental borrowing interest rate of the lessee on January 1, 2019) of the remaining lease that was classified as an operating lease when applying IAS 17 measured and recognized as a lease liability on January 1, 2019. In addition, on the basis of individual leases, the Group chooses to measure and recognize the right-of-use assets according to the lease liability amount (but adjusting the lease payments amount that is prepaid or payable in relation to the lease).

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The Company's right-of-use assets and lease liability will be increased by NT$271,864 thousand and NT$271,864 thousand on January 1, 2019, respectively.

The Group is subject to the transitional provisions of IFRS 16. The lease that was classified as operating lease previously is processed practically as follows on the basis of individual leases:

i. Use a single discount rate for a lease portfolio with reasonably similar characteristics.
ii. The assessment of whether a lease is with loss before January 1, 2019, is used as an alternative for impairment assessment.
iii. The leases that ended within 12 months after January 1, 2019, are handled as short-term leases.
iv. The initial cost will not be included in the measurement of tenancy right assets on January 1, 2019.
v. As hindsight, such as, at the time of determining the lease term (if the contract includes the option of lease extension or lease termination).

(b) Please refer to Note IV, Note V and Note VI for the addition of the notes and disclosures related to the lessee in accordance with IFRS 16.

(c) The impact of the first-time application of IFRS 16 on January 1, 2019, on the financial statements as follows:

i. For the lease liability recognized on the balance sheet on January 1, 2019, the lessee's incremental weighted average loan interest rate is 1.57%.
ii. The operating lease commitments disclosed in accordance with IAS 17 on December 31, 2018, were discounted at the incremental loan rate on January 1, 2019, and it is different from the lease liability recognized on the balance sheet on January 1, 2019, as follows:

The operating lease commitments (excluding the short-term lease due within one year) disclosed in accordance with IAS 17 on December 31, 2018.	$291,603
The amount discounted at the incremental loan rate on January 1, 2019	$271,864
Lease liabilities recognized on January 1, 2019.	$271,864

2. The Group has not yet adopted the following new publication, revision, and amendments or interpretations announced by International Accounting Standards Board and approved by the FSC.

Item	New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Definition of business (Amendment to IFRS 3)	January 1, 2020
2	Definitions of "Significance" (Amendments to IAS 1 and 8)	January 1, 2020

(1) Definition of business (Amendment to IFRS 3)

This amendment clarifies the definition of business as stipulated in IFRS 3 "Business Combinations" to help enterprises identify that transactions are handled in accordance with the business combination or the assets acquisition approach. IFRS 3 continues to determine whether the acquisition activity or assets portfolio is a business from the viewpoint of the market participants, including clarifying the minimum requirements of the business, adding guidance to assist enterprises in assessing whether the process of acquisition is significance, and reducing the definition of the business and output.

(2) Definitions of "Significance" (Amendments to IAS 1 and 8)

The definition of the "material information" is amended as: The omission, misrepresentation, or ambiguity of certain information is expected to affect the decisions made by the primary users of the general-purpose financial statements. This amendment clarifies that the degree of significance will depend on the nature or size of the information. An enterprise will need to consider whether the information in the financial statements is individually or collectively significant. If it is reasonably expected to affect the primary user, the misrepresented information is significant.

The above is the new publications, revisions, and amendments or interpretations announced by the International Accounting Standards Board and approved by the FSC and applied since January 1, 2020. The Group has assessed and concluded the remaining new announcements or amendments to the standards or interpretations have no material impact on the Group.

3. As of the date of the financial report published, the Group has not adopted the following new publication, revision, and amendment or interpretation of the standards announced by the International Accounting Standards Board but not yet approved by the FSC.

Item	New releases / amendments / revisions of the Standards and Interpretations	The effective date announced by the International Accounting Standards Board
1	Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures" - Assets sold or invested in by investors and their associates or joint ventures.	To be determined by the "International Accounting Standards Board (IASB).
2	IFRS 17 "Insurance Contracts"	January 1, 2021
3	Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)	January 1, 2020

(1) Amendments to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures" - Assets sold or invested in by investors and their associates or joint ventures.

This plan is to handle the inconsistency on the loss of control due to the investment in associates or joint ventures by subsidiaries according to IFRS 10 "Consolidated Financial Statements" and IAS 28 "Investment in Associates and Joint Ventures". When investing in non-monetary assets to exchange for the equity of the associates or joint ventures according to IAS 28, the resulting profits or losses should be eliminated in accordance with the treatment of downstream transactions. According to IFRS 10, the profit or loss should be recognized fully when losing control over the subsidiaries. This amendment limits the foregoing provisions of IAS 28. When it is constituted as the sale or investment of business assets as stipulated in IFRS 3, the resulting profit or loss should be fully recognized.

This amendment also modifies IFRS 10 to enable investors and their associates or joint ventures to recognize the profit or loss to the extent of the portion that is not distributed to the investors when selling or investing in subsidiaries that do not meet the definition as stipulated in IFRS 3.

(2) IFRS 17 "Insurance Contracts"

This standard provides a comprehensive model of insurance contract, including all accounting related parts (recognition, measurement, expression, and disclosure principles). The core of the standard is a general model. Regarding this model, the original recognition is based on the total amount of the contractual cash flow and contractual services margin to measure the insurance contracts, of which, the contractual cash flow includes:

A. Estimated value of future cash flow
B. Discount rate: Adjustments that reflect the time value of money and the financial risks (within the estimation range of the future cash flow that does not include financial risk) associated with future cash flows; and
C. Adjustment of non-financial risks

The book value of the insurance contracts at the end of each reporting period is the sum of the remaining security liabilities and the claims liabilities incurred.

In addition to the general model, it provides:
A. Specific applicable method (variable fee approach) for the contracts with a direct participation characteristic
B. Simplification of short-term contracts (Premium Allocation Approach)

(3) Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)

The amendments cover a number of exceptions for all hedges directly affected by the interest rate benchmark reform. The interest rate benchmark reform directly affects hedges since it would cause uncertainty in the timing or amount of cash flows based on the indicators of hedged items or hedging instruments. Therefore, all hedges that are directly affected by the interest rate benchmark reform shall be subject to the exceptions.

Amendments include:

A. Highly probable requirements for forecast transactions
For determining whether a forecast transaction is highly probable, the company shall assume that the interest rate indicator based on the hedged cash flows will not be affected by the interest rate benchmark reform.

B. Assessing expectations
When assessing expectations, the company shall assume that the basis of the hedged item, evaded risk and/or the hedging instrument will not be affected by changes in the interest rate benchmark reform.

C. Retrospective assessment under IAS 39
The company is not required to implement the retrospective assessment of IAS 39 (i.e. whether the actual result of the hedge is between 80% and 125%) for hedge that are directly affected by the interest rate benchmark reform.

D. Separately identified risks
When hedging for non-contracted indicators of the interest rate risk, the requirements for separate identification are only applicable at the start of a hedge.

The amendments also include requirements for the cancellation of applicable exceptions and the disclosure contained in the Notes which are related to the amendments.

The aforementioned standards or interpretations have been issued by the IASB but have not yet been approved by the FSC. The actual date of application is subject to the requirements of the FSC. The new announcement or amendment of the standard or interpretation has no significant impact on the Group.

IV. Summary of significant accounting policies

1. Compliance Statement

The Group's consolidated financial statements on January 1 to September 30, 2019 and 2018 were prepared in accordance with the "Regulations Governing the Preparation of Financial Reports by Public Banks," "Regulations Governing the Preparation of Financial Reports by Securities Firms," and IAS 34 "Interim Financial Reports" recognized and announced by the Financial Supervisory Commission.

2. Basis of preparation

The consolidated financial statements are based on historical cost, except for financial instruments measured at fair value. Unless otherwise stated, the consolidated financial statements are prepared in the currency of New Taiwan Dollars (NT$ Thousand).

3. Consolidation

<u>The basis of preparation for consolidated financial statements</u>

Control is achieved when the Company is exposed to variable returns due to the participation in the invested company or from the right in such variable returns, and through its ability over the invested company to influence such variable returns. In particular, the Company only controls the invested company when the Company has had the following three control elements:
(1) The power over the invested company (i.e. having the vested rights to lead the relevant activities)
(2) The risk exposure or right of the variable returns from participating in the invested company, and
(3) The ability to influence the amount of returns of the invested company by exercising power over the invested company

When the Company directly or indirectly holds less than a majority of the voting rights or similar rights of the invested company, the Company considers all relevant facts and circumstances to assess whether it has power over the invested company, including:
(1) Contractual agreements with other voting rights holders of the invested company;
(2) Rights arising from other contractual agreements;
(3) Voting rights and potential voting rights

When facts and circumstances indicate that one or more of the three control elements have changed, the Company reassesses whether it still has control over the invested company.

Subsidiaries are all compiled into the consolidated statements from the date of acquisition (i.e. the date on which the Company obtains control) until the date of losing control over the subsidiaries. The accounting period and accounting policies for the financial statements of the subsidiaries are consistent with that of the parent company. The Group's internal account balances, transactions, unrealized internal gains and losses, and dividends arising from intra-group transactions are fully written-off.

Changes in the shareholding of a subsidiary, if the control over the subsidiary is not lost, the change in the equity is treated as an equity transaction.

The total comprehensive income of the subsidiaries is attributable to the shareholders and non-controlling equity of the Company, even if the non-controlling equity results in a loss.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

If the Company loses control over the subsidiary, then

(1) The assets (including goodwill) and liabilities of the subsidiaries are derecognized.
(2) The book value of any non-controlling equity is derecognized.
(3) Recognize the fair value of the considerations obtained.
(4) Recognize the fair value of any investment retained.
(5) Recognize any gain or loss as current profit or loss.
(6) The amount of items recognized in other comprehensive income previously by the parent company is reclassified in the profit or loss.

The main business entity of the consolidated financial statements is as follows:

Investor	Subsidiary name	Main business	Equity ratio held		
			2019.09.30	2018.12.31	2018.09.30
The Company	Tainan Life Insurance Agency Co., Ltd.	Insurance agency business	(Note)	100.00%	100.00%
The Company	Fuchen Property Insurance Agency Co., Ltd.	Insurance agency business	(Note)	100.00%	100.00%
The Company	King's Town Bank International Leasing Co., Ltd.	Leasing	100.00%	100.00%	100.00%
King's Town Bank International Leasing Co., Ltd.	King's Town International Real Estate Management Co., Ltd.	Real Estate Management	100.00%	100.00%	100.00%

The total profit or loss of the subsidiaries in January 1 to September 30, 2019 and 2018 were NT$215,011 thousand and NT$217,188 thousand, respectively.

(Note) In order to integrate resources, reduce operating costs, and exercise business synergy, the Company's Board of Directors had resolved on June 6, 2016, to merge with Tainan Life Insurance Agency Co., Ltd. and Fuchen Property Insurance Agency Co., Ltd. The Company is the continuing business entity after the merger. Tainan Life Insurance Agency Co., Ltd. and Fuchen Property Insurance Agency Co., Ltd. were discontinued. The said merge was approved by the competent authority on March 8, 2019. The Board of Directors had resolved on March 25, 2019, to schedule the merger base date on June 3, 2019.

4. Foreign currency transactions

The consolidated financial statements of the Group are expressed in the Company's functional currency (New Taiwan Dollars). Each subsidiary of the Group determines its own functional currency and measures its financial statements in that functional currency.

The foreign currency transactions of each subsidiary of the Group are converted to its functional currency according to the exchange rate on the transaction date. At the end of each reporting period, foreign currency monetary items are translated at the closing exchange rate of the day. The foreign currency non-monetary items measured at fair value are translated at the exchange rate on the date of fair value applied. The foreign currency non-monetary items measured at historical cost are translated at the exchange rate on the original trading day.

Except for the following, the exchange differences arising from the clearing or translation of monetary items are recognized as profit or loss in the period in which they are incurred:

(1) For the foreign currency borrowings arising from acquiring assets that meet the requirements, the resulting exchange differences are treated as an adjustment to the interest cost and are capitalized as part of the borrowing cost.
(2) Foreign currency projects subject to the provisions of IFRS 9 "Financial Instruments" are treated in accordance with the accounting policies of financial instruments.
(3) For the monetary items of the reporting entity that are an integral part of the net investment in the foreign operating institution, the resulting exchange differences were originally recognized in other comprehensive income and are reclassified from equity to profit or loss when the net investment is disposed.

When the profit or loss of a non-monetary item is recognized as other comprehensive income, any exchange profit or loss is recognized in other comprehensive income. When the profit or loss of a non-monetary item is recognized in profit or loss, any exchange profit or loss is recognized in profit or loss.

5. Conversion of financial statements in foreign currency

When preparing the consolidated financial statements, the assets and liabilities of foreign operating institutions are translated into New Taiwan Dollars at the closing exchange rate on the balance sheet date. The income and loss items are translated at the average exchange rate for the current period. The exchange difference arising from the conversion is recognized as other comprehensive income. When the foreign operating institution is closed, the accumulated exchange difference previously recognized in other consolidated profit or loss and included in the equity is reclassified from the equity to the profit or loss at the time of recognizing the disposal profit or loss.

6. Cash and cash equivalents

Cash and cash equivalents are cash on hand, demand deposits, and short-term and highly liquid time deposits or investments (including time deposits with a contract period within 12 months) that are readily convertible into fixed cash amount and have a very low risk of changes in value. For the consolidated cash flow statement, it also includes the deposits at the Central Bank, interbank lending, and resell (RS) bill and bond investments in accordance with the cash and cash equivalent stipulated in IAS 7 that is approved by the FSC.

7. Bonds Purchased under Resell/Notes Issued under Repurchase Agreements

The accounting process of RP/RS and bond transactions is as follows: (1) For an RP bill transaction, credit the RP bill and bond liability. The trade difference is booked as an interest expense; (2) For an RS bill transaction, debit the RS bill and bond investment. The trade difference is booked as interest income.

8. Financial instruments

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

Financial assets and financial liabilities subject to the provisions of IFRS 9 "Financial Instruments" at the time of original recognition, were measured at fair value. The acquisition or issuance transaction costs that are directly attributable to the financial assets and financial liabilities (except for financial assets and financial liabilities that are classified as measured at fair value through profit or loss) are added or subtracted from the fair value of the financial assets and financial liabilities.

(1) Recognition and measurement of financial assets

The recognition and de-recognition of all the financial assets of the Group are handled with the trade date accounting.

The Group uses the following two items to have financial assets classified as subsequently measured at amortized cost, measured at fair value through other comprehensive income, or measured at fair value through profit or loss:
A. Operating model of financial assets management
B. Contractual cash flow characteristics of financial assets

Financial assets based on cost after amortization

Financial assets that meet the following two conditions are measured at amortized cost and booked in the balance sheet in terms of notes receivable, accounts receivable, financial assets measured at amortized cost, and other receivables.
A. Operating model of financial assets management: hold financial assets to collect contractual cash flow
B. Contractual cash flow characteristics of financial assets: cash flow is entirely for the payment of principal and interest on the amount of outstanding principal.

These financial assets (excluding those involved in hedging) are subsequently measured at the amortized cost [the amount measured at the time of original recognition, less the principal paid, plus or minus the cumulative amortization amount (with the effective interest method) between the original amount and the amount due), and adjusting the allowance for loss]. For de-recognition, the benefits or losses are recognized in profit or loss through amortization procedures or recognition of impairment profit or loss.

Interest that is calculated with the effective interest method (having the effective interest rate multiplied by the total book value of financial assets) or the following conditions is recognized in profit or loss:

A. For a credit impairment financial asset purchased or originated, have the effective interest rate after credit adjustment multiplied by the amortized cost of financial assets.
B. Other than those stated in the preceding paragraph, but which subsequently become credit impaired, have the effective interest rate multiplied by the amortized cost of the financial assets.

<u>Financial assets at fair value through other comprehensive income</u>

Financial assets that meet the following two conditions are measured at fair value through other comprehensive income and are expressed on the balance sheet as financial assets measured at fair value through other comprehensive income:

A. Operating model of financial assets management: Collect contractual cash flows and sell financial assets.
B. Contractual cash flow characteristics of financial assets: cash flow is entirely for the payment of principal and interest on the amount of outstanding principal.

The recognition of the profit or loss related to such financial assets is as follows:

A. Before de-recognition or reclassification, except for the impairment profit or loss and foreign currency exchange gains and losses recognized in profit or loss, the profit or loss is recognized in other comprehensive income.
B. At the time of de-recognition, the cumulative profit or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as reclassification adjustment.
C. Interest that is calculated with the effective interest method (having the effective interest rate multiplied by the total book value of financial assets) or the following conditions is recognized in profit or loss:
    (a) For a credit impairment financial asset purchased or originated, have the effective interest rate after credit adjustment multiplied by the amortized cost of financial assets.
    (b) Other than those stated in the preceding paragraph, but which subsequently become credit impaired, have the effective interest rate multiplied by the amortized cost of financial assets.

In addition, for an equity instrument that is subject to IFRS 9 and the equity instrument is neither held for trading nor is subject to the contingent considerations recognized by the acquirer as stipulated in IFRS 3 "Business Combinations", in the original recognition, the subsequent changes in fair value are booked in other comprehensive income (irrevocably). The amount included in other comprehensive income cannot be subsequently transferred to profit or loss (when the equity instruments are disposed of, the accumulated amounts included in other equity items are transferred directly to retained earnings). Also, it is booked as a financial asset measured at fair value through other comprehensive income on the balance sheet. Investment dividends are recognized in profit or loss unless such dividend clearly represents a recovery of the investment cost.

Financial assets at fair value through profit and loss

Financial assets are measured at fair value through profit or loss and are booked in the balance sheet as financial assets measured at fair value through profit or loss, except for the financial assets in the preceding paragraph that meet certain conditions and are measured at amortized cost or measured at fair value through other comprehensive income.

Such financial assets are measured at fair value, and the benefits or losses arising from the re-measurement are recognized as profit or loss. The benefits or losses recognized as profit or loss include any dividend or interest received on the financial asset.

(2) Impairment of Financial Assets

For the debt instrument investments measured at fair value through other comprehensive income, debt instrument investments measured at amortized cost, and off-balance sheet debt instrument, the Group has them recognized as expected credit loss and with the allowance for loss measured. The debt instrument investment measured at fair value through other comprehensive income has the allowance for loss recognized in other comprehensive income. Also, the book value of the investment is not decreased. Loans and receivables and off-balance sheet credit assets are recognized and measured in accordance with the expected credit losses. Also, adequate allowances, guaranteed liability reserves, and financing commitment reserves are appropriated according to whichever is higher according to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans".

The Group measures expected credit losses to reflect the following:
A. An amount that is unbiased and weighted by probability through evaluating each possible outcome
B. Time value of money
C. Reasonable and corroborative information (that can be obtained on the balance sheet date without excessive costs or inputs) relating to past events, current conditions, and future economic forecasts

The methods used for measuring allowance for loss are as follows:
A. It is measured by the 12-month expected credit loss amount: Including the credit risk that has not increased significantly since the original recognition of the financial assets, or it is determined as low credit risk on the balance sheet date. In addition, it also includes the allowance for loss measured by the expected credit loss of the duration in the previous reporting period, but which no longer meets the condition that the credit risk has increased significantly since the original recognition on the balance sheet date.
B. The expected credit loss amount for the duration: Includes the significant increase in credit risk of the financial assets since the original recognition, or the financial assets with credit impairment purchased or originated.
C. For accounts receivable or contractual assets arising from transactions within the scope of IFRS 15, the Group measured the allowance for loss with the expected credit loss amount of the duration.
D. For the rent receivables arising from the transactions as stipulated in IFRS 16 (or IAS 17 before January 1, 2019), the Group uses the expected credit losses for the duration of the period to measure the allowance for losses.

In addition to the aforementioned assessments, the Company also has the credit assets assessed and classified according to the following classification methods by referring to the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans". Regarding the classification methods, except for the normal credit assets classified in Category I, non-performing credit assets are evaluated according to the status of the loan collateral and the length of time overdue, which are classified as Category II "Special Mention", Category III "Expected to be recovered", Category IV "Doubtful" and Category V "Losses".

The allowance for bad debt is appropriated for a minimum amount equivalent to the total of 1% of net Category I credit assets of the obligation to Taiwanese government agencies, 2% of Category II credit assets, 10% of Category III credit assets, 50% of Category IV credit assets, and 100% of Category V credit assets.

On each balance sheet date, the Group assesses whether the credit risk of financial instruments after the original recognition has increased significantly by comparing the changes in the default risk of the financial instruments on the balance sheet date and the original recognition date. In addition, please refer to Note XII for information related to credit risk.

(3) Derecognized financial assets

Financial assets held by the Group are derecognized when one of the following conditions is met:

A. The contractual right from the cash flow of financial assets is terminated.
B. The financial asset has been transferred and almost all of the risks and rewards of asset ownership have been transferred to others.
C. Almost all risks and rewards of asset ownerships have not been transferred or retained, but the control of assets has been transferred.

When a financial asset is derecognized entirely, the difference between the book value and the collected or collectible considerations plus any cumulative gain or loss recognized in other comprehensive gain or loss is recognized in profit or loss.

(4) Financial liabilities and equity instruments

Classification of liabilities or equity

The liability and equity instruments issued by the Group are classified as either financial liabilities or equity in accordance with the substance of the contractual agreements and the definition of financial liabilities and equity instruments.

Equity instruments

An equity instrument refers to any contract that recognizes the residual equity of the Group after the asset deducts the liabilities. The equity instruments issued by the Group are recognized at the amount obtained after deducting the direct issuance costs.

Compound instruments

The Group recognizes the financial liabilities and equity composition of the convertible corporate bonds issued according to its contractual terms. In addition, for the convertible corporate bonds issued, assess whether the economic characteristics and risks of the embedded call (put) option are closely related to the main debt instrument before distinguishing the equity elements.

For a liability that does not involve a derivative instrument, the fair value is assessed with the market interest rate of the equivalent and non-converting bond. Such liability before conversion or settlement is classified as a financial liability measured at the amortized cost. For the embedded derivative instrument (for example, the execution price of the embedded call (put) option cannot be equivalent to the amortized cost of the debt instrument on each execution date) that is not closely related to the economic characteristics of the principal contract, except for those classified as equity elements, it is classified as a liability and is measured at fair value through profit or loss in subsequent periods. The amount of the equity element is determined by the fair value of the convertible corporate bond net of the liability, and the book value will not be re-measured in the subsequent accounting period. If the issued convertible corporate bonds do not contain an equity element, they are handled in accordance with IFRS 9 hybrid financial instrument method.

The transaction costs are allocated to the liability and equity proportionally to the originally recognized convertible corporate bonds to the liability and equity elements.

When the holder of the convertible corporate bond requests to exercise the conversion right before the maturity date, the book value of the liability is first adjusted to the book value at the time of conversion, as the basis for the issuance of common stock shares.

Financial liabilities

Financial liabilities subject to the provisions of IFRS 9 are classified, at the original recognition, as financial liabilities measured at fair value through profit or loss or financial liabilities measured at amortized cost.

Financial liabilities at fair value through profit and loss

Financial liabilities measured at fair value through profits or losses include held-for-trade financial liabilities and financial liabilities designated to be measured at fair value through profit or loss.

Classified as held-for-trade when one of the following conditions is met:

A. It is obtained mainly for the purpose of being sold in the short-term.
B. It became part of the identified financial instrument portfolio managed comprehensively at initial recognition and there is evidence of the short-term profit-generating operation of the portfolio recently; or
C. Derivatives (except for financial guarantee contracts or derivatives of the designated and effective hedging instruments).

For a contract that includes one or more embedded derivatives, an overall hybrid (combined) contract can be designated as a financial liability measured at fair value through profit or loss. When the relevant information is provided upon complying with one of the following factors, the original recognition is designated as measured at fair value through profit or loss:

A. The designation can eliminate or significantly reduce the inconsistency of measurement or recognition; or
B. The performance of a group of financial liabilities or a group of financial assets and financial liabilities is managed and assessed on a fair value basis according to the written risk management or investment strategies; also, the portfolio information provided to the management within the consolidated company is also based on the fair value.

The benefits or losses arising from the re-measurement of such financial liabilities are recognized in profit or loss. The gain or loss recognized in profit or loss includes any interest paid on the financial liability.

<u>Financial liabilities measured at the amortized cost</u>

Financial liabilities measured at the amortized cost, including payables and borrowings, are subsequently measured using the effective interest method after the original recognition. When a financial liability is derecognized and amortized through the effective interest method, its related profit or loss and amortization are recognized in profit or loss.

The calculation of the amortized cost takes into account the discount or premium and transaction costs at the time of acquisition.

<u>De-recognition of financial liabilities</u>

When the obligation of a financial liability is discharged, canceled, or invalidated, the financial liability is derecognized.

When the Group and the creditors exchange opinions on a debt instrument with significant differences, or make major changes to all or part of the existing financial liabilities clauses (whether due to financial difficulties or not), it is handled by having the original liabilities derecognized and new liabilities recognized. When financial liabilities are derecognized, the difference between the book value and the total amount (including the transferred non-cash assets or liabilities assumed) of the considerations paid or payable is recognized in profit or loss.

(5) Financial assets and liabilities written-off against each other

Financial assets and financial liabilities can only be offset and presented with the net amount on the balance sheet only when the recognized amounts can be offset currently by law and are intended to be cleared on a net amount or having assets sold for cash and liability liquidated simultaneously.

9. Derivatives

Derivatives held or issued by the Group are used to hedge exchange rate risk and interest rate risk, of which, the designated and effective hedging items are reported as hedging assets or liabilities on the balance sheet. For those not designated but effective hedging, they are presented on the balance sheet as financial assets or financial liabilities measured at fair value through profit or loss.

The original recognition of a derivative is measured at the fair value on the derivative contract date and it is also measured at fair value subsequently. When the fair value of a derivative is positive, it is a financial asset. When the fair value of a derivative is negative, it is a financial liability. Changes in fair value of derivatives are recognized directly in profit or loss. In the case of valid cash flow hedging and foreign operating institutions net investment hedging, it is recognized in profit or loss or equity based on the type of hedging.

For the main contract that is a non-financial asset or non-financial liability, when it is embedded in the derivative of the main contract, its economic characteristics and risks are not closely related to the main contract; also, when the main contract is not measured at fair value through profit or loss, the embedded derivative should be treated as an independent derivative.

10. Fair value measurement

Fair value is the price that would be collected for the assets sold or the price paid for the liabilities transferred in an orderly transaction between market participants on the measurement date. Fair value measurement is with an assumption that the sale of the asset or the transfer of the liability occurs in one of the following markets:
(1) The main market for the asset or liability, or
(2) If there is no major market, the most favorable market for the asset or liability;

The primary or most favorable market must be available for the Group to conduct trades.

The fair value measurement of an asset or liability is based on the assumption that the market participants used in pricing the assets or liabilities, assuming that such market participants will use the assumption the most economically practical way.

The fair value measurement of a non-financial asset takes into account the market participant’s use of the asset for its highest and best utilization or sale of the asset to another market participant who will use the asset for its highest and best utilization in order to generate economic benefits.

The Group uses valuation techniques that are appropriate with sufficient data available in the relevant circumstances to measure fair value and maximize the use of observable inputs and minimize the use of unobservable inputs.

11. Impairment of non-financial assets

The Group at the end of each reporting period assesses whether all assets subject to IAS 36 "Impairment of Assets" are showing signs of impairment. If there is any indication of impairment or an impairment test is required for an asset on a regular basis each year, the Group tests the individual asset or the cash-generating unit to which the asset belongs. If the book value of an asset or the cash-generating unit to which the asset belongs is greater than the recoverable amount in an impairment test, the impairment loss is recognized. The recoverable amount is the higher of fair value net of the disposal cost or the value in use.

At the end of each reporting period, the Group assesses assets other than goodwill to see whether there are indications that the previously recognized impairment losses may no longer exist or may be decreased. In the event of such an indication, the Group estimates the recoverable amount of the asset or cash-generating unit. If the recoverable amount is increased due to the change in the estimated service potential of the asset, the impairment amount is reversed. However, the reversed book value shall not exceed the book value before recognizing impairment loss and after deducting depreciation or amortization.

The impairment loss and reversal amount of the continuing business unit are recognized in profit or loss.

12. Collateral accepted

The accepted collateral is booked at the cost of acceptance. Also, it is valued at the end of the period at the lower of cost or fair value net of selling cost (net realizable value).

13. Property, plant, and equipment

Property, plant, and equipment are recognized at the acquisition net cost of accumulated depreciation and accumulated impairment. The aforementioned cost includes the cost of dismantling, removing, and restoring the location of the property, plant, and equipment and the necessary interest expense arising from the construction in progress. Depreciation is provided separately for the significant parts of the property, plant, and equipment. When major parts of property, plant, and equipment are subject to periodic replacement, the Group treats the parts as an individual asset and recognizes it separately with specific periods of durability and depreciation method. The book value of these replaced parts is derecognized in accordance with the provision of IAS 16 "Property, Plant, and Equipment". If the major repair and maintenance costs are in compliance with the recognition conditions, they are recognized as replacement costs and are recognized as part of the plant and equipment book value. Other repair and maintenance expenses are recognized in profit or loss.

Depreciation is calculated and appropriated in accordance with the declining balance method and the estimated useful life of the following assets:

Buildings and structures	3 ~60 years
Transport equipment	3 ~5 years
Other equipment	3 ~10 years

After the original recognition of the property, plant, and equipment or any significant parts, if it is disposed or no economic effect arising from the use or disposal is expected, it will be derecognized and recognized in profit or loss.

The residual value, years of useful life, and depreciation method of the property, plant, and equipment are assessed at the end of each financial year. If the expected value is different from the previous estimate, the change is considered as a change in accounting estimates.

14. Lease

The accounting treatment since January 1, 2019 is as follows:

The Group assesses whether the contract that was signed after January 1, 2019, is (or includes) a lease. If a contract is signed to have the control over the use of identified assets transferred for a period of time in exchange for a consideration, it is (or includes) a lease. In order to assess whether a contract is signed to have the control over the use of identified assets transferred for a period of time, the Group assesses whether there are the following two factors throughout the period of use:
(1) Obtaining almost all economic benefits from the use of identified assets; and
(2) Control the right-of-use of the identified assets.

The Group chose not to have the contract re-assessed whether it is (or includes) a lease on January 1, 2019. The Group applies IFRS 16 in respect of the contracts that have been identified as leases in the previous application of IAS 17 and IFRIC 4. In addition, the contract that has been identified as not including the lease when IAS 17 and IFRIC 4 were previously applied does not apply to IFRS 16.

For a contract that is (or includes) a lease, the Group has each lease component of the contract treated as a separate lease and has it handled separately from the non-lease components of the contract. For a contract that includes one lease component and one or multiple additional lease or non-lease components, the Group has the consideration of the contract amortized to the lease components in accordance with the relative individual price of each lease component and the aggregated individual price of the non-lease components. The relative individual price of the lease and non-lease components is determined according to the price charged by the lessor (or similar supplier) for such components (or similar components). If the observable individual price is not readily available, the Group maximizes the use of observable information to estimate the individual price.

The Group is the lessee

Except for leases that meet and select short-term leases or low-value asset leases, when the Group is the lessee of the lease contract, the right-of-use assets and lease liabilities are recognized for all leases.

On the commencement date, the Group measures the lease liability according to the present value of the lease payments that have not yet been paid on that date. If the lease implied interest rate is easy to determine, the lease payment is discounted according to the said implied interest rate. If the lease implied interest rate is not easy to determine, the incremental loan rate of the lessee shall prevail. On the commencement date, the lease payments included in the lease liability include the following payments relating to the use-of-rights underlying asset in the lease term that is not yet paid on that date:

(1) Fixed payments (including real fixed payments) net of any collectable lease incentives;
(2) Lease payments depending on the change in an index or expense rate (measured at the index or expense rate on the commencement date);
(3) The lessee's expected payment amount with the residual value guaranteed;
(4) The exercise price of the purchase option, if the Group can reasonably assure that the option will be exercised; and
(5) The penalty for the termination of the lease, if the lessee intends to exercise the option of having the lease terminated in the lease period.

After the commencement date, the Group measures the lease liability at the amortized cost, increases the book value of the lease liability by the effective interest method, and reflects the interest on the lease liability. The book value of the lease liability is reduced when the lease payment is made.

On the commencement date, the Group measures the right-of-use assets at cost. The cost of the right-of-use assets includes:

(1) The originally measured amount of the lease liability;
(2) Any lease payments paid on or before the commencement date, minus any lease incentives received;
(3) Any original direct costs incurred to the lessee; and
(4) The estimated cost for the lessee to have the underlying asset dismantled or removed and restore its location, or have the underlying asset restored to the form as stipulated in the clause and condition.

Subsequent measurement of the right-of-use asset is presented at cost net of the accumulated depreciation and accumulated impairment losses, that is, the right-of-use asset should be measured at cost.

If the ownership of the underlying assets is transferred to the Group at the end of the lease term, or if the cost of the right-of-use asset reflects that the Group will exercise the purchase option, the depreciation of the right-of-use asset is appropriated from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group has the depreciation of the right-of-use asset appropriated from the commencement date to the end of the useful life of the right-of-use asset or the expiration of the lease term whichever is sooner.

The Group applies IAS 36 "Impairment of Assets" to determine whether the right-of-use asset is with impairment; also, handle the identified impairment losses.

Except for leases that meet and select short-term leases or low-value asset leases, the Group presents the right-of-use assets and lease liabilities on the balance sheet, and presents the depreciation expense and interest expense related to the lease separately in the comprehensive income statement.

For short-term leases and low-value asset leases, the Group chooses to have the related lease payments recognized as expenses over the lease period in accordance with the straight-line basis or a systematic basis.

<u>The accounting treatment before January 1, 2019 is as follows:</u>

<u>The Group is the lessee</u>

A financial lease is to have almost all the risks and remuneration related to the ownership of the leased property to the Group and is capitalized at the lower of the fair value of the leased asset or the present value of the minimum lease payments on the commencement date of the lease period. The rent payment is amortized to the financing expenses and the reduction of the lease liability, of which, the financing expense is determined by the remaining liability and the fixed interest rate and recognized in profit or loss.

The leased asset is depreciated over the useful life of the asset. However, if whether the Group can obtain the ownership of the asset at the end of the lease period cannot be reasonably determined, the depreciation is appropriated according to the estimated useful lives of the asset or the lease period, whichever is shorter.

Lease payments under operating leases are recognized as expenses according to a straight line method over the lease period.

15. Employee benefits

(1) Retirement benefits plan

The retirement method for employees of the Company and its domestic subsidiaries is applicable to all full-time employees. The employee retirement fund is fully appropriated to the Supervisory Committee of Business Entities' Labor Retirement Reserve and deposited in the pension fund account. The aforementioned pension is deposited in the name of the Supervisory Committee of Business Entities' Labor Retirement Reserve, which is completely separated from the Company and the domestic subsidiaries, so it is not included in the consolidated financial statements in the preceding paragraph.

For the defined contribution pension plan, the monthly pension payable rate of the Company and its domestic subsidiaries shall not be less than 6% of the employee's monthly salary, and the amount of the provision shall be recognized in the profit or loss of the current period.

For the defined contribution pension plan, an appropriation is made according to the project unit credit method and the actuarial report at the end of the annual reporting period. The re-measurement of net defined benefit liabilities (assets) includes the return on the plan asset and changes in the ceiling of the assets, deducting the net interest amount of the net defined benefit liabilities (assets) and the actuarial gains and losses. The net defined benefit liability (asset) re-measurement is included in other comprehensive income when incurred and immediately recognized in the retained earnings.

The prior-period service cost is the change in the present value of the defined benefit obligation arising from the revision or reduction of the pension plan and is recognized as an expense on the earlier of the following two dates:

A. When the plan revision or reduction occurs; and
B. When the Group recognizes the relevant restructuring costs or resignation benefits;

The net interest of the net defined benefit liability (asset) is determined by having the net defined benefit liability (assets) multiplied by the discount rate, both of which are determined at the beginning of the annual reporting period, and then consider the changes which have occurred in the net defined benefit liabilities (assets) for the period arising from the appropriation amount and benefit payment.

The pension cost for the interim period is calculated based on the actuarial pension cost at the end of the previous year for the period from the beginning of the year to the end of the period; also, it is adjusted and disclosed for the significant market fluctuation after the end date, and significant reduction, liquidation, or other significant non-recurring event.

(2) Employees preferential deposit benefit

The Group provides preferential deposits, which include the payment of fixed preferential deposits for current employees and for retired employees (before January 1, 2010). The difference between the interest rate of these preferential deposits and the market interest rate is within the scope of employee benefits.

According to Article 28 of the "Regulations Governing the Preparation of Financial Reports by Public Banks", the excess interest arising from the retirement preferential deposit rate agreed upon with the employees over the general market interest rate shall be actuarially calculated according to the defined benefit plan as stipulated in IAS 19 that was approved by the Financial Supervisory Commission. However, the parameters of actuarial assumptions shall be handled in accordance with the provisions of the competent authority if it is available.

16. Treasury stock

When the Group obtains the shares (Treasury Stocks) of the parent company, it is recognized at the acquisition cost and is debited to the equity. The spread of treasury stock transactions is recognized in the equity.

17. Recognition of revenue

(1) Interest income from loans is estimated on an accrual basis. The overdue payment transferred to the collection account will cease to bear interest from the date of transfer and will be recognized as income upon collection. The interest income agreed to be posted as receivable due to the bail-out and the extension agreement is recognized as income upon collection.

(2) Service charge income is a fee charged for the various services provided to customers. The accounting treatment is as follows:

The service charge income of the Company and its subsidiaries is derived from the services provided at a specific point of time or for a certain period of time, or through the transaction services and it is recognized as income. When there is a transfer of services to the customer but without unconditional rights for collecting considerations, it is recognized as a contract asset. However, for some contracts, partial considerations are collected from the customers at the time of signing the contract, the Company and its subsidiaries must assume the obligation of providing services subsequently. Therefore, it is recognized as a contract liability.

The aforementioned contractual liabilities of the Company and its subsidiaries did not result in significant financial fluctuations.

18. Share-based payment transaction

The "share-based payment" transaction cost for the equity clearing between the Group and its employees is measured at the fair value on the equity instruments vested date. Fair value is measured by the appropriate pricing model.

The "share-based payment" transaction cost for the equity clearing is recognized on a period-by-period basis during the period in which the service conditions and performance conditions are fulfilled, and the increase in equity is recognized. The cumulative fees recognized for equity clearing transactions at the end of each reporting period prior to the vesting date reflect the process of the vested period and the best estimate of the ultimate vested equity instruments by the Group. The cumulative cost changes recognized for the share-based payment transactions at the beginning and end of each reporting period are recognized in profit or loss for the period.

If the share-based payment is not in compliance with the vested conditions, no expense will be recognized. However, if the vested conditions of the equity clearing transaction are related to the market price condition or the non-vested conditions, when all the service or performance conditions have been fulfilled, the relevant expenses will be recognized regardless of whether the market price condition or the non-vested condition is fulfilled.

19. Income tax

Income tax expense (profit) refers to the aggregated amount of current income tax and deferred income tax that is included in the current profit or loss.

<u>Current income tax</u>

The current income tax liabilities (assets) related to the current and prior periods are measured at the legislated or substantially legislated tax rates and tax laws at the end of the reporting period. The current income tax related to the items recognized in other comprehensive income or directly recognized in the equity is recognized in other comprehensive income or equity instead of being recognized in the profit or loss.

The additional business income tax levied on the undistributed earnings is recognized as income tax expense on the date when the distribution of earnings is resolved in the shareholders meeting.

<u>Deferred tax</u>

The deferred income tax is calculated according to the temporary difference between the taxable amount of assets and liabilities and the book value on the balance sheet at the end of the reporting period.

All taxable temporary differences are recognized as deferred income tax liabilities except for the following two items:

(1) The original recognition of goodwill, or the original recognition of an asset or liability that does not arise from a business consolidated transaction and does not affect accounting profits and taxable income (loss) at the time of the transaction conducted;
(2) The taxable temporary difference arising from the investment in subsidiaries, associates, and joint equity. Also, the timing of reversal is controllable, and it is not likely to be reversed in the foreseeable future;

Except for the following two items, deductible temporary difference and deferred income tax assets arising from the taxable losses and income tax credit are recognized within the range of probable future taxable income:

(1) It is related to the deductible temporary difference from the original recognition of an asset or liability that does not arise from a business consolidated transaction and does not affect accounting profits and taxable income (loss) at the time of the transaction conducted.
(2) It is related to the deductible temporary differences arising from the investment in subsidiaries, associates, and the joint equity. It is recognized within the range of probable reversal in the foreseeable future and there is sufficient taxable income at the time the temporary difference occurred.

Deferred income tax assets and liabilities are measured at the tax rate of the expected asset realization or in the period in which the liability is settled. The tax rate is based on the legislated or substantially legislated tax rates and tax laws at the end of the reporting period. The measurement of deferred income tax assets and liabilities reflects the tax consequences arising from the manner in which the asset is expected to be recovered or the book value of the liability is settled at the end of the reporting period. If the deferred income tax is related to items that are not included in the profit or loss, it will not be recognized in profit or loss, but recognized in other comprehensive income according to the relevant transactions or directly recognized in equity. Deferred income tax assets are re-examined and recognized at the end of each reporting period.

Deferred income tax assets and liabilities can be offset against each other legally only in the current period, and the deferred income tax is related to the same taxation entity and is related to the income tax levied by the same taxation authority.

The income tax expense for the interim period is accrued and disclosed according to the tax rate applicable to the expected total earnings of the year, that is, it applies the estimated annual average effective tax rate to the pre-tax benefits to the interim period. The estimation of the annual average effective tax rate includes only current income tax expenses. The deferred income tax rules and annual financial reports are consistent; also, it is recognized and measured in accordance with IAS 12 “Income Taxes.” When the tax rate changes occur in the interim period, the effect of the changes in the tax rate on the deferred income tax is entirely recognized in profit or loss, other comprehensive income, or directly recognized in equity.

V. Main source of significant accounting judgment, estimates and assumptions uncertainty

When the consolidated financial statements are prepared by the Group, the management must make judgments, estimates, and assumptions at the end of the reporting period, which will affect the disclosure of income, expenses, assets and liabilities, and contingent liabilities. However, the uncertainty of these significant assumptions and estimates may result in a significant adjustment to the book value of an asset or liability in the future period.

Estimation and assumption

The main source of information on the estimation and assumption with uncertainty at the end of the reporting period has significant risks that result in significant adjustments to the book value of assets and liabilities in the next financial year. The explanations are given as follows:

(1) Loan impairment loss

The estimation of the Group's loan impairment loss is based on whether or not the credit risk has increased significantly since the original recognition to determine if it is necessary to have the allowance for loss assessed according to the 12-month expected credit loss amount or the expected credit loss amount throughout the duration. In order to measure the expected credit loss, the Group considers the default probability with the default loss rate included and then multiplied by the default risk exposure amount, and it also considers the impact of the time value of money to estimate the expected credit loss for 12 months as well as the duration. The Group considers historical experiences, current market conditions and forward-looking estimates on each reporting date to determine the assumptions and inputs to be used for calculating the impairments. Please refer to Note XIV for details.

(2) The fair value of financial instruments

When the fair value of financial assets and financial liabilities recognized in the balance sheet cannot be obtained from the active market, the fair value will be determined using evaluation techniques, including the income approach (such as, cash flow discount model) or market approach. The changes in the assumptions of the said approaches will affect the fair value of the financial instruments reported. Please refer to Note XIII.

(3) Retirement benefits plan

The present value of the defined benefit cost and the defined benefit obligations depends on the actuarial valuation. Actuarial valuation involves various assumptions, including: discount rate and changes in expected salary.

(4) Income tax

The uncertainty of income tax exists in the interpretation of complex tax regulations and the amount and timing of future taxable income. Due to a wide range of international business relationships and the long-term and complexity of contracts, the differences between actual results and assumptions made, or changes in such assumptions in the future, may cause the booked income tax benefits and expenses to be adjusted in the future. The appropriation of income tax is a reasonable estimation made according to the possible audit results of the local tax authorities of the countries in which the Group operates. The amount appropriated is based on different factors, such as: previous tax audit experience and the difference in tax law interpretation between the tax entity and the tax authority. The difference in interpretation may result in a variety of issues due to the local situation of the country where an individual enterprise of the Group operates.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The carryforwards of the taxable loss and income tax credit and deductible temporary differences are recognized as deferred income tax assets within the range of probable future taxable income or taxable temporary differences. The amount of the deferred income tax assets to be recognized is estimated according to the possible timing and level of the future taxable income and taxable temporary difference, and also, the future tax planning strategy.

VI. Summary of significant accounting titles

1. Cash and cash equivalents

	2019.09.30	2018.12.31	2018.09.30
Cash on hand	$1,282,527	$1,366,471	$1,354,130
Foreign currency on hand	179,614	230,888	175,851
Notes and checks for clearing	392,530	1,565,553	1,452,137
Due from Central Bank and other banks	983,314	1,179,429	1,426,629
Total	$2,837,985	$4,342,341	$4,408,747

For the purpose of preparing the cash flow statement, cash and cash equivalents are the sum of the following items.

	2019.09.30	2018.12.31	2018.09.30
Cash and cash equivalents on the consolidated balance sheet	$2,837,985	$4,342,341	$4,408,747
The "Due from the Central Bank and call loans to banks" that meet the definitions of IAS 7 "Definition of Cash and cash equivalents" approved by the FSC	4,378,976	8,530,162	8,216,833
The "Bonds and securities sold under re-purchase agreements" comply with the IAS 7 "Definition of Cash and cash equivalents" approved by the FSC.	105,070	624,167	954,043
Cash and cash equivalents on the Consolidated Statement of Cash Flow	$7,322,031	$13,496,670	$13,579,623

(In Thousands of New Taiwan Dollars, unless otherwise specified)

2. Due from Central Bank and lend to Banks

	2019.09.30	2018.12.31	2018.09.30
Reserve for deposits –Type A	$2,930,040	$2,939,644	$5,399,419
Reserve for deposits –Type B	5,371,554	5,314,596	5,225,546
Reserve for deposits –Foreign currency	18,936	17,518	17,414
Call loans to banks	1,430,000	5,573,000	2,800,000
Total	$9,750,530	$13,844,758	$13,442,379

The deposit reserve is calculated according to the monthly legal reserve appropriated for each type of deposit by law, the average daily amount and legal reserve ratio for the current period. Also, it is deposited with the Central Bank. Type A deposit reserve accounts and foreign currency depositor accounts do not bear interest and can be accessed at any time. Type B accounts bear interest, but they cannot be used except in compliance with the regulations.

3. Financial assets at fair value through profit and loss

	2019.09.30	2018.12.31	2018.09.30
Mandatorily measured at fair value through profit or loss:			
Stocks	$3,814,825	$4,584,529	$4,758,670
Equity securities	2,218,247	2,368,012	-
Domestic bonds	28,583,994	24,111,160	22,862,053
Derivatives	6,711	39,017	47,413
Convertible corporate bonds	313,701	323,902	322,141
Real estate investment trust fund	388,050	360,177	363,328
Total	$35,325,528	$31,786,797	$28,353,605

Please refer to Note VIII for details of the financial assets provided as collateral that the Group has them measured at fair value through profit or loss.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

4. Financial assets at fair value through other comprehensive income

	2019.09.30	2018.12.31	2018.09.30
Debt instrument investments measured at fair value through other comprehensive income:			
Bonds	$11,858,785	$15,622,987	$17,234,384
Corporate bond	32,612,760	33,660,910	32,396,943
Financial bonds	3,330,089	4,264,717	5,143,481
Subtotal (total book value)	47,801,634	53,548,614	54,774,808
Evaluation adjustment	2,655,121	(952,250)	348,568
Subtotal	50,456,755	52,596,364	55,123,376
Equity instrument investments measured at fair value through other comprehensive income:			
Listed stocks	99,209	93,960	126,000
Unlisted stocks	2,410,866	797,032	804,748
Subtotal	2,510,075	890,992	930,748
Total	$52,966,830	$53,487,356	$56,054,124

Please refer to Note VIII for details of the financial assets provided as collateral that the Group has them measured at fair value through other comprehensive income.

Please refer to Note VI for information on allowance for loss for the debt instrument investments measured at fair value through other comprehensive income. Also, please refer to Note XIV for information related to credit risk.

For the Company's investment in financial assets and equity instruments that was measured at fair value through other comprehensive income, dividend income for an amount of NT$77,143 thousand and NT$33,744 thousand, was recognized in the period from January 1 to September 30, 2019 and 2018, respectively, which was entirely related to the investments still held on the balance sheet date.

The Group's investment in financial assets and equity measured at fair value through other comprehensive income was disposed in the period from January 1 to September 30, 2019 and 2018, the fair value at the time of disposition were NT$14,624 thousand and NT$698,266 thousand. Also, the accumulated unrealized loss in valuation at the time of disposal for an amount of NT$16,067 thousand and NT$7,860 were transferred from other equity to retained earnings.

5. Financial assets based on cost after amortization

	2019.09.30	2018.12.31	2018.09.30
Convertible certificate of deposit	$18,000,000	$17,600,000	$16,600,000
Less: Allowance for losses	(1,897)	(2,004)	(1,890)
Total	$17,998,103	$17,597,996	$16,598,110

The Group classifies certain financial assets into financial assets measured at amortized cost. Please refer to Note VI for the information provided on allowances for loss. Also, refer to Note XIV for information related to credit risk and it is not provided as collateral.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

6. Bonds and securities sold under repurchase agreements

	2019.09.30	2018.12.31	2018.09.30
Bonds	$105,070	$624,167	$954,043

The Group's RS bill and bond transactions were for an amount of NT$105,079 thousand, NT$624,260 thousand and NT$954,207 thousand on September 30, 2019, December 31, 2018 and September 30, 2018, respectively.

7. Receivables- net

	2019.09.30	2018.12.31	2018.09.30
Accounts receivable and notes	$3,486,935	$2,652,762	$2,707,484
Interests receivable	968,328	1,038,824	1,000,931
Clearing amount receivable	314,085	-	43,229
Other receivables	44,957	21,681	38,396
Subtotal (total book value)	4,814,305	3,713,267	3,790,040
Less: Allowance for losses	(83,418)	(70,851)	(79,686)
Net	$4,730,887	$3,642,416	$3,710,354

The Group assesses impairments in accordance with International Financial Reporting Standard No. 9. Please refer to Note VI.26 for the allowance for loss related information in detail; also, refer to Note XIV for the credit risk related information in detail.

Please refer to Note VIII for details of the Group's collateral over the accounts receivables.

8. Discounts and loans, net

	2019.09.30	2018.12.31	2018.09.30
Import bill advance and export bills negotiation	$-	$-	$24,757
Overdraft	195,978	74,653	79,200
Loans	154,868,701	154,496,563	160,499,468
Collections of overdue loans	36,529	25,759	31,905
Total amount	155,101,208	154,596,975	160,635,330
Less: allowance for bad debt	(2,243,566)	(2,367,223)	(2,417,054)
Net	$152,857,642	$152,229,752	$158,218,276

The Group assesses impairments in accordance with International Financial Reporting Standard No. 9. Please refer to Note VI.26 for the allowance for loss related information in detail; also, refer to Note XIV for the credit risk related information in detail.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

9. Other financial assets – net

	2019.09.30	2018.12.31	2018.09.30
Non-delinquent loans restated from loans	$4,091	$3,968	$3,968
Others	134	2,037	242
Subtotal (total book value)	4,225	6,005	4,210
Less: allowance for bad debt	(3,842)	(1,300)	-
Total	$383	$4,705	$4,210

The Group's financial assets measured at cost are not provided as collateral.

10. Property, plant, and equipment

The Group's booked property, plant, and equipment are owned and used by the Group. The application of IFRS 16 has no impact on the Group's property, plant and equipment.

Property, plant, and equipment (Subject to IFRS 16)

	Land	Buildings and structures	Transport equipment	Other equipment	Uncompleted construction	Total
Cost:						
2019.01.01	$2,015,003	$1,169,735	$18,940	$164,532	$4,776	$3,372,986
Additions	222,391	30,184	-	30,070	1,204	283,849
Disposition	(14,115)	(23,581)	(2,243)	(7,727)	-	(47,666)
2019.09.30	$2,223,279	$1,176,338	$16,697	$186,875	$5,980	$3,609,169
2018.01.01	$2,015,003	$1,191,501	$18,940	$149,174	$6,907	$3,381,525
Additions	-	-	-	20,654	6,392	27,046
Disposition	-	(39,838)	-	(7,850)	-	(47,688)
2018.09.30	$2,015,003	$1,151,663	$18,940	$161,978	$13,299	$3,360,883
Depreciation and impairment:						
2019.01.01	$11,209	$840,074	$13,136	$119,644	$-	$984,063
Depreciation	-	15,035	1,375	19,190	-	35,600
Disposition	-	(15,324)	(1,532)	(7,605)	-	(24,461)
2019.09.30	$11,209	$839,785	$12,979	$131,229	$-	$995,202
2018.01.01	$11,209	$859,657	$10,087	$106,682	$-	$987,635
Depreciation	-	15,431	2,287	18,397	-	36,115
Disposition	-	(39,838)	-	(7,766)	-	(47,604)
Other changes	-	(416)	-	-	-	(416)
2018.09.30	$11,209	$834,834	$12,374	$117,313	-	$975,730
Net book value:						
2019.09.30	$2,212,070	$336,553	$3,718	$55,646	$5,980	$2,613,967
2018.12.31	$2,003,794	$329,661	$5,804	$44,888	$4,776	$2,388,923
2018.09.30	$2,003,794	$316,829	$6,566	$44,665	$13,299	$2,385,153

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The Group did not provide property, plant and equipment as collateral.

11. Other assets – net

	2019.09.30	2018.12.31	2018.09.30
Prepayments	$37,900	$9,446	$37,056
Inter-bank clearing fund	633,470	602,655	300,796
Refundable deposits	124,012	235,310	256,902
Others	24,825	31,170	24,463
Net	$820,207	$878,581	$619,217

As of September 30, 2019, December 31, 2018 and September 30, 2018, the other asset – other accumulated impairment amounted to NT$20,280 thousand.

12. Deposits from Central Bank and other banks

	2019.09.30	2018.12.31	2018.09.30
Deposits of other banks	$1,036	$71	$1,814
Call loans to banks	18,750,952	19,937,180	27,945,113
Total	$18,751,988	$19,937,251	$27,946,927

13. Funds borrowed from Central Bank and other banks

	2019.09.30	2018.12.31	2018.09.30
Funds borrowed from banks	$2,616,050	$3,438,640	$3,651,794

14. Financial liabilities at fair value through profit and loss

	2019.09.30	2018.12.31	2018.09.30
Available-for-sale financial liabilities:			
Derivatives	$8,943	$25,784	$22,051

15. Bills and bonds sold under repurchase agreements

	2019.09.30	2018.12.31	2018.09.30
Bonds	$8,048,600	$8,579,875	$9,780,800
Corporate bonds	20,149,564	19,992,978	17,464,875
Bank debentures	544,329	743,643	1,160,874
Total	$28,742,493	$29,316,496	$28,406,549

The Group's RP securities and bond liabilities, securities were repurchased according to the agreed price for an amount of NT$28,796,581 thousand, NT$29,388,277 thousand, and NT$28,454,511 thousand on September 30, 2019, December 31, 2018, and September 30, 2018, respectively.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

16. Payables

	2019.09.30	2018.12.31	2018.09.30
Accrued expenses	$234,545	$266,629	$189,009
Interest payable	159,831	155,423	153,524
Notes and checks in clearing	392,530	1,565,553	1,452,137
Clearing amount payable	167,207	-	769,719
Others	854,908	324,276	396,520
Total	$1,809,021	$2,311,881	$2,960,909

17. Customer deposits and remittances

	2019.09.30	2018.12.31	2018.09.30
Check deposits	$1,570,975	$2,334,521	$1,801,905
Current deposits	33,159,932	35,480,317	30,961,204
Time deposits	21,755,259	24,444,454	23,099,561
Savings deposit	130,694,284	126,173,193	125,773,172
Remittances	13,116	439	11,763
Total	$187,193,566	$188,432,924	$181,647,605

18. Other financial liabilities

	Interest rate interval (%)	2019.09.30	2018.12.31	2018.09.30
Chang Hwa Bank	1.1%~1.21%	$500,000	$500,000	$500,000
China Bills Finance Corporation	1.44%~1.48%	150,000	100,000	100,000
International Bills	1.44%~1.54%	120,000	140,000	320,000
Taiwan Cooperative Bills Finance Corporation	1.40%	120,000	120,000	120,000
Taiwan Finance Cooperation	1.4%~1.46%	100,000	100,000	100,000
Mega Bills	1.48%~1.49%	100,000	100,000	80,000
Grand Bills Finance Corporation	1.42%~1.44%	100,000	120,000	250,000
Ta Ching Bills Finance Corporation	1.39%~1.44%	-	50,000	30,000
Total		$1,190,000	$1,230,000	$1,500,000

19. Liability reserve

	2019.09.30	2018.12.31	2018.09.30
Retirement benefits plan	$264,722	$292,615	$293,626
Provision for guarantee liability	115,886	105,994	117,551
Provision for commitment of financing	19,318	21,818	18,818
Total	$399,926	$420,427	$429,995

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The changes in the guarantee liability provisions are as follows:

	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
Balance, beginning	$105,994	$146,533
Amount appropriated (reversed) for the period	9,891	(28,997)
Foreign exchange effect amount	1	15
Balance, ending	$115,886	$117,551

The changes in the financing commitment provisions are as follows:

	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
Balance, beginning	$21,818	$33,318
Amount appropriated (reversed) for the period	(2,500)	(14,500)
Foreign exchange effect amount	-	-
Balance, ending	$19,318	$18,818

20. Retirement benefits plan

Defined contribution pension plan

The Group had recognized the insurance expense of the defined contribution plan for an amount of NT$8,038 thousand and NT$8,016 thousand in July 1 to September 30, 2019 and 2018, respectively. Recognized the insurance expense of the defined contribution plan for an amount of NT$24,067 thousand and NT$23,799 thousand in January 1 to September 30, 2019 and 2018, respectively.

Defined benefit plan

The Group had recognized the the defined benefits plan for an amount of NT$1,002 thousand and NT$1,283 thousand in July 1 to September 30, 2019 and 2018, respectively. Recognized the the defined benefits plan for an amount NT$3,007 thousand and NT$3,850 thousand in January 1 to September 30, 2019 and 2018, respectively.

21. Other liabilities

	2019.09.30	2018.12.31	2018.09.30
Deposits received	$50,581	$41,540	$51,518
Unearned revenue	192,854	264,973	243,414
Others	66,557	26,006	21,693
Total	$309,992	$332,519	$316,625

(In Thousands of New Taiwan Dollars, unless otherwise specified)

22. Equity

(1) Common stock

As of September 30, 2019, December 31, 2018 and September 30, 2018, the Company’s authorized capital stock was NT$30,000,000 thousand, respectively, and the paid-in capital were NT$11,312,343 thousand, NT$11,512,343 thousand and NT$11,512,343 thousand, with a par value of NT$10 per share, divided into 1,131,234 thousand shares, 1,151,234 thousand shares, 1,151,234 thousand shares. Each share is entitled to one voting right and the right to receive dividends.

(2) Capital surplus

	2019.09.30	2018.12.31	2018.09.30
Common stock premium	$53,509	$54,455	$54,455
Treasury stock transactions	-	42,544	42,544
Others	2,586	2,586	2,586
Total	$56,095	$99,585	$99,585

The September 30, 2019, December 31, 2018 and September 30, 2018 additional paid-in capitals are adjusted as follows:

	Common stock premium	Treasury stock transactions	Stock option	Others	Total
Balance as of January 1, 2019	$54,455	$42,544	$-	$2,586	$99,585
Share-based payment transaction	-	-	-	-	-
Transfer of Treasury stock	-	-	-	-	-
Deregistration of treasury stock	(946)	(42,544)	-	-	(43,490)
Balance as of September 30, 2019	$53,509	$-	$-	$2,586	$56,095
Balance as of January 1, 2018	$54,455	$5,282	$-	$2,586	$62,323
Share-based payment transaction	-	-	37,262	-	37,262
Transfer of Treasury stock	-	37,262	(37,262)	-	-
Deregistration of treasury stock	-	-	-	-	-
Balance as of September 30, 2018	$54,455	$42,544	$-	$2,586	$99,585

According to the law, additional paid-in capital shall not be used for any purpose except for making up for the loss of the Company. When the Company has no loss, a certain percentage of the additional paid-in capital from the stock premium and the gift can be applied to replenish capital every year. The aforementioned additional paid-in capital can be allocated in cash to shareholders proportionally to their original shareholding ratio.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

(3) Treasury stock

a. Changes in treasury stock are as follows:

January 1 to September 30, 2019:

Cause	Number of shares-beginning of year	Increase	Decrease	Number of shares-end of year
Transferring stocks to employees	-	-	-	-
Maintain corporate credit and shareholders' equity	10,000 thousand shares	10,000 thousand shares	20,000 thousand shares	-
Total	10,000 thousand shares	10,000 thousand shares	20,000 thousand shares	-

January 1 to September 30, 2018:

Cause	Number of shares-beginning of year	Increase	Decrease	Number of shares-end of year
Transferring stocks to employees	5,000 thousand shares	-	5,000 thousand shares	-
Maintain corporate credit and shareholders' equity	-	-	-	-
Total	5,000 thousand shares	-	5,000 thousand shares	-

b. The Company transferred treasury stock to employees for 914 thousand shares and 4,086 thousand shares on March 16 and July 19, 2018, respectively.
c. The Company's Board of Directors had resolved to schedule the de-capitalization base on January 21 and September 30, 2019, with 20,000 thousand treasury stock shares repurchased and cancelled for a total amount of NT$200,000 thousand.
d. The treasury stocks held by the Company shall not be pledged, nor shall they be entitled to the distribution of dividends and voting rights according to the Securities and Exchange Act.

(4) Earnings allocation and dividend policy

According to the Articles of Association of the Company, if there are earnings at the annual final accounts, it should be distributed in the following order:
A. Withholding taxes
B. Making up for the loss
C. Appropriate 30% as the legal reserve
D. Making appropriation according to other provisions of the law or the order of the competent authority, or reversing the special reserves
E. The Board of Directors shall use the dividend policy to prepare an earnings distribution plan according to the remaining amount and present it in the shareholders meeting for resolutions.。

The principle of dividend distribution of the Company is based on the business operation needs of the Company and the revision of major laws and regulations. The Board of Directors presents the proposal in the Shareholders Meeting for resolutions with the ratio of the cash dividend moderately adjusted, which shall not be less than 1% of the total dividends. If the cash dividend per share is less than NT$0.1, it will not be distributed.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

According to the Banking Act, the legal reserve should be appropriated until the total amount is equivalent to the paid-in shares capital. Before the legal reserve is equivalent to the total capital, the maximum distribution of a cash dividend shall not exceed 15% of the total capital. The legal reserve can be used to make up for the loss. When the Company has no loss, the portion of the legal reserve exceeds 25% of the paid-in capital should be applied to have stock shares or cash distributed to shareholders proportionally to their original shareholding ratio.

According to the provisions of the Securities and Exchange Act, when the competent authorities consider it necessary, it may request the listed companies to have a certain percentage of special reserve appropriated in addition to appropriating the legal reserve lawfully at the time of distributing earnings.

After adopting IFRSs, when the Company adopted IFRSs for the first-time according to the FSC. Fa.Zi No. 1010012865 Letter issued by the Financial Supervisory Commission on July 6, 2012, for the booked unrealized revaluation increments and the cumulative conversion adjustment benefits are transferred to the retained earnings due to the adoption of IFRS 1 “First-time Adoption of International Financial Reporting Standards Data” exemption on the conversion date, a special reserve for the same amount is appropriated. After having the financial report prepared in accordance with IFRSs, when the distributable earnings are distributed, an additional special reserve is appropriated for an amount equivalent to the difference between the balance of the special reserve appropriated at the first-time adoption of IFRSs and the net debit of other equity. If the amount debited to the other shareholders' equity is reversed subsequently, the reversed amount can be distributed.

As of January 1, 2019 and 2018, the special reserve at the first-time adoption amounted to NT$45,549 thousand. In addition, the Company did not use, dispose of, or reclassify the relevant assets in the period from January 1 to September 30, 2019 and 2018 that caused having the special reserve reversed to the undistributed earnings. As of September 30, 2019 and 2018, the special reserve for the first time was NT$45,549 thousand.

The 2018 and 2017 earnings appropriation and distribution and the dividend per share was proposed and resolved in the board meeting on June 24, 2019 and the shareholders meeting on May 17, 2018 as follows:

	Distribution of retained earnings		Dividends per share ($)	
	2018	2017	2018	2017
Legal reserve	$863,340	$1,683,160		
Special reserve	437,551	28,053		
Common stock cash dividends	1,711,852	1,720,722	$1.5	$1.5
Total	$3,012,743	$3,431,935		

Please refer to Note VI. 28 for the relevant information on the estimation basis and recognition amount of the employee compensation and the remuneration to directors and supervisors.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

23. Net interest income

	2019.07.01~ 2019.09.30	2018.07.01~ 2018.09.30	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
Interest revenue				
Discount and loan interest income	$1,048,308	$1,109,361	$3,129,969	$3,152,489
Due from bank and interbank offered interest income	10,452	11,140	39,266	34,404
Security investment interest income	579,051	595,867	1,808,406	1,771,877
Other interest incomes	52,833	42,880	147,990	120,811
Subtotal	1,690,644	1,759,248	5,125,631	5,079,581
Interest expenses				
Deposits Interest expenses	(265,295)	(248,471)	(766,165)	(734,669)
Central Bank and interbank interest expense	(97,905)	(107,867)	(342,972)	(288,002)
Interest expense of the RP bonds	(154,503)	(120,740)	(481,853)	(304,574)
Others	(921)	(2)	(2,961)	(33)
Subtotal	(518,624)	(477,080)	(1,593,951)	(1,327,278)
Total	$1,172,020	$1,282,168	$3,531,680	$3,752,303

24. Service Fee, Net

	2019.07.01~ 2019.09.30	2018.07.01~ 2018.09.30	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
Service fee income	$377,213	$491,331	$1,427,710	$1,462,970
Service fee expenses	(11,398)	(11,271)	(35,003)	(35,472)
Total	$365,815	$480,060	$1,392,707	$1,427,498

25. Gain (loss) on financial assets and liabilities at fair value through profit and loss

	2019.07.01~ 2019.09.30	2018.07.01~ 2018.09.30	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
Stock investment	$141,245	$(52,951)	$557,209	$(74,041)
Bond investment	109,491	145,312	526,686	334,981
Derivatives	(23,536)	19,163	(58,381)	(22,818)
Others	18,690	26,141	38,297	43,943
Total	$245,890	$137,665	$1,063,811	$282,065

(In Thousands of New Taiwan Dollars, unless otherwise specified)

26. The reversed benefit of asset impairment and bad debts, commitments, and guarantee reserve

	2019.07.01~ 2019.09.30	2018.07.01~ 2018.09.30	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
Financial assets at fair value through other comprehensive income	$472	$(1,081)	$(27,856)	$59,812
Financial assets based on cost after amortization	-	91	107	246
Fixed assets	-	416	-	416
Subtotal	472	(574)	(27,749)	60,474
Loan and receivables bad debt (appropriation) reversed	(101,412)	(68,962)	(2,625,297)	(74,003)
Guarantee reserve reversed (appropriation)	-	(8,000)	(9,891)	28,997
Financing commitments reserve reversed	-	2,500	2,500	14,500
Subtotal	(101,412)	(74,462)	(2,632,688)	(30,506)
Total	$(100,940)	$(75,036)	$(2,660,437)	$29,968

Please refer to Note XIV for credit risk related information.

27. Lease

(1) The Group is a lessee (subject to the relevant disclosures as stipulated in IFRS 16).

The Group leases several assets, including real estate (buildings and structures) and other equipment. The lease period for each contract is for 3-10 years.

The impact of the lease on the Group's financial position, financial performance, and cash flow is as follows:

A. Amount recognized on the balance sheet

(a) Right-of-use assets

The book value of the right-of-use assets

	2019.9.30	2018.12.31 (Note)	2018.9.30 (Note)
Buildings and structures	$215,674		
Other equipment	4,854		
Total	$220,528		

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

The Group had added right-of-use assets for an amount of NT$5,637 thousand in the third quarter of 2019.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

(b) Lease liability

	2019.9.30	2018.12.31 (Note)	2018.9.30 (Note)
Lease liability	$221,804		
Current	$221,804		

The interest expense of the Group's lease liability was NT$2,960 thousand in the third quarter of 2019. For the maturity analysis of the lease liability on September 30, 2019, please refer to Note XIV.4 "Liquidity Risk Management."

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

B. Amount recognized in the comprehensive income statement

Depreciation of the right-of-use assets

	2019 Q3	2018 Q3 (Note)
Buildings and structures	$55,546	
Other equipment	1,248	
Total	$56,794	

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

C. The lessee and the lease activity related income, expense, and loss

	2019 Q3	2018 Q3 (Note)
Short-term lease expense	$1,254	
Low-value asset lease expenses (excluding the low-value assets lease expenses of the short-term leases)	1,461	

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

D. The lessee and the lease activity related cash outflow

The total cash outflow for the lease of the Group was NT$58,477 thousand in the third quarter of 2019.

(2) The Group is a lessee - operating lease (subject to the relevant disclosure as stipulated in IAS 17).

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The Group has signed commercial lease contracts for building and equipment that is for an average period of 3-10 years and without any renewal right. No restrictions are imposed on the Group in these contracts.

According to the irrevocable operating lease contract, the total future minimum lease payments on September 30, 2019, December 31, 2018 and September 30, 2018 are as follows:

	2019.09.30 (Note)	2018.12.31	2018.09.30
No more than one year		$78,068	$70,479
Over 1 year but less than 5 years		188,529	151,294
Over 5 years		25,562	40,575
Total		$292,159	$262,348

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

28. Operating expenses

The employee benefits, depreciation, and amortization expenses are summarized by function as follows:

	2019.07.01~ 2019.09.30	2018.07.01~ 2018.09.30	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
Employee benefits expenses				
Salary expenses	$128,046	$121,289	$578,942	$548,295
Labor insurance and national health insurance	15,844	15,466	50,320	49,813
Pension expenses	9,040	9,299	27,074	27,649
Other employee benefits expenses	10,812	9,863	28,392	27,142
Depreciation	32,298	13,080	92,394	36,115
Total	$196,040	$168,997	$777,122	$689,014

According to the Articles of Association, if the Company has earnings for the year, no less than 0.01% of the earnings should be appropriated to pay employees' compensation and no more than 2% of the earnings should be appropriated as remuneration to directors and supervisors. However, when there are accumulated losses, an equivalent amount should be appropriated to make up for losses. The remuneration to employees is paid with stock dividend or cash; also, it must be with the consent of the majority of the presenting directors in the Board meeting that is with two thirds of the directors attended; also, the resolution should be reported in the shareholders' meeting. Please refer to the "Market Observation Post System" of the Taiwan Stock Exchange Corporation for information on employee compensation and remuneration to directors and supervisors resolved by the Board of Directors.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

On January 1 to September 30, 2019 and 2018, according to the profit generated, an amount equivalent to 0.01% of the earnings was appropriated for the employee's remuneration, NT$230 thousand and NT$435 thousand, respectively, which was listed in the "salary expenses" account.

The Group's Board of Directors had resolved on February 25, 2019 to issue the 2018 employees' compensation and the remuneration to directors and supervisors distributed for an amount of NT$360 thousand and NT$0 thousand, respectively, which was not significantly different from the expenses booked in the 2018 financial report.

There is no significant difference between the actual employees' compensation and remuneration to directors and supervisors distributed in 2018 and the expenses booked in the 2017 financial report.

29. Other comprehensive income

The other comprehensive income on July 1 to September 30, 2019 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income	Income tax benefit (expense)	After-tax amount
Items not reclassified to income:					
Unrealized gain/loss on valuation of investment in equity instrument measured at fair value through other comprehensive income	$112,570	$-	$112,570	$-	$112,570
Items may be reclassified to income subsequently:					
Exchange differences from the translation of financial statements of foreign operations	(3,289)	-	(3,289)	395	(2,894)
Capital gain/loss of debts instrument at fair value through comprehensive income statement as other comprehensive income	815,697	(3,041)	812,656	-	812,656
Total	$924,978	$(3,041)	$921,937	$395	$922,332

The other comprehensive income on July 1 to September 30, 2018 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income	Income tax benefit (expense)	After-tax amount
Items not reclassified to income:					
Unrealized gain/loss on valuation of investment in equity instrument measured at fair value through other comprehensive income	$22,733	$-	$22,733	$-	$22,733
Items may be reclassified to income subsequently:					
Exchange differences from the translation of financial statements of foreign operations	(15,986)	-	(15,986)	3,197	(12,789)
Capital gain/loss of debts instrument at fair value through comprehensive income statement as other comprehensive income	(37,974)	(3,775)	(41,749)	-	(41,749)
Total	$(31,227)	$(3,775)	$(35,002)	$3,197	$(31,805)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The other comprehensive income on January 1 to September 30, 2019 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income	Income tax benefit (expense)	After-tax amount
Items not reclassified to income:					
Unrealized gain/loss on valuation of investment in equity instrument measured at fair value through other comprehensive income	$313,338	$-	$313,338	$-	$313,338
Items may be reclassified to income subsequently:					
Exchange differences from the translation of financial statements of foreign operations	(36,003)	-	(36,003)	7,164	(28,839)
Capital gain/loss of debts instrument at fair value through comprehensive income statement as other comprehensive income	3,652,580	(16,045)	3,636,535	-	3,636,535
Total	$3,929,915	$(16,045)	$3,913,870	$7,164	$3,921,034

The other comprehensive income on January 1 to September 30, 2018 is as follows:

	Accrued in current year	Current reclassification adjustment	Other comprehensive income	Income tax benefit (expense)	After-tax amount
Items not reclassified to income:					
Unrealized gain/loss on valuation of investment in equity instrument measured at fair value through other comprehensive income	$(27,585)	$-	$(27,585)	$-	$(27,585)
Defined benefit plan re-measurement amount	-	-	-	6,841	6,841
Items may be reclassified to income subsequently:					
Exchange differences from the translation of financial statements of foreign operations	58,351	-	58,351	(10,799)	47,552
Capital gain/loss of debts instrument at fair value through comprehensive income statement as other comprehensive income	(1,975,306)	(9,597)	(1,984,903)	-	(1,984,903)
Total	$(1,944,540)	$(9,597)	$(1,954,137)	$(3,958)	$(1,958,095)

The Group's debt instrument investment measured at fair value through other comprehensive income in January 1 to September 30, 2019 and 2018 were reclassified to profit or loss from the cumulative other comprehensive income at the time of de-recognition for an amount of NT$16,045 thousand and NT$9,597 thousand, respectively.

30. Income tax

According to the amended provisions of the Income Tax Law promulgated on February 7, 2018, the income tax rate of the profit-making enterprise applicable from the year of 2018 was changed from 17% to 20%, and the additional business tax rate for undistributed earnings was changed from 10% to 5%.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The main composition of income tax expenses (benefit) is as follows:

Income tax recognized in profit or loss

	2019.07.01~ 2019.09.30	2018.07.01~ 2018.09.30	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
Current income tax expenses (benefit):				
Payable income tax for the current period	$(210,996)	$178,289	$159,477	$728,389
The income tax of the previous years adjusted in the current period	-	-	810	(8,753)
Deferred income tax expense (benefit):				
Deferred income tax expense (benefit) related to the original generation of the temporary difference and its reversal	392,488	8,284	150,905	60,522
The tax losses, income tax credit, or temporary differences that were not recognized in previous years are recognized in the current year.	-	-	1,955	(5,994)
Deferred income tax related to changes in tax rates or new taxation	-	-	-	(48,533)
Income tax expenses	$181,492	$186,573	$313,147	$725,631

Income tax recognized in the other comprehensive income

	2019.07.01~ 2019.09.30	2018.07.01~ 2018.09.30	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
Deferred income tax expense (benefit):				
Exchange differences from the translation of financial statements of foreign operations	$(395)	$(3,197)	$(7,164)	$10,799
Defined benefit plan actuarial (loss)	-	-	-	(6,841)
The other comprehensive income related income tax	$(395)	$(3,197)	$(7,164)	$3,958

Income tax declaration and audit

As of September 30, 2019, the income tax returns of the Company and its subsidiaries were audited as follows:

	Income tax declaration and audit
The Company	Audited up to the year of 2017
Subsidiary - King's Town Bank International Leasing Co., Ltd.	Audited up to the year of 2017
Sub-subsidiary - King's Town International Real Estate Management Co., Ltd.	Audited up to the year of 2017

(In Thousands of New Taiwan Dollars, unless otherwise specified)

31. Earnings per share

The basic earnings per share is calculated by having the net profit attributable to the holder of the common stock shares of the parent company divided by the weighted average number of common stock shares outstanding in the current period.

The diluted earnings per share is calculated by having the net profit attributable to the holder of the common stock shares of the parent company divided by the weighted average number of common stock shares outstanding in the current period plus the weighted average number of common stock shares to be issued when all dilutive potential common stock shares were converted into common stock shares.

	2019.07.01~ 2019.09.30	2018.07.01~ 2018.09.30	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
(1) Basic earnings per share				
Net income attributable to the holders of common stock of the parent company (NT$ Thousands)	$1,256,029	$1,322,268	$2,026,813	$3,660,270
Weighted average number of common stock shares (Thousand shares) of the earnings per share	1,138,594	1,150,435	1,140,344	1,148,008
Base earnings per share (NT$)	$1.10	$1.15	$1.78	$3.19
(2) Diluted earnings per share				
Net income attributable to the holders of common stock of the parent company (NT$ Thousands)	$1,256,029	$1,322,268	$2,026,813	$3,660,270
Weighted average number of common stock shares (Thousand shares) of the earnings per share	1,138,594	1,150,435	1,140,344	1,148,008
Dilution effect	-	-	-	-
Weighted average number of common stock shares (Thousand shares) after adjusting the dilution effect	1,138,594	1,150,435	1,140,344	1,148,008
Diluted earnings per share (NT$)	$1.10	$1.15	$1.78	$3.19

There was no other transaction performed to cause significant changes to the outstanding common stock shares or the potential common stock shares after the reporting period and before the release of the financial statements.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

VII. Related party transactions

1. Names of related parties and their relationship with the company

Name	Relationship with the Group
Chen-Chih Tai	Chairman of the Group
Chiung-Ting Tsai	Vice Chairman of the Group
Jih-Cheng Chang	President of the Group
Tiangang Investment Co., Ltd	Director of the Group
Ming-Tai Chen	Independent Director of the Group
Chao-Lung Chen	Independent Director of the Group
Chih-Chieh Hsu	Independent Director of the Group (2018.5.16 resigned)
Hung-Liang Chiang	Independent Director of the Group (2018.11.2 took office)
Others	Representatives of the Group's managers, incorporated directors and supervisors, and second degree of kinship and substantive stakeholders

2. Significant transactions with related parties

(1) Deposit and loan

Account titles	Amount	% of the account balance
2019.09.30		
Deposits	$207,063	0.11%
Loans	23,506	0.02%
2018.12.31		
Deposits	$234,256	0.12%
Loans	33,496	0.02%
2018.09.30		
Deposits	$249,364	0.14%
Loans	38,545	0.02%

For the deposit interest rate between the Group and its related parties, except for when the bank clerk's savings deposit amount within the prescribed limit has interest calculated according to a preferential deposit interest rate, the amount exceeding the threshold and the deposit interest rate of the other related party are same as the interest rate of the general customers.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

(2) Lease

The rental expenses paid to the related party for the lease of the office in July 1 to September 30, 2019 and 2018 were NT$960 thousand. The rental expenses paid to the related party for the lease of the office in January 1 to September 30, 2019 and 2018 were NT$2,880 thousand.

(3) Loans

September 30, 2019

Type	Number of accounts or name of stakeholder	Current period Maximum Balance	Balance, ending	Performance		Collateral Contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	Non-performing loans		
Consumer loans	9	$4,541	$4,348	$4,348	$-	None	None
Residential mortgage loans	3	12,490	12,383	12,383	-	Real estate	None
Other loans	Chou OO	1,000	1,000	1,000	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Lin OO	3,500	3,500	3,500	-	Real estate	None

December 31, 2018

Type	Number of accounts or name of stakeholder	Current period Maximum Balance	Balance, ending	Performance		Collateral Contents	Difference in trading conditions and terms with non-stakeholders
				Normal loans	Non-performing loans		
Consumer loans	8	$4,586	$4,413	$4,413	$-	None	None
Residential mortgage loans	4	23,503	23,308	23,308	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Lin OO	3,500	3,500	3,500	-	Real estate	None

(In Thousands of New Taiwan Dollars, unless otherwise specified)

September 30, 2018

Type	Number of accounts or name of stakeholder	Current period Maximum Balance	Balance, ending	Performance: Normal loans	Performance: Non-performing loans	Collateral Contents	Difference in trading conditions and terms with non-stakeholders
Consumer loan	9	$5,581	$5,386	$5,386	$-	None	None
Residential mortgage loans	5	24,593	24,384	24,384	-	Real estate	None
Other loans	Huang OO	1,100	1,100	1,100	-	Real estate	None
Other loans	Wu OO	3,000	3,000	3,000	-	Real estate	None
Other loans	You OO	1,175	1,175	1,175	-	Certificate of Deposit	None
Other loans	Lin OO	3,500	3,500	3,500	-	Real estate	None

(4) Guaranteed amount: None

(5) Derivative financial instrument transactions: None

(6) Sale of non-performing loan: None

(7) Remuneration of directors and key management personnel of the Group

	2019.07.01~ 2019.09.30	2018.07.01~ 2018.09.30	2019.01.01~ 2019.09.30	2018.01.01~ 2018.09.30
Short-term employee benefits	$5,577	$5,485	$20,984	$37,001
Retirement benefits	466	432	1,398	1,297
Total	$6,043	$5,917	$22,382	$38,298

(In Thousands of New Taiwan Dollars, unless otherwise specified)

VIII. Pledged assets

The Group has the following assets provided as collateral:

Item	Book value 2019.09.30	Book value 2018.12.31	Book value 2018.09.30	Guaranteed debt
Financial assets at fair value through profit and loss	$5,879,840	$6,737,446	$-	RP transaction
Financial assets at fair value through profit and loss	704,537	11,203	-	Various business reserves and collateral
Financial assets at fair value through other comprehensive income	-	2,056,191	2,059,948	Various business reserves and collateral
Financial assets at fair value through other comprehensive income	26,278,323	25,914,862	31,442,349	RP transaction
Financial assets at fair value through other comprehensive income	8,040,674	8,689,407	8,486,912	Funds borrowed from banks
Accounts receivable	1,084,000	828,814	915,000	Funds borrowed from banks
Financial assets at fair value through profit and loss	54,400	62,900	-	Funds borrowed from banks
Total	$42,041,774	$44,300,823	$42,904,209	

IX. Significant contingent liabilities and unrecognized contractual commitments

(1) The Group has the following or various trust agents and guarantees:

	2019.09.30	2018.12.31	2018.09.30
Custodial collections receivables	10,074,459	$10,780,490	$10,539,510
Guarantee receivables	5,393,723	5,092,739	4,927,082
Receivables from L/C	45,918	33,177	72,561
Trust and custody	31,113,238	27,652,280	16,886,277
Agreed financing amount	14,824,923	17,201,151	17,077,204

(In Thousands of New Taiwan Dollars, unless otherwise specified)

X. Contents and amount of trust business handled in accordance with the provisions of the Trust Enterprise Act

The Group provides the trust balance sheet, income statement, and property list to the Trust Department in accordance with Article 17 of the Enforcement Rules of the Trust Enterprise Act as follows:

Balance Sheet of Trust Accounts

Trust assets	2019.09.30	2018.09.30	Trust liabilities	2019.09.30	2018.09.30
Bank deposits	$1,046,867	$500,709	Mid-term borrowings	$4,821,230	$-
Stock	2,545,907	87,000	Payables	137,653	-
Fund	9,507,960	10,446,513	Other liabilities	44,195	-
Real estate	17,129,456	5,196,656	Trust capital	25,993,545	16,820,052
Other assets	820,541	593,399	Reserve And accumulated earnings	54,108	4,225
Total trust assets	$31,050,731	$16,824,277	Total trust liabilities	$31,050,731	$16,824,277

Income Statement of Trust Accounts

Item	2019.01.01~2019.09.30	2018.01.01~2018.09.30
Amount		
Interest revenue	$747	$347
Rent revenue	268,024	3,878
Dividend income	79,107	-
Unrealized capital gains	96,065	-
Other profits	8,063	-
Subtotal	452,006	4,225
Trust expenses		
Administrative expenses	(24,530)	-
Tax expense	(14,563)	-
Interest expenses	(23,082)	-
Unrealized capital loss	(112,470)	-
Other Expenses	(29,709)	-
Subtotal	(204,354)	-
Net profit before tax	247,652	4,225
Income tax expenses	(1,089)	-
Net income	$246,563	$4,225

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Property Catalogue of Trust Accounts

Investment	2019.09.30	2018.09.30
Bank deposits	$1,046,867	$500,709
Stock	2,545,907	87,000
Fund	9,507,960	10,446,513
Real estate		
Land	12,278,266	4,259,893
Buildings and structures	4,844,610	657,783
Construction in progress	6,580	278,980
Others	820,541	593,399
Total	$31,050,731	$16,824,277

XI. Significant disaster loss

No such event.

XII. Significant subsequent events

No such event.

XIII. Fair value and grade information of financial instruments

1. Information on the fair value of financial instruments

Financial assets:

	2019.9.30		2018.12.31	
	Book value	Fair value	Book value	Fair value
Financial assets measured at fair value through profit or loss				
Mandatorily measured at fair value through profit or loss	$35,325,528	$35,325,528	$31,786,797	$31,786,797
Financial assets at fair value through other comprehensive income	52,966,830	52,966,830	53,487,356	53,487,356
Financial assets based on cost after amortization				
Investment of debt instruments on the basis of cost after amortization	17,998,103	17,998,103	17,597,996	17,597,996
Cash and cash equivalents (excluding cash on hand)	1,375,844	1,375,844	2,744,982	2,744,982
Due from Central Bank and lend to Banks	9,750,530	9,750,530	13,844,758	13,844,758
Bonds and securities sold under repurchase agreements	105,070	105,070	624,167	624,167
Receivables	4,730,887	4,730,887	3,642,416	3,642,416
Discounts and loans	152,857,642	152,857,642	152,229,752	152,229,752
Other financial assets	383	383	4,705	4,705

(In Thousands of New Taiwan Dollars, unless otherwise specified)

	2018.09.30	
	Book value	Fair value
Financial assets measured at fair value through profit or loss		
Mandatorily measured at fair value through profit or loss	$28,353,605	$28,353,605
Financial assets at fair value through other comprehensive income	56,054,124	56,054,124
Financial assets based on cost after amortization:		
Investment of debt instruments on the basis of cost after amortization	16,598,110	16,598,110
Cash and cash equivalents (excluding cash on hand)	2,878,766	2,878,766
Due from Central Bank and lend to Banks	13,442,379	13,442,379
Bonds and securities sold under repurchase agreements	954,043	954,043
Receivables	3,710,354	3,710,354
Discounts and loans	158,218,276	158,218,276
Other financial assets	4,210	4,210

Financial liabilities:

	2019.09.30		2018.12.31	
	Book value	Fair value	Book value	Fair value
Financial liabilities based on cost after amortization:				
Deposits from Central Bank and other banks	$18,751,988	$18,751,988	$19,937,251	$19,937,251
Funds borrowed from Central Bank and other banks	2,616,050	2,616,050	3,438,640	3,438,640
Bills and bonds sold under repurchase agreements	28,742,493	28,742,493	29,316,496	29,316,496
Payables	1,809,021	1,809,021	2,311,881	2,311,881
Customer deposits and remittances	187,193,566	187,193,566	188,432,924	188,432,924
Lease liability	221,804	221,804	(Note)	(Note)
Financial liabilities at fair value through profit and loss:				
Held for transaction purposes	8,943	8,943	25,784	25,784

	2018.09.30	
	Book value	Fair value
Financial liabilities based on cost after amortization:		
Deposits from Central Bank and other banks	$27,946,927	$27,946,927
Funds borrowed from Central Bank and other banks	3,651,794	3,651,794
Bills and bonds sold under repurchase agreements	28,406,549	28,406,549
Payables	2,960,909	2,960,909
Customer deposits and remittances	181,647,605	181,647,605
Lease liability	(Note)	(Note)
Financial liabilities at fair value through profit and loss:		
Held for transaction purposes	22,051	22,051

Note: The Group has adopted IFRS 16 since January 1, 2019 and has chosen not to re-prepare the financial statements for the comparison periods in accordance with the transitional provisions of IFRSs.

The derivative financial instrument transactions are detailed as follows:

Item	Contract amount	Fair value
2019.09.30		
Foreign exchange contracts	$2,477,868	$(2,232)
2018.12.31		
Foreign exchange contracts	$4,176,667	$13,233
2018.09.30		
Foreign exchange contracts	$3,061,004	$25,362

2. Methods and assumptions used in the fair value of financial instruments

Fair value is the price that would be collected for the assets sold or price paid for the liabilities transferred in an orderly transaction between market participants on the measurement date. The methods and assumptions used by the Group to measure or disclose the fair value of financial assets and financial liabilities are as follows:

(1) The fair value of short-term financial products is estimated according to the book value on the balance sheet. Because the maturity date of such products is very close or the current collection price is equal to the book value, so the book value is a reasonable basis for estimating the fair value. This method is applied to cash and cash equivalents, deposits with the Central Bank and inter-bank loan, RS bill and bond investments, receivables, deposits of the Central Bank and interbank, financing of the Central Bank and interbank, RP bill and bond liabilities, payables, deposits and remittances, and other financial liabilities.

(2) For financial assets and liabilities measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income, available-for-sale financial assets, and held-to-maturity financial assets, if there is a public market price available, such market price is the fair value, which refers to the closing price on the balance sheet date for the listed (OTC) equity security with a market price available, the net asset value on the balance sheet date for the fund, the closing price or reference price on the balance sheet date for the bond, and the settlement price or the counterparty's quote for the derivative financial products. If no market price is available for reference, the evaluation method is used for estimation. When the Group adopts the market price including the purchase price and the selling price, the Group will evaluate the selling (purchasing) position at the market buying (selling) price. If there is no market price available at the time of evaluation but there is the most recent market transaction price available, then the said transaction price is the fair value of such financial asset.

(3) Discounts, loans, and deposits are all interest-bearing financial assets and liabilities, so their book value is similar to the current fair value. The book value of the collection is the estimated recovery amount net of the allowance for bad debt. Therefore, the book value is the fair value.

(4) For debt-based instruments that are without an available market price, the fair value is determined by the counterparty's quotation or valuation technology. The determination of valuation technology is based on the discounted cash flow analysis. The assumptions of interest rate and discount rate are mainly based on information related to similar instruments (for example, Taipei Exchange reference yield curve, the Reuters commercial promissory interest rate average quotation, and credit risk information).

(5) The fair value of derivatives (including forward foreign exchange and foreign exchange transactions) is the amount that the Group is expected to obtain or must pay if it terminates the contract at the agreed reporting date. The Group calculates the fair value of the position held with the parameters or quotation information disclosed by the Reuters Information System.

(6) The fair value of the equity instruments (e.g.: private company's stock shares) that do not have a market price available is estimated with the market approach, which is with the fair value estimated with the price generated in market transactions of the same or comparable company's equity instruments and other relevant information (e.g. lack of liquidity discount factor, the profit ratio of the similar company's stock, and the input value of the similar company's stock price book ratio).

Please refer to Note XIII. 3 for the information on the fair value bracket of the Group's financial instruments.

3. Fair value hierarchy

(1) The definition of the Group's three-level fair value

① Level I

Refers to the public offer (unadjusted) of the same financial instrument available in the market on the measurement date. The fair value of the listed (OTC) stocks, beneficiary certificates, corporate bonds, financial bonds, convertible corporate bonds, and derivatives with a market price available invested in by the Group is classified as Level I.

② Level II

It refers to the observable prices other than the quote in an active market, including the observable input parameters directly (as prices) or indirectly (*e.g.* derived from prices) acquired from an active market. It includes the convertible corporate bonds, Taiwan Central Government bonds, and general derivatives invested by the Group.

③ Level III

It means that the input parameters for measuring fair value are not based on information available from the market or by the quotations provided by the counterparty. It includes the unlisted stocks invested by the Group.

For assets and liabilities that are recognized in the financial statements on a repetitive basis, the classification is re-evaluated at the end of each reporting period to determine whether there is a transfer between the fair value levels.

(2) Information on the fair value measurement levels:

The Group does not have non-repetitive assets measured at fair value. The information on the fair value level of repetitive assets and liabilities is shown below.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

2019.9.30

	Total	Level I	Level II	Level III
Assets measured at fair value				
Financial assets at fair value through profit and loss				
Stock investment	$3,814,825	$3,814,825	$-	$-
Bond investment	28,897,695	313,701	28,583,994	-
Derivatives	6,711	-	6,711	-
Others	2,606,297	2,606,297	-	-
Financial assets at fair value through other comprehensive income				
Stock investment	2,510,075	84,238	14,971	2,410,866
Bond investment	50,456,755	38,511,979	11,944,776	-
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss				
Derivatives	8,943	-	8,943	-

2018.12.31

	Total	Level I	Level II	Level III
Assets measured at fair value				
Financial assets at fair value through profit and loss				
Stock investment	$4,584,529	$4,584,529	$-	$-
Bond investment	24,435,062	301,361	24,133,701	-
Derivatives	39,017	-	39,017	-
Others	2,728,189	2,728,189	-	-
Financial assets at fair value through other comprehensive income				
Stock investment	890,992	93,960	-	797,032
Bond investment	52,596,364	36,881,446	15,714,918	-
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss				
Derivatives	25,784	-	25,784	-

(In Thousands of New Taiwan Dollars, unless otherwise specified)

2018.9.30

	Total	Level I	Level II	Level III
Assets measured at fair value				
Financial assets at fair value through profit and loss				
Stock investment	$4,758,670	$4,758,670	$-	$-
Bond investment	23,184,194	299,803	22,884,391	-
Derivatives	47,413	-	47,413	-
Others	363,328	363,328	-	-
Financial assets at fair value through other comprehensive income				
Stock investment	930,748	126,000	-	804,748
Bond investment	55,123,376	37,762,427	17,360,949	-
Liabilities measured at fair value				
Financial liabilities at fair value through profit and loss				
Derivatives	22,051	-	22,051	-

(3) Transfer between Level I and Level II fair value

In the period of January 1 to September 30, 2019 and 2018, the Group's assets and liabilities measured at the Group's repetitive fair value was not transferred between Level I and Level II fair value.

(4) Changes in Repetitive Fair Value Level III Statement

If the assets measured with the Group's repetitive fair value that are classified as Level III fair value, the adjustment of the beginning balance and the ending balance is as follows:

	Financial assets measured at fair value through other comprehensive income - stocks
2019.1.1	$797,032
Total benefits recognized in 2019:	
Recognized in other comprehensive income (reported in "Unrealized gain/loss on valuation of investment in equity instrument measured at fair value through other comprehensive income")	309,183
Achievements in the current period	1,304,651
2019.09.30	$2,410,866

	Financial assets measured at fair value through other comprehensive income - stocks
2018.1.1	$803,543
Total benefits recognized in 2018:	
Recognized in other comprehensive income (reported in "Unrealized gain/loss on valuation of investment in equity instrument measured at fair value through other comprehensive income")	1,205
2018.09.30	$804,748

Significant unobservable input value information of Level III fair value

For the Group's assets measured at Level III repetitive fair value, the significant unobservable input values for fair value measurement are as follows:

	Valuation technique	Significant unobservable input value	Range	Relationship between input value and fair value
Financial assets at fair value through other comprehensive income				
Stock	Market Approach	Lack of liquidity discount rate	20%~30%	The higher the lack of liquidity, the lower the estimated fair value

Evaluation process for Level III fair value

The financial instrument evaluation team of the Group's Risk Management Department is responsible for independent fair value verification. The data from an independent source is used to bring the evaluation results close to the market, to confirm that the data sources are independent, reliable, consistent with other resources, and representing executable prices, and regularly calibrate and evaluate the valuation model, performing backtracking tests, updating the input values and information required for the evaluation model, and any other necessary fair value adjustments to ensure that the valuation results are reasonable.

(5) Not measured at fair value but must disclose fair value level information

Assets with only fair value disclosed:	Level I	Level II	Level III	Total
2019.09.30				
Investment of debt instruments on the basis of cost after amortization				
Convertible certificate of deposit	$17,998,103	$-	$-	$17,998,103
2018.12.31				
Investment of debt instruments on the basis of cost after amortization				
Convertible certificate of deposit	$17,597,996	$-	$-	$17,597,996
2018.09.30				
Investment of debt instruments on the basis of cost after amortization				
Convertible certificate of deposit	$16,598,110	$-	$-	$16,598,110

4. Transfer of financial assets

Transferred financial assets not being removed in all

In the daily trading activities of the Group, for the transferred financial assets that did not meet the overall de-recognizing conditions, most of them are RP debt securities as collateral held by the counterparty of the transaction. Such transactions are essentially secured borrowings and reflect the Group's liabilities from repurchasing the obligation of the transferred financial assets at a fixed price in the future. For such transactions, the Group is unable to use, sell, or pledge the transferred financial assets during the effective period of the transaction, but the Group still bears the interest rate risk and credit risk. Therefore, it has not been derecognized entirely.

The table below shows the financial assets not qualified under all conditions and related financial liabilities:

(In Thousands of New Taiwan Dollars, unless otherwise specified)

September 30, 2019					
Category of financial assets	Book value of transferred financial assets	Book value of related financial liabilities	Fair value of transferred financial assets	Fair value of related financial liabilities	Net fair value position
Financial assets measured at fair value through profit or loss with RP agreement	$5,873,667	$6,097,600	$5,873,667	$6,097,600	$(223,933)
Financial assets measured at fair value through other comprehensive income RP agreement	26,278,323	22,644,893	26,278,323	22,644,893	3,633,430

XIV. Financial risk management

1. Overview

The Group uses the business growth scale to establish a capital adequacy assessment process that meets the risk profile in order to maintain adequate capital. Also, it considers the overall risk exposure, implements appropriate overall capital allocation, and establishes management mechanisms for various business risks in order to strengthen business performance. The risks involved in the businesses on and off the balance sheet, such as, credit risk, market risk, operational risk, liquidity risk, country risk, interest rate risk in the banking book, etc., are included in the risk management scope. Policies and methods are stipulated according to different risks, such as, "Credit Policy", "Rules Governing Credit Review and Authorization", "Rules Governing Risks", etc. Stipulate management guidelines according to the needs of the policies and methods, such as, stipulating "Regulations Governing Credit Risk", "Regulations Governing Market Risk", and "Regulations Governing Operational Risk" in accordance with the "Rules Governing Risks" that are reviewed and approved by the Board of Directors in order to effectively identify, measure, communicate, and monitor various risks.

2. Risk management organizational structure

The risk management of the Group is carried out by the Risk Management Department in accordance with the risk management policy approved by the Board of Directors. The Risk Management Department works closely with business units to identify, assess, and prevent risks. The Board of Directors has a written policy for risk management that covers specific risk exposure, such as, interest rate risk, credit risk, etc. In addition, the Audit Office regularly (at least once a year) and occasionally reviews the risk management and operating procedures of the Group to ensure that the Group's risk management mechanism can be operated effectively. Also, the audit records related to various risks, such as transaction records, statements, and valuations are kept for the review of the Audit Office.

(1) Risk Management Committee

For the purpose of upgrading the risk management mechanism, improving various risks management, avoiding all possible adverse effects on the Group, and seeking maximized profits with limited risks, the Risk Management Committee is established with the President acting as the Chief Commissioner. Also, the department head of the

Finance Department, Digital Service and Business Department, Risk Management Department, Credit Review Department, Administration Office, International Sales Department, Compliance Department, and the Business Management Department and other personnel designated by the President act as the Members of the Committee. The chief auditor may attend the Committee meeting, but may not vote. The Committee has a meeting held once a month with the following missions to fulfill:

① Add and amend the Group's risk management policy.
② Coordinate the risk management issues of the Company, such as, credit risk, market risk, and operational risk.
③ Review the ratio of the Group's regulatory capital to risk assets (referred to as "capital adequacy ratio")
④ Handle and review the major risk exposure and unauthorized events which occur.
⑤ Major issues or discussions related to risk management proposed by each unit
⑥ Matters assigned by the Board of Directors, Chairman, and Vice Chairman

The "Risk Management Department" is the execution unit of the Risk Management Committee and the risk management planning and management unit of the Bank. It independently monitors and manages the risks of the Bank. The department head of the Risk Management Department acts as the Executive Secretary who is appointed by the Board of Directors. The Risk Management Department is responsible for calculating and monitoring the capital adequacy, and comprehensively handles the risk management and reports to the competent authorities in accordance with various risks management guidelines. Submits a risk control report to the Committee on a quarterly basis and forwards it to the Board of Directors. Also, the Committee sets rules to control various investment positions and transaction quotas, and handles transaction clearing and settlement, such as, bank-wide fund scheduling and securities trading.

(2) Asset and Liability Management Committee

The President of the Group is the Chief Commissioner of the Group's Asset and Liability Management Committee. The members are composed of the personnel designated by the President and the department head of the Digital Service and Business Department, the Risk Management Department, the Finance Department, and the Administration Office. In response to the domestic and foreign financial situation, they are responsible for adjusting the business strategy in a timely manner, maintaining liquidity, safety, and profitability, and holding regular meetings at least once a month. The main tasks are as follows:

① Assess the impact of changes in domestic and foreign political and economic situations and the trend of government policies on financial business operations.
② Predict the impact of domestic and foreign funds, exchange rates, interest rate trends, and other relevant financial indicators on the Group's business operations.
③ Assess the Group's operating performance, capital position, asset and liability risk position, and interest rate sensitivity, as well as study and adjust the best ratio of various assets and liabilities.
④ Assess the Group's pricing strategy for deposit and loan interest rates.
⑤ Estimate the Group's future operating performance and moderately adjust the

Group's business strategy.
⑥Matters assigned by the Board of Directors, Chairman, and Vice Chairman

(3) Credit Review Committee
The Credit Review Committee is chaired by the President and consists of the head of the Credit Review Department, the Risk Management Department, and the Digital Service and Business Department, and the personnel designated by the President to strengthen the review and risk control of the credit business and to ensure the Group's credits. In principle, a meeting will be held once a week to review the credit cases to be granted by the Board of Directors, and the results of the review will be presented to the Board of Directors for approval. The process and transfer of the proposals will be handled by the Credit Review Department.

(4) Investment Management Committee
In order to respond to changes in domestic and foreign financial situations, timely adjust investment strategies and control investment risks to maintain the safety and profitability of the Group's investment positions. The "Investment Management Committee" is established as the highest management unit responsible for the Group's investment business. The Investment Management Committee is chaired by the President, and the members include the head of the Finance Department and other personnel appointed by the President. The Committee has a meeting held once a month with the following missions to fulfill:
① Set the Bank's investment strategies and principles according to the changes in domestic and foreign political and economic situations and the trend of government policies.
② Assess whether the performance of the investment portfolio meets the expected objectives, predict the impact of changes in domestic and foreign capital situation, exchange rate, interest rate, and other relevant financial indicators on the investment position of the Group, and study whether the investment strategy should be adjusted.
③ Review the proportion, allocation, and reinvestment-orientation of various financial investment projects.
④ Review the source of funds and cost structure of the investment.

(5) Information Security Management Committee
The "Information Security Management Committee" is formed to improve the information security management system, respond to all information security-related laws and regulations, and comply with the relevant government regulations in order to reduce the risk impact and influence on the Group due to information security. The Committee has one convener appointed who is the President or an individual appointed by the GM. The members are the head of the Risk Management Department, the Information Office, the Digital Service Department, the Compliance Department, and the department head or the designated individual of the department designated by the convener. The Audit Department may attend the Committee meeting, but may not vote. The Committee will hold meetings from time to time as needed. The main tasks are as follows:
① Propose the information security policy of the Group.
② Promote the information security management system.
③ Assess the infrastructure of the information security management system.
④ Handle and review major information security incidents.

⑤ Major issues or discussions related to information security proposed by each unit
⑥ Discussion of other information security issues.

3. Credit Risk
(1) Source and definition of credit risk
Credit risk refers to the risk of default loss caused by the borrower or counterparty due to the deterioration of the company's business condition or other factors (such as, disputes between the company and its counterparty), resulting in the borrower or counterparty not fulfilling its contractual obligations. The sources of credit risk covered on and off balance sheet items. For the Group's credit risk exposure, the items on the balance sheet mainly come from discounts and loans, deposits and interbank lending, debt instrument investments and derivative financial instruments... etc. The off-balance sheet items are mainly guarantees, letters of credit, loan commitments, etc.

(2) Credit risk management policies:
The Group's written credit risk management strategy is prepared as a guideline for the credit operating procedure. Also, the relevant policies and operational guidelines are set up to ensure that the strategy can be implemented continuously and effectively in order to maintain rigorous loan granting standards, monitor credit risk, assess possible business opportunities, and identify and manage non-performing loans. The scope of management includes: ① Various credit risks (including individual credit cases, overall credit check, credit business, non-performing loans, etc.) and credit risk offset instruments, such as, collateral and guarantee, of the businesses on and off the balance sheet.②A credit risk-related product or position of the banking book or transaction book.

In order to maintain a safe and sound credit business and control credit risk, the "Regulations Governing Credit Risk" are stipulated to establish a credit risk control mechanism when planning various businesses in order to implement the procedures of identification, measurement, communication, and monitoring. Under the credit management organization structure with decentralization of responsibility planned, each responsible unit is to review and discuss the cases within the authorization in accordance with the "Rules Governing Credit Review and Authorization" in order to ensure the quality of the credit assets. The "Directions for Credit Review and Implementation" are formulated. Also, the Credit Review Department at the head office is responsible for handling and strengthening post-loan management in order to effectively control credit risk.

The credit risk management procedures and measurement methods for each major business of the Group are described below:
① Credit business (including loan commitments and guarantees)
The classification of credit assets and credit quality rating are described as follows:
A. Credit asset classification
The Group's credit assets are classified into five categories. Except that the normal credit assets are classified as Category I, the non-performing credit assets are evaluated according to the loan guarantee status and the length of time overdue, which are classified as Category II "Special Mention", Category III "Expected to be recovered", Category IV "Doubtful", and Category V "Losses". The Group has formulated the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with

Non-performing/Non-accrual Loans” to establish the internal processing systems and procedures for asset quality assessment, appropriation of loss reserve, collection of overdue loans, and liquidation of bad debts. Also, it is handled in accordance with the requirements of the competent authorities and the Group. In order to speed up the liquidation of non-performing loans and reduce overdue loans, the Group has the “Rules Governing Non-Performing Loans” formulated to realize a sound financial structure and to enhance asset and liability management.

B. Credit quality rating

The Group has formulated the “Corporate Finance and Consumer Finance Business Classification” according to the business characteristics and scales. The directions for credit rating are formulated for corporate accountholders and individual accountholders. The credit rating scores of the debtors are classified into 10 grades (C1~C10), which is an internal credit rating and it is used for risk management. The credit rating is used as criteria for credit approval and as reference in determining credit conditions, and those with a poor credit rating are subject to higher credit review frequency.

② Deposit and inter-bank lending

The Group evaluates the credit status of the counterparty before the transaction initiated. Also, it determines the ratio of loans in New Taiwan Dollars and foreign currency according to the domestic and foreign financial inter-bank credit rating before the end of each year, and submits it to the Credit Review Committee for review and reports it to the Board of Directors for approval.

③ Debt instrument investment and derivative financial instruments

The Group’s credit risk management of debt instrument is to identify credit risk through the credit rating of debt instrument by domestic and international credit rating agencies, bond guarantee institutions, country risks, and counterparty risk. For the financial institutions that initiate investments in the Group’s derivative financial product transactions, set the ceiling of the financial transaction amount by the nature of the counterparty and the credit rating in accordance with the “Regulations Governing Derivatives Transactions Quota”.

(3) Credit risk hedge or mitigation policy

① Collateral

The Group adopts the methods of stipulating credit limit conditions, collection of collateral, and the guarantor or the transfer of the credit guarantee fund to reduce the credit risk for credit business in order to strengthen the credit of the Group. The Rules Governing Collateral Appraisal and related procedural guidelines and regulations for regulating acceptable types of collateral and the valuation, management, and disposal of collateral have been formulated to ensure credit. It also has a credit guarantee, a collateral clause, and an offset clause formulated. It clearly defines that upon the occurrence of a credit event, the credit amount can be reduced, the borrowing repayment period can be shortened or deemed as fully expired, and the various deposits of the debtors with the Group are applied to offset the liabilities in order to reduce credit risk.

For the verification of collateral appraisal and the collateral check on a regular or irregular basis, verify the credit and collateral revaluation according to the status quo of the debtors, and assess the degree of guarantee provided by the debtors and the legal effect of the guarantor in order to ensure the protection of credit.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

② Credit risk limit and credit risk concentration control

The Group has the "Credit Policy" formulated to properly plan and control the credits of the same natural person, the same legal person, the same public enterprise, the same related party, the same associate, and the same group. Set the ceiling (the same public enterprise shall not exceed the net value of the Group, and the ceiling of the same group enterprise shall be adjusted and approved according to its credit rating and prospect) of the ratio to the net value of the Group for each entity in order to control the single credit risk and improve the efficiency of fund utilization. For the ratio of total credit balance of the same industry to the total credit balance of the Group, the ceiling will be approved according to the industry and the overall economy and by referring to the non-performing loan ratio of the industry and future economy. In order to strengthen the credit risk control of each industry overseas and in Mainland China, the respective limit is stipulated accordingly. For the ratio of the total credit balance secured by residential real estate to the total credit balance of the Group, it is divided into the categories of housing repair and working capital limit control by the intended use of funds. Also, the credit-orientation is dynamically adjusted to hedge the overall risk and to avoid excessive credit risk concentrations.

③ Master net cash clearing

The Group's transactions are usually cleared on a gross amount. Also, an agreement is reached with some counterparties for a net clearing method, or all transactions with the counterparty are terminated with a net amount clearing arranged in the event of default in order to further reduce the credit risk.

(4) Maximum credit risk exposure

The maximum credit risk exposure of the assets stated in the consolidated balance sheet without the consideration of collaterals or other reinforced credit instruments approximate their book value. The maximum credit risk exposure amount (excluding collateral or other credit enhancement instruments, and irrevocable maximum risk exposure amount) associated with off-balance sheet items is as follows:

Off-balance sheet items	Credit risk maximum risk exposure amount		
	2019.09.30	2018.12.31	2018.09.30
Customer's developed and irrevocable loan commitments	$14,824,923	$17,201,151	$17,077,204
Customer's outstanding letters of credit amount	125,317	668,933	702,257
Guarantee payments	5,393,723	5,092,739	4,927,082
Total	$20,343,963	$22,962,823	$22,706,543

(In Thousands of New Taiwan Dollars, unless otherwise specified)

(5) The financial information of the collateral, total net cash clearing amount, and other credit enhanced finance effect related to the book value of the maximum credit risk exposure on and off the consolidated balance sheet is illustrated as follows.

September 30, 2019	Collateral	Master net cash clearing	Total
Items on the statement			
Discounts and loans	$105,922,136	$ -	$105,922,136
Off-balance sheet items			
Customer's developed and irrevocable loan commitments	9,327,566	-	9,327,566
Customer's outstanding letters of credit amount	3,000	-	3,000
Guarantee payments	2,146,768	-	2,146,768
Total	$117,399,470	$ -	$117,399,470

December 31, 2018	Collateral	Master net cash clearing	Total
Items on the statement			
Discounts and loans	$102,787,532	$-	$102,787,532
Off-balance sheet items			
Customer's developed and irrevocable loan commitments	10,067,432	-	10,067,432
Customer's outstanding letters of credit amount	203,359	-	203,359
Guarantee payments	1,843,473	-	1,843,473
Total	$114,901,796	$-	$114,901,796

September 30, 2018	Collateral	Master net cash clearing	Total
Items on the statement			
Discounts and loans	$109,634,602	$-	$109,634,602
Off-balance sheet items			
Customer's developed and irrevocable loan commitments	10,472,599	-	10,472,599
Customer's outstanding letters of credit amount	181,961	-	181,961
Guarantee payments	1,797,133	-	1,797,133
Total	$122,086,295	$-	$122,086,295

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The Group's management assesses and believes that the credit risk exposure amount of the off-balance sheet items could be controlled and minimized continuously because the Company and its subsidiaries have adopted a more stringent selection process during the credit approval and subsequent periodic review.

(6) Status of credit risk concentration

When a financial instrument counterparty is significantly concentrated on one person, or a financial instrument has several counterparties who are mostly engaging in similar business activities and have similar economic characteristics, so that their ability to perform contracts is affected by economic or other conditions in a similar manner, there is a significant concentration of credit risk.

The Group's credit risk concentration is derived from assets, liabilities, or off-balance sheet items, which are generated through transactions (regardless of products or services) performance or implementation, or a combination of cross-category risk exposure, including credit, deposit and inter-bank lending, marketable securities investments, receivables, and derivatives. The Group did not significantly concentrate on trading with single customers or single transaction counterparties. The total transaction amount with single customers or single transaction counterparties accounting for the Group's discounts and loans and collection amount is insignificant. The Group has the credit risk of the discount, loans, and collections illustrated by the industry, region, and collateral as follows:

① By industry

By industry	2019.09.30		2018.12.31		2018.09.30	
	Amount	%	Amount	%	Amount	%
I. Private Enterprise	$118,324,696	76	$121,205,378	79	$127,877,547	80
II. Government agencies	-	-	-	-	-	-
III. Non-profit groups	160,606	-	177,347	-	177,897	-
IV. Private	36,615,906	24	33,214,250	21	32,579,886	20
V. Financial institution	-	-	-	-	-	-
Total	$155,101,208	100	$154,596,975	100	$160,635,330	100

② By region

The Group's main business is conducted in Taiwan and there is no significant concentration of credit risk by region.

③ By collateral

By collateral	2019.09.30		2018.12.31		2018.09.30	
	Amount	%	Amount	%	Amount	%
Non-secured	$49,179,072	32	$51,809,444	34	$51,000,727	32
Secured						
- Financial collateral	14,597,249	9	14,351,793	9	16,123,536	10
- Real estate	81,323,718	52	78,741,042	51	75,930,099	47
- Guarantee	2,277,294	2	1,963,499	1	1,856,976	1
- Other collaterals	7,723,875	5	7,731,197	5	15,723,992	10
Total	$155,101,208	100	$154,596,975	100	$160,635,330	100

(7) Analysis of the Group's financial assets that is overdue but without impairment
The Group had no financial assets that were overdue without impairment as of September 30, 2019, December 31, 2018 and September 30, 2018.

(8) Judgment of the Group's credit risk that has increased significantly since the original recognition

Credit business
The Group assesses the change in the risk of default in the expected duration of each type of credit asset on each reporting date to determine whether the credit risk has increased significantly since the original recognition. For the purpose of this assessment, the Group considers the information that evidences the significant and reasonable increase of credit risk (including forward-looking information) since the original recognition. The main considerations include:

① Quantitative indicators:
If the contract is overdue for more than 30 days on the reporting date, it is concluded that the credit risk has increased significantly since the original recognition.

② Qualitative indicators:
Observe the following information on the reporting date. If the following conditions are met, it is concluded that the credit risk has increased significantly since the original recognition.

a. The records of bounced checks of the debtors reported by the Company.
b. The dishonored accounts announced by Taiwan Clearing House
c. A specific performance is implemented by other banks against the collateral of the debtors held the Company.
d. Acknowledged the debts of the debtors with reorganization requested by other financial institution when implementing the post-loan management procedures of review, tracking, and assessment.
e. Listed as a collection or debited to bad debts
f. Acknowledged that the public certified accountants had issued an opinion on the financial statements of the debtors with a concern over the continuing operation of the audited debtors when implementing the post-loan management procedures of review, tracking, and assessment.
g. Acknowledged other non-performing loans of the debtors.

The Group's various types of credit assets are not subject to the assumption that the determined low credit risk can be regarded as no significant increase in credit risk since the original recognition.

Debt instruments
The Group assesses the change in the risk of default in the expected duration of each type of debt instrument on each reporting date to determine whether the credit risk has increased significantly since the original recognition. For the purpose of this assessment, the Group considers the changes in credit rating that indicates the main evaluation indicator is a quantitative indicator since the original recognition. When the credit rating on each reporting date is lower to an extent than the credit rating on the original recognition date, it is determined that the credit risk has increased

significantly since the original recognition.

The Group's various types of debt instrument are not subject to the assumption that the determined low credit risk can be regarded as no significant increase in credit risk since the original recognition.

(9) Definition of the Group's default and credit impairment financial assets

Credit business

The Group's definition of default on various types of credit assets is the same as the default and credit impairment of each type of credit assets. If one or more of the following conditions are met, the Group determines that the various types of credit assets have been defaulted with credit impairment resulted:

① Quantitative indicators

If the contract is overdue for more than 90 days on the reporting date, it is concluded that default and credit impairment have occurred.

② Qualitative index

Observe the following information on the reporting date. If the objective evidence of impairment (such as agreement, bail-out, rehabilitated, etc.) is met, it is determined that default and credit impairment have occurred.

Debt instruments

The Group's definition of default on a debt instrument is the same as the credit impairment of a debt instrument. If one or more of the following conditions are met, the Group determines that the debt instrument has defaulted with credit impairment.

① Quantitative indicators

If the credit rating on each reporting date reaches the default level, it is determined as defaulted with credit impairment.

② Qualitative indicators

Observe the following information on the reporting date. If the following conditions are met, it is determined that default and credit impairment have occurred.

a. An event of default occurred
b. The issuer's significant financial difficulties
c. The issuer is likely to apply for bankruptcy or other financial restructuring.

The foregoing definition of default and credit impairment is applicable to all financial assets held by the Group and is consistent with the definitions used for the internal credit risk management purposes of the financial assets and are applied to the relevant impairment assessment model.

If the financial assets on the reporting date no longer meet the definition of default and credit impairment, they are concluded to be in the status of performance and are no longer regarded as financial assets that have defaulted with credit impairment.

(10) Write-off policy

When the Group cannot reasonably expect the financial assets to be recovered entirely or partially, it will write off the whole or part of the financial assets in a timely manner in accordance with the requirements of the competent authorities and in line with the Company's asset quality policy.

(11) Measurement of anticipated credit loss

For the purpose of assessing expected credit losses, the Group classifies financial assets into the following combinations according to the credit asset/debt instrument categories, credit ratings, and subject matter claim order:

Credit asset/debt instrument category	Definition
Corporate banking loan	Grouped by risk characteristics, company size, and credit category
Consumer banking loan	Grouped by product category, loan type, etc.
Corporate bonds and financial bonds	Classified by long-term issuer rating (Moody's) and subject matter claim order
Government bonds and Central Bank's convertible certificate of deposit	Classified by sovereign rating (Moody's) and subject matter claim order

For the financial instruments that have not significantly increased in credit risk (Stage 1) after the original recognition, the Group measures the allowance for loss of the financial instrument according to the expected credit loss amount within 12 months. For the financial instruments with significant increase in credit risk after the original recognition (Stage 2) or with credit impairment (Stage 3), it is measured by the expected credit loss amount of the duration.

In order to measure the expected credit losses, the Group while considering the probability of default (PD) of the borrower/issuer in the next 12 months and the duration includes the loss given default (LGD) and has it multiplied by the exposure at default (EAD), taking into account the impact of the time value of money to calculate the expected credit losses for 12 months and the duration. However, for the off-balance sheet credit assets, it must be multiplied by the credit conversation factor (CCF) that is regulated with the "standardized approach" of Basel II.

The probability of default (PD) and loss given default (LGD) used in the impairment assessment of the Group's credit business/investment business are adjusted and calculated according to the internal and external information of each combination and based on current observable information and forward-looking macro-economic information (e.g. global economic growth rate, inflation rate, etc.).

The Group assesses the amount of financial asset default risk on the reporting date. In addition, based on internal and external information, the Group considers the financial assets to be used within 12 months after the reporting date and the amount expected to be used in order to determine the default risk exposure amount for the calculation of the expected credit loss.

There was no significant change in the estimation techniques or material assumptions that were used in 2019 to assess the expected credit loss.

(12) Consideration of prospective information

The Group uses historical data to analyze and identify the economic factors that affect the credit risk and expected credit losses of each asset portfolio, and estimates the impairment parameters after forward-looking adjustment according to the regression model or imputation adjustment method. The relevant economic factors and their impact on PD and LGD vary according to the type of financial instruments.

The relevant economic factors of credit assets identified by the Group in 2019 were the economic growth rate. The relevant economic factors of debt instrument identified by the Group in 2019 were the global economic growth rate and inflation rate.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

(13) Allowance for loss

Changes in allowances for bad debts related to discount and loan

Changes in the allowances for bad debts related to discount and loan for the period from January 1 to September 30, 2019 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Impairment appropriated according to IFRS 9	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance, beginning	$392,388	$41,994	$-	$146,477	$-	$580,859	$1,786,364	$2,367,223
Changes in financial instruments recognized at the beginning of the period:								
- Converted to expected credit losses of the duration	(128)	310	-	(795)	-	(613)		(613)
- Converted to financial assets with credit impairment	(20)	(40)	-	2,898,803	-	2,898,743		2,898,743
- Converted to 12-month expected credit loss	2	(16)	-	-	-	(14)		(14)
- Financial assets derecognized in the current period	(204,826)	(41,157)	-	(28,182)	-	(274,165)		(274,165)
Procured or initiated new financial assets	153,743	174	-	(178,868)	-	(24,951)		(24,951)
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"							(16,711)	(16,711)
Write-off bad debts	-	-	-	(2,967,978)	-	(2,967,978)		(2,967,978)
Recovered amount after write-off bad debts	-	-	-	260,495	-	260,495		260,495
Other changes	-	-	-	-	-	-		-
Changes in exchange	-	-	-	-	-	-	1,537	1,537
Balance, ending	$341,159	$1,265	$-	$129,952	$-	$472,376	$1,771,190	$2,243,566

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Changes in the allowances for bad debts related to discount and loan for the period from January 1 to September 30, 2018 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Impairment appropriated according to IFRS 9	Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	Total
Balance, beginning	$354,129	$493	$-	$172,532	$-	$527,154	$1,710,577	$2,237,731
Changes in financial instruments recognized at the beginning of the period:								
- Converted to expected credit losses of the duration	(1,351)	2,241	-	(276)	-	614	-	614
- Converted to financial assets with credit impairment	(7)	(91)	-	6,473	-	6,375	-	6,375
- Converted to 12-month expected credit loss	4	(41)	-	-	-	(37)	-	(37)
- Financial assets derecognized in the current period	(141,492)	(102)	-	14,559	-	(127,035)	-	(127,035)
Procured or initiated new financial assets	199,472	103	-	(156,918)	-	42,657	-	42,657
Impairment difference recognized in accordance with the "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans"	-	-	-	-	-	-	136,711	136,711
Write-off bad debts	-	-	-	(103,819)	-	(103,819)	-	(103,819)
Recovered amount after write-off bad debts	-	-	-	220,639	-	220,639	-	220,639
Other changes	-	-	-	-	-	-	-	-
Changes in exchange	-	-	-	-	-	-	3,218	3,218
Balance, ending	$410,755	$2,603	$-	$153,190	$-	$566,548	$1,850,506	$2,417,054

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Changes in the total book value of discount and loan

Changes in the total book value for the period from January 1 to September 30, 2019 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Total
Balance, beginning	$150,797,346	$3,461,185	$-	$338,444	$-	$154,596,975
Converted as anticipated credit loss within the perpetuity of the financial assets	(101,060)	86,116	-	(3,040)	-	(17,984)
Converted as financial assets with credit impairment	(13,166)	(9,449)	-	2,914,726	-	2,892,111
Transferred out from the financial assets with credit impairment	6,825	(7,839)	-	-	-	(1,014)
Discount and loan assessed collectively	-	-	-	-	-	-
Initiated or procured discount and loans	72,582,025	52,233	-	108,859	-	72,743,117
Write-off bad debts	-	-	-	(2,967,978)	-	(2,967,978)
de-recognition	(68,813,100)	(3,249,091)	-	(81,828)	-	(72,144,019)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Balance, ending	$154,458,870	$333,155	$-	$309,183	$-	$155,101,208

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Changes in the total book value for the period from January 1 to September 30, 2018 are as follows:

	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Expected credit losses of the duration (financial assets with non-purchased or originated credit impairment)	Expected credit losses of the duration (financial assets with purchased or originated credit impairment)	Total
Balance, beginning	$144,675,468	$111,473	$-	$398,655	$-	$145,185,596
Converted as anticipated credit loss within the perpetuity of the financial assets	(493,076)	386,379	-	(1,130)	-	(107,827)
Converted as financial assets with credit impairment	(6,655)	(18,729)	-	24,299	-	(1,085)
Transferred out from the financial assets with credit impairment	10,589	(12,141)	-	-	-	(1,552)
Discount and loan assessed collectively	-	-	-	-	-	-
Initiated or procured discount and loans	71,793,000	47,633	-	91,181	-	71,931,814
Write-off bad debts	-	-	-	(103,819)	-	(103,819)
de-recognition	(56,193,160)	(18,332)	-	(56,305)	-	(56,267,797)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-	-
Other changes	-	-	-	-	-	-
Balance, ending	$159,786,166	$496,283	$-	$352,881	$-	$160,635,330

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Changes in expected credit losses of the financial assets-debt instrument measured at fair value through other comprehensive income by the Group are as follows:

Financial assets-allowance for losses measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Expected credit losses on January 1, 2019	$32,972	$79,056	$-	$-	$112,028
Changes arising from the recognition of financial instruments on January 1, 2019					
Converted as anticipated credit loss within the perpetuity of the financial assets	(486)	25,485	-	-	24,999
Converted as financial assets with credit impairment	-	-	-	-	-
Converted as anticipated credit loss in 12 months	-	-	-	-	-
Financial assets removed in current period	(5,214)	-	-	-	(5,214)
Originated or purchased new financial assets	3,191	8,893	-	-	12,084
Changes in model/risk parameters	1,815	(5,561)	-	-	(3,746)
Other changes and exchange rate changes	245	795	-	-	1,040
Expected credit losses on September 30, 2019	$32,523	$108,668	$-	$-	$141,191

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Financial assets-allowance for losses measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Expected credit losses on January 1, 2018	$31,394	$138,718	**$-**	**$-**	$170,112
Changes arising from the recognition of financial instruments on January 1, 2018					
Converted as anticipated credit loss within the perpetuity of the financial assets	(196)	14,536	-	-	14,340
Converted as financial assets with credit impairment	-	-	-	-	-
Converted as anticipated credit loss in 12 months	1,423	(63,995)	-	-	(62,572)
Financial assets removed in current period	(2,528)	(10,841)	-	-	(13,369)
Originated or purchased new financial assets	2,158	10,406	-	-	12,564
Changes in model/risk parameters	(2,006)	(9,043)	-	-	(11,049)
Other changes and exchange rate changes	131	(26)	-	-	105
Expected credit losses on September 30, 2018	$30,376	$79,755	**$-**	**$-**	$110,131

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Changes in the total book value of the Group’s financial assets-debt instrument measured at fair value through other comprehensive income are further explained as follows:

Financial assets-total book value measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Total book value on January 1, 2019 (Note)	$52,183,475	$1,365,139	$-	$-	$53,548,614
Converted as anticipated credit loss within the perpetuity of the financial assets	(461,497)	466,081	-	-	4,584
Converted as financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	-	-	-	-	-
Financial assets assessed collectively	-	-	-	-	-
Originated or purchased new financial assets	5,937,121	143,992	-	-	6,081,113
Derecognized financial assets	(12,061,718)	-	-	-	(12,061,718)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-
Other changes and exchange rate changes	215,172	13,869	-	-	229,041
Total book value on September 30, 2019 (Note)	$45,812,553	$1,989,081	$-	$-	$47,801,634

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Financial assets-total book value measured at fair value through other comprehensive income	Anticipated credit loss in 12 months	Expected credit losses of the duration (collective assessment)	Expected credit losses of the duration (individual assessment)	Financial assets with credit impairment (expected credit losses of the duration)	Total
Total book value on January 1, 2018 (Note)	$54,188,642	$2,543,520	$-	$-	$56,732,162
Converted as anticipated credit loss within the perpetuity of the financial assets	(170,884)	175,098	-	-	4,214
Converted as financial assets with credit impairment	-	-	-	-	-
Transferred out from the financial assets with credit impairment	1,339,261	(1,303,150)	-	-	36,111
Financial assets assessed collectively	-	-	-	-	-
Originated or purchased new financial assets	3,149,434	121,457	-	-	3,270,891
Derecognized financial assets	(5,607,885)	(204,248)	-	-	(5,812,133)
Changes in the revisions that do not cause de-recognition	-	-	-	-	-
Other changes and exchange rate changes	519,231	24,332	-	-	543,563
Total book value on September 30, 2018 (Note)	$53,417,799	$1,357,009	$-	$-	$54,774,808

Note: The total book value does not include an evaluation adjustment

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The allowance for loss of the Group's receivables is measured with the expected credit loss amount of the duration. The assessment of the allowance for loss on September 30, 2019 and September 30, 2018 is described as follows:

The Group's receivables are not overdue. Counterparties are groups with the considerations of their credit rating, regional, and industrial factors. Also, measure the allowance for loss with the provision matrix. For the total book value were NT$4,814,305 thousand and NT$3,790,040 thousand, respectively, the allowance for loss is measured with an expected credit loss rate of 0%~2%, so it is for an amount of NT$83,418 thousand and NT$79,686 thousand.

Changes in allowances or loss of notes and accounts receivables of the Group in 2019 and 2018 Q3 are as follows:

	Accounts receivable
2019.1.1	$70,851
Amount appropriated in current period	39,108
Write-off amount	(34,006)
Recovery of write-off amount	7,465
2019.9.30	$83,418
2018.1.1	$75,968
Amount appropriated in current period	14,733
Write-off amount	(18,083)
Recovery of write-off amount	7,068
2018.9.30	$79,686

(14) The Group's financial assets with the maximum credit risk exposures as of September 30, 2019, December 31, 2018 and September 30, 2018 amounted to NT$203,173,206 thousand, NT$204,714,088 thousand and NT$213,231,521 thousand, respectively, which include financial assets measured at fair value through other comprehensive income and discounts and loans.

(15) The maximum credit risk exposure amount of the financial instruments that are not subject to impairment requirements is as follows:

	2019.09.30	2018.12.31	2018.09.30
Financial assets measured at fair value through profit or loss			
- Debt instrument	$28,897,695	$24,435,062	$23,184,194
- Derivatives	6,711	39,017	47,413

(16) Collateral and other credit enhancements

The Group adopts a series of policies and measures for the credit business to reduce credit risk, one of the commonly uses methods is to request the borrower to provide collateral. For the collateral assessment management and loan collateral value calculation, the Group has procedures for the range of collateral collected, the valuation, management, and disposal of collateral formulated to ensure loans. The main types of collateral for the Group's financial assets are as follows:

- Real estate mortgage: The loan amount is set separately according to the location of the real estate. For larger amount or special products, the public appraisers are entrusted to perform price evaluation.
- Stocks: The reasonable loan amount and evaluation criteria are formulated by the conditions of listing, OTC, emerging market, and unlisted stocks.
- Property: An appropriate loan amount is determined according to the nature of disposition and cost.
- Certificate of Deposit: Mainly refers to the Bank's certificate of deposit in foreign currency.
- Credit insurance: It is handled with credit insurance for small and medium-sized enterprises.
- Rights pledge: Special rights, such as, land rights and creditor's rights are judged separately on a case-by-case basis.

For the credit preservation and collateral clauses in the credit contract, it is clearly defined that upon the occurrence of a credit event, the borrowing amount can be reduced and the borrowing repayment period can be shortened or deemed as expired entirely in order to reduce credit risk.

The collateral of other non-credit business is subject to the nature of the respective financial instrument. Only asset-based securities and other similar financial instruments are secured by a group of asset-based financial instruments.

The Group's collateral policy has no significant change occurring on the balance sheet date and there has been no significant change in the quality of the overall collateral.

The Group closely observes the value of collateral for financial instruments and considers the impairment to be appropriated for the financial assets with credit impairment occurred. The financial assets with credit impairment are as follows:

	Total book value	Provision for impairment	Total risk exposure amount (Amortized cost)
Impaired financial assets:			
Discounts and loans	$192,003	$50,187	$141,816
Total financial assets with impairment	$192,003	$50,187	$141,816

4. Liquidity risk
(1) Sources and definitions of liquidity risk

The definition of the Group's liquidity risk refers to the possible financial losses due to the inability of having assets cashed or obtaining loans to have the funds needed to liquidate the financial liabilities, for example, depositors' terminating deposits before the maturity date, financing channels and conditions for inter-bank lending become worse or difficult due to specific market influences. Also, the debtor's credit default situation has deteriorated, which makes the recovery of funds abnormal and the realization of financial instruments difficult. The aforementioned circumstances may weaken the Group's source of cash for financial activities, such as, loans, trading, and investment. In an extreme situation, the lack of liquidity may result in a decline in the position of the balance sheet, the sale of the asset, or the failure in meeting the borrowing commitment. Liquidity risk exists in the inherent risks of all banking operations and may be affected by various industry-specific or market-wide events, including but not limited to: credit events, mergers or acquisitions, systemic impact, and natural disasters.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

(2) Liquidity risk management policy
The liquidity management procedures of the Group are executed separately in the Finance Department and the Risk Management Department. However, the branches are required to notify the Finance Department of the funding gap for the unified control of the Finance Department and are monitored by the independent Risk Management Department. The procedures include:
① Perform daily fund scheduling and monitor future cash flows to ensure the fulfillment of various needs.
② Maintain an appropriate amount of high liquidity assets that can be easily realized to buffer unforeseen and unexpected events that may interrupt cash flow.
③ Monitor the liquidity ratio of the consolidated balance sheet in accordance with the internal management purposes and external regulatory requirements.
The monitoring process is based on the measurement and speculation of the future flow of funds for one day and one month (such timeframe is for the management of liquidity risk by the Group). The estimation of future cash flows begins with an analysis of the contractual maturity date of financial liabilities and the expected cash realization date of financial assets. The Risk Management Department of the Group also monitors the extent and pattern of contingent liabilities, such as mid-term and long-term borrowing commitments, discount quotas, and guarantee letters.
Relevant information is regularly reported to the Group's Risk Management Committee and the Board of Directors.

(3) Regarding the financial liabilities held for the purpose of managing the liquidity risk, the due date of the Group's financial liability contracts is summarized in the table below. The amounts disclosed in the table are based on the contractual cash flows, so the amount disclosed in some of the projects does not correspond to the related items on the consolidated balance sheet.

2019.09.30

	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
Non-derivative financial liabilities					
Deposits from Central Bank and other banks	$18,286,358	$465,630	$-	$-	$18,751,988
Funds borrowed from Central Bank and other banks	976,050	1,490,000	150,000	-	2,616,050
Bills and bonds sold under repurchase agreements	23,340,893	4,102,600	1,299,000	-	28,742,493
Customer deposits and remittances	14,973,340	17,401,163	72,924,915	81,894,148	187,193,566
Lease liability (Note)	6,484	12,769	51,724	158,344	229,321
Other financial liabilities	700,000	490,000	-	-	1,190,000
Derivative financial liabilities					
Financial liabilities measured at fair value through profit or loss case					
Foreign exchange derivatives					
Cash outflow	$3,141,010	$-	$-	$-	$3,141,010
Cash inflow	3,132,067	-	-	-	3,132,067
Net cash flow	$(8,943)	$-	$-	$-	$(8,943)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

2018.12.31

	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
Non-derivative financial instruments					
Deposits from Central Bank and other banks	$17,632,276	$2,304,975	$-	$-	$19,937,251
Funds borrowed from Central Bank and other banks	3,438,640	-	-	-	3,438,640
Bills and bonds sold under repurchase agreements	22,255,969	7,060,527	-	-	29,316,496
Customer deposits and remittances	17,554,755	22,386,111	67,842,625	80,649,433	188,432,924
Other financial liabilities	220,000	1,010,000	-	-	1,230,000
Derivatives					
Derivative financial instruments measured at fair value through profit or loss					
Foreign exchange derivatives					
Cash outflow	$4,583,399	$-	$-	$-	$4,583,399
Cash inflow	4,557,615	-	-	-	4,557,615
Net cash flow	$(25,784)	$-	$-	$-	$(25,784)

2018.09.30

	Not more than one month	1~3 months	3 months ~ 1 year	More than one year	Total
Non-derivative financial liabilities					
Deposits from Central Bank and other banks	$27,183,152	$763,775	$-	$-	$27,946,927
Funds borrowed from Central Bank and other banks	3,231,794	420,000	-	-	3,651,794
Bills and bonds sold under repurchase agreements	24,495,928	3,910,621	-	-	28,406,549
Customer deposits and remittances	17,745,381	19,931,487	67,938,032	76,032,705	181,647,605
Other financial liabilities	450,000	1,050,000	-	-	1,500,000
Derivative financial liabilities					
Financial liabilities measured at fair value through profit or loss case					
Foreign exchange derivatives					
Cash outflow	$1,617,230	$603,079	$-	$-	$2,220,309
Cash inflow	1,602,336	595,922	-	-	2,198,258
Net cash flow	$(14,894)	$(7,157)	$-	$-	$(22,051)

Note: 1. The further information on the maturity analysis of the lease liability is provided in the following table:

	Expiry of duration				
	Less than 1 year	1~5 years	6~10 years	10~15 years	Total
Lease liability	$ 70,977	$ 131,814	$ 26,530	$-	$ 229,321

5. Market Risk

(1) Source and definition of market risk

Market risk refers to the loss of the positions that may occur on and off the balance sheet due to the changes in market prices. The so-called market price refers to interest rate, exchange rate, stock price, and product price.

The Group shall classify the holding position into a trading book and a banking book according to its purpose. The market risks faced by each position can be divided into four risk categories: interest rate, equity securities, foreign exchange, and product.

① The "trading book" includes the position of the financial products (including goods and derivative financial products) and physical products held for the purpose of trading or for the risk hedging of the trading book position. The term "trading purpose" stated in the preceding paragraph refers to the intention of a short-term gain or to generate or secure the arbitrage from actual or expected short-term price fluctuations.

② Financial products and physical products that are not held for the aforementioned purpose are within the scope of the "banking book".

③ Market risk management scope:

I. For interest rates and equity securities, it is only necessary to compute the capital needed for market risk of the trading book.

II. For foreign exchange and products, it is necessary to compute the capital needed for all market risks.

(2) Market risk management strategy

① Market risk management strategies should be documented to explain market risk management objectives and to ensure consistency in market risk management of the Company.

② The market risk management strategies are subject to appropriate adjustments in response to the Group's operating environment and changes in risk, maintain consistency with the Group's business strategies and objectives, and cover all key market risks associated with the business.

③ The market risk management strategies shall include at least the following:

I. Market risk measurement methods: including qualitative and quantitative methods

II. Market risk monitoring methods: such as limits management, stop-loss mechanism, etc.

III. The Group shall establish an approval hierarchy and regulate the standard operating procedure for overrun

(3) Market risk management process

The market risk management process includes risk identification, measurement, communication, and monitoring. The Group shall effectively identify, measure, communicate, and monitor market risks associated with all major trading products, trading activities, processes, and systems.

① Risk identification

I. The so-called market risk factor refers to the market ratio and price that influence the price of the position. The Group's risk measurement system should have sufficient risk factors to measure the risks in the on- and off-balance sheet trading position.

II. For any structured financial product, the market risk factors of each part should be identified in order to provide the basis for a correct measurement of the market risk exposure of the structured product.

III. The selection of risk factors includes interest rates, exchange rates, equity securities prices, and product prices.

IV. Each unit of the Group shall identify the market risk in business activities or financial products.

② Risk measurement

I. The risk management personnel of the Group's business trading units shall establish reasonable verification and control procedures for the sources of market data, such as, product market price, interest rate, and exchange rate.

II. When risk management personnel of the business transaction units measure market risk, they should consider the market liquidity risk caused by insufficient market depth, low market transparency, or market disorder.

III. The risk management personnel of the financial transaction unit shall evaluate the trading position at least daily according to the market price. All model parameters should be evaluated daily if the model is used for evaluation.

IV. The Group should develop a measure for measuring the overall position risk exposure according to the scale and complexity of the portfolio held. Also, avoid excessive concentration of the investment portfolio on a certain risk factor. When performing risk measurement, the individual risk of the subject matter of the transaction and the possible risk dispersion effect should be considered by evaluating the volatility and correlation of the subject matter of the transaction. And a position with poor liquidity or insufficient market price transparency should be evaluated conservatively in order to fully assess the market risks faced by the Group.

③ Risk communication

I. Internal report

i. Market risk reports are to regularly provide accurate, consistent, and timely information to senior executives as a reference for their decisions.

ii. The Group should establish various operating procedures to ensure that overruns and exceptions (e.g. violations of policies and procedures) can be immediately reported to the governing management.

II. External disclosure

i. The market risks faced by the Group should be fully disclosed.

ii. The computed capital of the following risks should be disclosed:
Interest rate risk, equity securities risk, foreign exchange risk, and product risk.

iii. The extent of information disclosure should be in line with the scale, risk profile, and complexity of the Group's sales operations.

④ Risk monitoring

Ⅰ. Each business unit of the Group shall establish a transaction limit system, which shall be controlled by the risk management personnel on a daily basis. If there is a lack of risk management, such as, overrun or other special circumstances, it shall be reported in due course to facilitate the adoption of the response measures.

Ⅱ. The status of the transaction shall be monitored immediately and comprehensively, such as whether the changes in position, changes in profit or loss, trading patterns, and subject matter of the transaction are within the scope of business authorization.

Ⅲ. Information needed for the review of financial products valuation should be obtained by the Group externally or through a channel other than the trading unit in order to avoid manipulation of price data due to conflicts of interest.

Ⅳ. The Group shall stipulate the limits management, stop-loss mechanism, and overrun process to effectively monitor market risks.

i. Limits management

The responsible business department shall set the limits for financial product transactions according to the product characteristics and authorization hierarchy, such as, traders, risk category, counterparty’s trading position limits, stop-loss limits, etc.

ii. Stop-loss mechanism

The responsible business department shall establish a clear stop-loss mechanism and implement it to effectively control the loss within the expected range.

iii. Overrun processing

The responsible business department shall clearly establish a defined limit and overrun mechanism and implement it to effectively handle the extraordinary cases.

(4) Trading book risk management policy

When handling various financial transactions, it should be divided into trading books and banking books according to the intention of holding, which are defined as follows:

① The scope and definition of the trading book: The trading book includes the position held for the purpose of trading or risk hedging of the trading book. The position must be free from any contractual restrictions in trade, or the risk can be completely hedged. The positions included in the trading book are summarized as follows:

Ⅰ. The positions held for earning a profit from the actual or expected spread.

Ⅱ. The positions held for earning a profit from other price changes.

Ⅲ. The position held due to engaging in the brokerage and trade business.

Ⅳ. The position held to offset all or most of the risks of another asset position or portfolio on the trading book.

Ⅴ. All positions that can be traded within the predetermined investment amount.

② Trading Book Authorization Projects:

Ⅰ. Monetary market transactions: short-term bill (bond) within one year.

Ⅱ. Capital market transactions: More than one year government bonds, corporate bonds, financial bonds, beneficiary securities, asset securitization bonds, stocks, various types of fund beneficiary certificates, and convertible corporate bonds.

Ⅲ. Derivative financial product transactions: including exchange rates, interest rates and stocks, etc.

Ⅳ. Foreign exchange market transactions: foreign exchange spot, swap, forward foreign exchange, and forward rate agreement.

③ Evaluation mechanism of the transaction book:

The evaluation mechanism of the Group’s trading book position shall be handled by the risk management personnel who are independent of the trading desk. The trading book position shall be valued on a daily or weekly basis in accordance with the “Market to Market Method” with information from an independent source and readily available, such as, exchange prices, electronic screen quotes, or quotes from independent brokers, which should be presented to the Board of Directors for approval and future reference.

④ Management specifications and procedures for the position limits, monitoring, early warning, stop-loss, and reporting: It should be handled in accordance with the Group’s “Regulations Governing Market Risk”, “Regulations Governing Security Investment”, “Regulations Governing Derivatives Transactions”, “Regulations Governing Foreign Exchange Business”, “Regulations Governing Loans Business”, “Interest Rate Risk Management Policy”, “Liquidity Risk Management Policy”, and other relevant regulations.

(5) Management of interest rate risk in banking book

① Management strategy and process

Make adequate adjustment to respond to the changes in the Group’s operating environment and the changes in risks. Maintain the Group’s operational strategies and deepen the Group’s operations. Enhance the performance of the Bank’s asset portfolio. Assess the impact of changes in interest rate on economic value or earnings. Establish the interest rate risk in banking book control mechanism in accordance with the “Regulations Governing Interest Rate Risks in Banking Book”, which is implemented in accordance with the procedures of identification, measurement, communication, and monitoring, so that the interest rate risk is maintained at an appropriate level. Consistency of objectives and coverage of all important interest rate risks in banking book associated with the business.

② Management organization and structure

A. The Board of Directors is the highest decision-making authority of the Group’s interest rate risk in banking book management and bears ultimate responsibility for the Group’s interest rate risk in banking book.
B. The Asset and Liability Management Committee is responsible for assessing the Group’s operating performance, capital position, asset and liability risk position and interest rate sensitivity, as well as researching and adjusting the best ratio of various assets and liabilities, and evaluating the Group’s deposit and loan interest rate pricing strategy.
C. The Risk Management Committee is responsible for implementing the interest rate risk in banking book management decisions approved by the Board of Directors, coordinating the interest rate risk in banking book management matters, and continuously monitoring the performance of risk management.
D. The Risk Management Department is the exclusive unit for the Group’s interest rate risk in banking book management. It is responsible for planning, establishing, and integrating the Group’s interest rate risk in banking book management operations, and implementing the Bank’s overall interest rate risk in banking book management and monitoring work in order to assess the impact of changes in interest rate on the economic value or earnings. Also, regularly aggregating the Bank’s interest rate risk in banking book management information and then report it to the Risk Management Committee and the Board of Directors, and disclose risk management information according to the regulations of the competent authorities.
E. The business units in the head office are responsible for setting and managing the respective regulations and operating procedures for the interest rate risks in banking book, and assisting the Risk Management Department to manage the interest rate risk position related to their business.
F. All units (including business units) of the Company are responsible for identifying the interest rate risks in the banking book, cooperating with the implementation of the interest rate risk in banking book management decisions, and adopting the risk offset treatment method or response measures approved by the GM to operate and adjust the

interest rate risk exposure position on and off the balance sheet.

③ Risk reporting/measurement system scope, characteristics, and frequency
The Group makes the "Impact of Changes in Standard Interest Rate of Banking Book Position on Economic Value and Legal Capital Ratio" the monitoring and management index to control the Group's interest rate risk in the banking book within the tolerance, and reports it to the Risk Management Committee on a monthly basis. Analyze the changes and compare them to the conditions of the last month. Provide executives with correct, consistent, and prompt information as a reference for their decision-making and have it disclosed in the risk control report to the Board of Directors on a quarterly basis. The content and scope of the risk control report are as follows: (I) Measurement indicators: 1. Earnings perspective (interest rate risk warning and reporting) 2. Economic value (Impact of Changes in Standard Interest Rate of Banking Book Position on Economic Value and Legal Capital Ratio); (II) Stress test: (1) the impact of changes in interest rate on the next year "earnings" (2) the impact of changes in interest rates on economic value. The Information Department and the business units are to provide the information of relevant electronic files or written materials to the Risk Management Department in order to effectively grasp the overall risk position and to provide appropriate risk measurement results in order to assist with the interest rate risk in banking book management.

④ Risk hedging/risk-reducing policies and strategies and processes for keeping the monitoring and hedging/reducing risk tools effective continuously
When handling banking book interest rate risk related businesses and transactions, assess the probability of occurrence of the event or transaction loss and the severity of the loss. Also, adopt countermeasures, such as, risk hedging, risk reduction or transfer, risk control, and risk endurance.

In case of special circumstances that may seriously affect the Group's earnings or economic value, the Risk Management Department or the business units in the head office shall report it to the GM and adopt appropriate risk offset methods or response measures to reduce the banking book interest rate sensitivity net impacted position or increase the Group's capital.

(6) Market risk assessment technology
① Stress test
The stress test is to assesses the Group's risk tolerance ability under a stress scenario so the Group can then develop specific and feasible hedging strategies and response plans in order to monitor possible changes in risk conditions under various scenarios. Also, the Board of Directors and the executives determine whether the Group's risk exposure is consistent with its risk appetite and it is one of the important tools for identifying, measuring, and controlling capital adequacy and liquidity planning decisions.

※The Group has investments classified according to the investment classification principle:
A. Domestic and foreign bonds and bills and equity investments in banking books
a. Domestic bond investment: The book value on the base date is treated as the exposure at default (EAD) and included for calculation. The default rate (PD) is calculated according to the risk linked indicator and referring to the default rate table, and the loss given default (LGD) is divided into with and without guarantee, which are estimated separately by referring to the experience of recovery.
b. Domestic equity investment: The book value on the base date is treated as the

exposure at default (EAD). The probability of default (PD) is estimated by referring to the stress test of the credit risk of the credit position, and the loss given default (LGD) is estimated at 100% since the probability of recovery is very small.

c. Foreign bills and bonds and equity investments: The assets related to foreign bill and bond investments and equity investments has a fixed loss rate (PD*LGD) given to calculate the expected losses under stress scenario. Of which, the probability of default for national risk exposure is mainly based on the results of its external evaluation. Also, perform a stress test only on the more serious scenarios. The probability of default for other risks is given respectively depending on whether the counterparty is in the financial industry. For the calculation of the exposure at default, the investment position is calculated on the basis of the book value.

B. Securities and derivative products transactions in the trading book
Based on the current calculation of the market risk stress test of the second pillar, the Group uses market risk factor sensitivity analysis to calculate the impact on profit or loss arising from asset impairment due to the changes in risk factors, including equity security, interest rates, gold and exchange rates, products, and credit-derived products. The change in each risk factor produces different benefits and losses in proportion to minor and severe scenarios. In the interval between various risk factors and domestic and foreign scenarios, the amount of change in the same scenario may cause some positions with benefits generated and other positions with losses resulted. Choose those with greater fluctuations in each scenario for calculation, which become the estimated loss amount under the stress scenario.

② Sensitivity Analysis
Test items: For the main trading book positions in different markets, if the computed market risk capital of the position accounts for more than 5% of the total market risk capital, the listed scenario test is carried out.

A. Interest rate risk
Assume that all factors are given, if the yield curve of all markets in the world shifted downward/upward by 100 base points on September 30, 2019, the Group's net profit or loss would increase/decrease by NT$2,047,583 thousand, respectively.

B. Exchange rate risk
The Group assumes that all other variable factors are given, if the major currency exchange rates on September 30, 2019 were relatively appreciated/depreciated by 3%, the Group's net profit or loss before tax would increase/decrease by NT$6,898 thousand, respectively. Of which, the main currencies are the US dollar, euro, and yen.

C. Equity securities price risk
The Group assumes that all other variable factors are given, if the price of equity securities increased/decreased by 15% on September 30, 2019, the Group's net profit or loss before tax would increase/decrease by NT$941,846 thousand, respectively.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

D. Sensitivity analysis is compiled as follows:

2019.01.01~2019.09.30

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Proportion
Equity market	Major stock markets + 15%	$941,846	$2,323,787	40.53%
	Major stock markets -15 %	(941,846)		-40.53%
Interest rate market	Main interest rate + 100bp	(2,047,583)		-88.11%
	Main interest rate - 100bp	2,047,583		88.11%
Foreign exchange market	Main currency +3%	6,898		0.30%
	Main currency -3 %	(6,898)		-0.30%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest rates + 100bp, main currencies +3%, product prices -15%	(2,982,531)		-128.35%

2018.01.01~2018.09.30

Market category	Scenario	Affected profit or loss amount	Minimum capital computed for market risk	Proportion
Equity market	Major stock markets + 15%	$735,016	1,990,374	36.93%
	Major stock markets -15 %	(735,016)		-36.93%
Interest rate market	Main interest rate + 100bp	(1,848,251)		-92.86%
	Main interest rate - 100bp	1,848,251		92.86%
Foreign exchange market	Main currency +3%	9,458		0.48%
	Main currency -3 %	(9,458)		-0.48%
Product market	Product price +15%	-		0.00%
	Product price -15 %	-		0.00%
General scenario	Main stock markets -15%, main interest rates + 100bp, main currencies +3%, product prices -15%	(2,573,809)		-129.31%

(In Thousands of New Taiwan Dollars, unless otherwise specified)

(7) Exchange rate risk concentration information

The Group's foreign currency financial assets and liabilities with significant impact are as follows:

	2019.09.30			2018.12.31		
	Foreign currency (thousand)	Exchange rate	NTD	Foreign currency (thousand)	Exchange rate	NTD
Financial assets						
Monetary items						
USD	$1,539,293	31.04	$47,782,723	$1,464,767	30.73	$45,016,674
HKD	94,298	3.96	373,327	101,591	3.92	398,642
AUD	17,784	20.96	372,743	3,735	21.68	80,953
JPY	2,415,225	0.29	695,102	2,960,152	0.28	823,810
EUR	4,819	33.94	163,537	4,576	35.22	161,170
RMB	682,163	4.35	2,967,819	721,785	4.48	3,230,639
Non-Currency	-	-	-	-	-	-
Financial liabilities						
Monetary items						
USD	$1,443,725	31.04	$44,816,125	$1,547,009	30.73	$47,544,224
HKD	9,659	3.96	38,239	10,940	3.92	42,928
AUD	59,833	20.96	1,254,074	45,089	21.68	977,341
JPY	1,138,325	0.29	327,610	1,484,524	0.28	413,143
EUR	4,772	33.94	161,955	4,491	35.22	158,168
RMB	300,488	4.35	1,307,302	319,247	4.48	1,428,918
Non-Currency	-	-	-	-	-	-

	2018.09.30		
	Foreign currency (thousand)	Exchange rate	NTD
Financial assets			
Monetary items			
USD	$1,521,695	30.55	$46,489,307
HKD	10,036	3.91	39,193
AUD	3,936	22.04	86,768
JPY	3,060,743	0.27	824,564
EUR	5,646	35.49	200,354
RMB	680,645	4.44	3,022,062
Non-Currency	-	-	-
Financial liabilities			
Monetary items			
USD	$1,545,096	30.55	$47,204,218
HKD	10,143	3.91	39,611

(In Thousands of New Taiwan Dollars, unless otherwise specified)

	2018.09.30		
	Foreign currency (thousand)	Exchange rate	NTD
AUD	42,174	22.04	929,616
JPY	1,027,809	0.27	276,892
EUR	5,643	35.49	200,263
RMB	317,254	4.44	1,408,610
Non-Currency	-	-	-

Due to the wide variety of foreign currencies of the Group, it is impossible to disclose the exchange gains and losses information of monetary financial assets and financial liabilities by each foreign currency with significant impact. The Group's foreign currency exchange gains and losses from January 1 to September 30, 2019 and 2018 were NT$161,169 thousand and NT$79,047 thousand, respectively.

XV. Capital management

1. Overview
In response to the trend of capital management, the Group's overall business monitoring indicators are established to match the business development strategy and to reflect the overall risk situation. The various capital management indicators of the Group are as follows:
(1) The Bank's overall capital adequacy ratio shall not be less than 10.5%.
(2) Category I capital shall not be less than 8.5% of the total risk assets.
(3) The common stock equity shall not be less than 7.0% of the total risk assets.
(4) The total business reserve and allowance for bad debt as stated in Category II capital with a credit risk standard adopted shall not exceed 1.25% of the total amount of credit risk and weighted risk assets.

2. Capital management procedure
(1) The Group's capital management objectives are based on the "Legal Capital:"
Legal Capital Management Objectives: To meet the legal capital requirements of the supervisory authority, set the Group's capital adequacy ratio target, and ensure that the Group can operate safely and steadily.

(2) Legal capital management
① Demand legal capital
The Group uses the method prescribed by the supervisory authority to calculate the unanticipated losses arising from the credit risk, market risk, and operational risk under the existing assets and operating conditions, and compute the relative capital in response to the situation accordingly.

② Legal capital available

The Group's legal capital available is based on the rules published by the competent authorities to have the Group's capital classified by its source and characteristics as follows:

Category I capital: refers to the common stock equity net of the intangible assets, the deferred income tax assets arising from the losses of previous years, the business reserve and the insufficient appropriation of the allowance for bad debt, the revaluation increments of real estate, the unamortized loss of the bad debts sold, and other legal adjustment items specified and stipulated according to the calculation methods.

Common stock equity: Includes common stock and its premium on capital stock, advance capital, additional paid-in capital, legal reserve, special reserve, accumulated profit or loss, non-controlling equity, and other equity items.

Other Category I capital other than common stock equity: Includes perpetual non-cumulative preferred stock and its premium on capital stock, non-cumulative subordinated bonds without a maturity date, perpetual non-cumulative preferred stock and its premium on capital stock issued by the subsidiaries of the Company that are not directly or indirectly held by Bank, and non-cumulative subordinated bonds without a maturity date.

Category II capital: Includes perpetual cumulative preferred stock and its premium on capital stock, cumulative subordinate bonds without a maturity date, convertible subordinate bonds, long-term subordinate bonds, non-perpetual preferred stock and its premium on capital stock, real estate first-time subject to the application of International Accounting Standards, increase of retained earnings arising from the fair value or the revaluation value used as the cost, the valuation increments arising from the subsequent measurement of the investment real estate at the fair value and 45% of the unrealized benefits of the financial assets measured at fair value through other comprehensive income, business reserve and allowances for bad debts, perpetual cumulative preferred stock and its premium on capital stock issued by the subsidiaries of the Company that are not directly or indirectly held by Bank, and cumulative subordinated bonds without maturity date, convertible subordinate bonds, long-term subordinate bonds, and non-perpetual preferred stock and its premium on capital stock.

The allowance for bad debt included in Category II capital in the preceding paragraph refers to the amount that the bank's allowance for bad debt exceeds the estimated loss of the bank based on historical losses.

③ The management of legal capital is to convert the unanticipated losses of each risk to the total amount of risk assets, and then have the legal capital available divided by the total amount of the risk assets to calculate the capital adequacy ratio. The basic objective is to ensure that the Group's capital adequacy ratio is maintained above the mandatory legal ratio.

(3) Capital Adequacy

The Group's consolidated qualified regulatory capital ratio and risk assets ratio on September 30, 2019, December 31, 2018 and September 30, 2018 were 14.71%, 14.21% and 15.20%, respectively, which were in line with the capital management regulations of the competent authorities.

XVI. Notes of disclosure

1. Information related to material transactions
   (1) Cumulative amount of the stock of the same investee purchased or sold reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
   (2) Acquisition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
   (3) Disposition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
   (4) Discount of service charges in transaction with related party reaching more than NTD 5 million: None.
   (5) Accounts receivable-related party reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
   (6) Information regarding sale of NPL: None.
   (7) The types of securitized products and related information applied and approved for process according to the "Financial Assets Securitization Act" or the "Clauses of the Real Estate Securitization Act": None
   (8) Business relationships or important transactions and amounts between the parent company and subsidiary and among subsidiaries: Please refer to Attached table 1.
   (9) Other important transactions sufficient to affect the policy to use financial statements: None.

2. Transfer investment business-related information and total shareholding
   (1) Information regarding investees and total shareholdings: None.
   (2) Loans to others: See Attached table 2.
   (3) Endorsements/guarantees to others: None.
   (4) Marketable securities – end: See Attached table 3.
   (5) Cumulative amount of the stock of the same investee purchased or sold reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
   (6) Information on trading in derivative instruments: None
   (7) Acquisition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
   (8) Disposition amount of real estate reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
   (9) Discount of service charges in transaction with related party reaching more than NTD 5 million: None.
   (10) Accounts receivable-related party reaching NTD 300 million or more than 10% of the Paid-in shares capital: None.
   (11) Information regarding sale of NPL: None.
   (12) The types of securitized products and related information applied and approved for process according to the "Financial Assets Securitization Act" or the "Clauses of the Real Estate Securitization Act": None
   (13) Other important transactions sufficient to affect the policy to use financial statements: None.

3. Setting up branches and investments in Mainland China
   No such event.

4. Disclosure of other supplementary information
   (1) Loans and receivables and allowance for bad debt assessment form: Please refer to XIV.and 3 (13) for details.
   (2) Quality of assets: Detailed in Attached table 4.
   (3) NPL or non-performing receivable accounts exempted from report: See Attached table 5.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

(4) Concentration of credit risk: Please refer to Attached table 6 and Attached table 6-1.
(5) Interest rate sensitivity assets and liabilities analysis data: See Attached table 7 and 7-1.
(6) Profitability: Please refer to Attached table 8 for details.
(7) Maturity date analysis: Please refer to Attached table 9 and Attached table 9-1 for details.
(8) Capital Adequacy: Not applicable.

XVII. Department information

1. For management purposes, the Group classifies operating units based on different products and services and is divided into the following two reporting and operations departments:
   (1) Branch business operation department: Handle deposits and loans, exchanges, guarantees, discounts and cashiers, safe deposit boxes, trust business promotion, and assets, liabilities, income, and expenses that cannot be directly attributed or cannot be properly classified to an operating department.
   (2) Financial market operation department: Take charge of the Bank's fund scheduling and investment related work.

   The management individually monitors the operational results of each operating department and has made decisions on resource allocation and performance evaluation. The performance evaluation of the department is based on the operating profit or loss. The accounting policies of the operating department are the same as the summary of the significant accounting policies described in Note IV.

   2019.01.01~2019.09.30

	Branch business	Financial market	Adjustments and elimination	Total
Interest revenue	$2,502,941	$1,028,739	$-	$3,531,680
Service fee income	1,392,707	-	-	1,392,707
Investment profit	20,692	1,207,991	-	1,228,683
Other income and expenditures	180,575	-	-	180,575
Total revenue	4,096,915	2,236,730	-	6,333,645
Depreciation and amortization	(49,493)	(42,901)	-	(92,394)
Other operating expenses	(1,177,655)	(90,948)	-	(1,268,603)
Other major non-cash accounts				
Bad debt appropriation	(2,632,688)	-	-	(2,632,688)
Segment profit/loss	$237,079	$2,102,881	$-	$2,339,960

   2018.01.01~2018.09.30

	Branch business	Financial market	Adjustments and elimination	Total
Interest revenue	$2,539,097	$1,213,206	$-	$3,752,303
Service fee income	1,427,498	-	-	1,427,498
Investment profit	8,612	400,191	-	408,803
Other income and expenditures	110,516	-	-	110,516
Total revenue	4,085,723	1,613,397	-	5,699,120
Depreciation and amortization	(20,317)	(15,798)	-	(36,115)
Other operating expenses	(1,177,581)	(69,017)	-	(1,246,598)
Other major non-cash accounts				
Bad debt appropriation	(30,506)	-	-	(30,506)
Segment profit/loss	$2,857,319	$1,528,582	$-	$4,385,901

(In Thousands of New Taiwan Dollars, unless otherwise specified)

The information relating to the assets of the Group's operating department on September 30, 2019, December 31, 2018 and September 30, 2018 is shown in the following table:

	Branch business	Financial market	Adjustments and elimination	Total
2019.09.30				
Department assets	$174,151,546	$106,137,337	$159,106	$280,447,989
2018.12.31				
Department assets	$176,278,426	$104,549,366	$266,927	$281,094,719
2018.09.30				
Department assets	$181,741,034	$103,007,184	$270,003	$285,018,221

2. Product information:
   The Bank and its subsidiaries are divided into operating departments on the basis of business operations, so no further business information will be disclosed.

3. Regional information:
   The revenues of the Company and its subsidiaries are entirely generated in Taiwan.

4. Important customer information
   The Company and its subsidiaries did not generate revenues from one specific external customer for an amount more than 10% of the Company income.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 1

Business relationship and significant transactions between the parent company and subsidiaries: Unit: NTD thousand

No. (Note 1)	Trader's name	Counterparty	Relationship with trader (Note 2)	2019.01.01~2019.09.30			
				Transactions			
				Title	Amount	Terms and conditions	Ratio of total combined revenue or total assets (Note 3)
0	The Company	Tainan Life Insurance Agency Co., Ltd. (Note 4)	1	Service fee income	$26,574	General	0.42%
0	The Company	Tainan Life Insurance Agency Co., Ltd. (Note 4)	1	Other non-interest net profit or loss	480	General	0.01%
0	The Company	Fuchen Property Insurance Agency Co., Ltd. (Note 4)	1	Service fee income	587	General	0.01%
0	The Company	Fuchen Property Insurance Agency Co., Ltd. (Note 4)	1	Other non-interest net profit or loss	150	General	—
0	The Company	King's Town Bank International Leasing Co., Ltd.	1	Customer deposits and remittances	14,354	General	0.01%
0	The Company	King's Town Bank International Leasing Co., Ltd.	1	Other non-interest net profit or loss	468	General	0.01%
0	The Company	King's Town International Real Estate Management Co., Ltd.	1	Customer deposits and remittances	2,100	General	—
0	The Company	King's Town International Real Estate Management Co., Ltd.	1	Other non-interest net profit or loss	90	General	—

Note 1: The information about transactions between parent company and subsidiaries shall be numbered and noted in the following manner in the box of numbers:
1. 0 is for the Parent Company.
2. Subsidiaries are numbered from number 1.

Note 2: There are three types of relationships with traders, please mark the type intended.
1. Parent company vs. subsidiaries
2. Subsidiaries vs. parent company
3. Subsidiary vs. subsidiary

Note 3: For computing the ratio of trade amount to total sales revenue or total assets, if it is for asset and liability account, the computation is based on the ratio of ending balance to total consolidated assets; however, if it is for income and expense account, the computation is based on the ratio of interim cumulative amount to total consolidated revenue.

Note 4: The merger of these subsidiaries was approved by the competent authority on March 8, 2019, while the merger base date was set as June 3, 2019 by the board of directors on March 25, 2019.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 2

The Loaning of Funds

Unit: NTD thousand

No. (Note 1)	The lender of fund	The borrower of fund	Transaction title	Are they related parties	Maximum amount of the current period	Balance, ending	The actual amounts disbursed	Interest rate collars	Nature of loan (Note 4)	Business transaction amount (Note 5)	Reasons for the necessity of short-term financing (Note 6)	Allowance for loss appropriated	Collateral		Individual loan limit amount (Note 2)	Total loan limit amount (Note 3)
													Name	Value		
1	King's Town Bank International Leasing Co., Ltd.	Company A	Accounts receivable	No	$ 200,000	$ 265,000	$ 200,000	5%~18%	1	$ 500		$ 2,816	Real estate	$220,581	$ 934,224	$3,736,897
1	King's Town Bank International Leasing Co., Ltd.	Company B	Accounts receivable	No	192,000	210,000	192,000	5%~18%	1	500		2,223	Real estate	220,984	934,224	3,736,897
1	King's Town Bank International Leasing Co., Ltd.	Company C	Accounts receivable	No	75,200	160,000	75,200	5%~18%	1	10,000		1,731	-	-	311,408	3,736,897
1	King's Town Bank International Leasing Co., Ltd.	Company D	Accounts receivable	No	99,077	98,615	98,615	5%~18%	1	20,000		1,014	Real estate	92,857	934,224	3,736,897
1	King's Town Bank International Leasing Co., Ltd.	Company E	Accounts receivable	No	60,000	60,000	60,000	5%~18%	1	135,000		628	Real estate	38,804	934,224	3,736,897
1	King's Town Bank International Leasing Co., Ltd.	Summary of other customers	Accounts receivable	No	535,563	210,806	210,806	5%~18%	1	616,452		2,466	No/real estate	1,128,412	934,224	3,736,897
1	King's Town Bank International Leasing Co., Ltd.	Summary of other customers	Accounts receivable	No	275,168	199,720	189,720	5%~18%	2	-	Business turnover	2,224	No/real estate	351,937	155,704	249,126

(Note 1) The financial information of the Company and its subsidiaries should be indicated in the corresponding column. The numbering method is as follows:
(1) For the column of the issuer, please fill in with "0."
(2) Investee is numbered from number 1.

(Note 2) Subsidiary's limit amount for each individual:
(1) Business counterparty:
Unsecured: The individual loan amount shall not exceed 50% of the lending company's net value in the most recent financial report audited by the certified public accountant.
Total secured/unsecured amount: The individual loan amount shall not exceed 150% of the lending company's net value in the most recent financial report audited by the certified public accountant.
(2) Those who need financial support:The individual loan amount shall not exceed 25% of the lending company's net value in the most recent financial report audited by the certified public accountant.

(Note 3) The subsidiary's loan amount may not exceed 40% of the lending company's net value in the most recent financial report audited by the certified public accountant. For the business counterparty, the loan amount may not exceed 6 times of the lending company's net value in the most recent financial report audited by the certified public accountant.

(Note 4) The nature of loan is illustrated as follows:
(1) For the business counterparty, please fill in with "1."
(2) For those who need a short-term loan, please fill in with "2."

(Note 5) If the nature of loan is as defined in alternative "1," please state the business transaction amount. The business transaction amount refers to the amount of business transactions conducted between the lending company and the borrower in the most recent year.

(Note 6) If the nature of loan is as defined in alternative "2," the reasons for the necessary loans and funds application of the borrower should be specified, such as repayment of loans, purchase of equipment, business turnover, etc.

(Note 7) The transfer-investment company – King's Town International Leasing Co., Ltd. has a total of 43 borrowers in the current period. The borrowers with a loan amount of more than 5% individually are listed as above.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 3

The securities held at the end of the period (excluding investment in subsidiaries, associates, and joint venture): Unit: NTD thousand

Holding company	Types and names of securities (Note 1)	Relationship with the securities issuer	Account titles in book	At ending				Remarks
				Shares (Thousand Shares)	Book value	Ratio of Shareholding	Fair value	
King's Town Bank International Leasing Co., Ltd.	Bank of Panhsin	Financial assets at fair value through other comprehensive income	Financial assets at fair value through other comprehensive income	10,600	$76,957	0.73%	$76,957	
King's Town Bank International Leasing Co., Ltd.	Hoyii Life Co., Ltd.	Financial assets at fair value through other comprehensive income	Financial assets at fair value through other comprehensive income	526	$5,721	2.49%	$5,721	
King's Town Bank International Leasing Co., Ltd.	Forest Water Environmental Engineering Co., Ltd.	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	3,611	$196,448	2.68%	$196,448	
King's Town Bank International Leasing Co., Ltd.	Radium Life Tech Co., Ltd.	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	1,530	$17,978	0.17%	$17,978	
King's Town Bank International Leasing Co., Ltd.	Mirle Automation Corporation	Financial assets at fair value through profit and loss	Financial assets at fair value through profit and loss	696	$26,935	0.36%	$26,935	

Note 1: Securities as stated in this table are the stocks, bonds, beneficiary certificates and the securities deriving from the above items within the scope of IFRS 9, "Financial Instruments".

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 4

Asset quality

Non-performing loans and overdue accounts

Unit: NTD thousand, %

Year and month		September 30, 2019					September 30, 2018				
Business category\Items		Non-performing loan amount (Note 1)	Total amount	NPL ratio (Note 2)	Allowance for bad debt	Allowance for bad debt coverage rate (Note 3)	Non-performing loan amount (Note 1)	Total amount	NPL ratio (Note 2)	Allowance for bad debt	Allowance for bad debt coverage rate (Note 3)
Corporate banking	Secured	$19,529	$86,311,716	0.02%	$1,263,005	6,467.33%	$12,242	$90,878,654	0.01%	$1,373,942	11,223.18%
	Non-secured	-	48,998,811	-	674,098	-	-	50,912,749	-	729,930	-
Consumer banking	Residential mortgage loans (Note 4)	25,583	15,653,879	0.16%	249,213	974.14%	22,187	15,032,248	0.15%	255,632	1,152.17%
	Cash card	-	-	-	-	-	-	-	-	-	-
	Small credit loans (Note 5)	526	104,618	0.50%	4,398	836.12%	273	95,126	0.29%	5,655	2,071.43%
	Others (Note 6) Secured	-	3,888,436	-	50,423	-	-	3,660,877	-	49,946	-
	Others (Note 6) Non-secured	-	143,748	-	2,429	-	460	55,676	0.83%	1,949	423.69%
Total amount		$45,638	$155,101,208	0.03%	$2,243,566	4,916.00%	$35,162	$160,635,330	0.02%	$2,417,054	6,874.05%
.05%		NPL amount	Balance of receivable accounts	Non-performing loan (NPL) ratio	Allowance for bad debt	Allowance for bad debt coverage rate	NPL amount	Balance of receivable accounts	Non-performing loan (NPL) ratio	Allowance for bad debt	Allowance for bad debt coverage rate
Credit card		$354	$354	100.00%	$657	185.59%	$941	$941	100.00%	$1,464	155.58%
Non-recourse receivables factoring business (Note 7)		-	-	-	-	-	-	-	-	-	-

Note 1: The non-performing loan is the overdue amount reported in accordance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. The non-performing credit card amount is reported according to the FSC. Banking (IV).Tzi No. 0944000378 Letter dated July 6, 2005.

Note 2: Non-performing loan ratio = Non-performing loan/total loan amount. Non-performing credit card ratio = Non-performing amount/accounts receivable balance

Note 3: NPL Coverage Ratio = Allowance for bad debt appropriated for loans/Non-performing amount. Non-performing credit card receivables coverage ratio = Allowance for bad debt appropriated for credit card receivables/non-performing amount.

Note 4: The residential mortgage loan refers to the borrower providing the resident purchased (owned) by the borrower of his/her spouse or minors as collateral to financial institutions in exchange for funds in order to purchase or construct or decorate houses.

Note 5: Small credit loans refer to small credit loans other than credit cards and cash cards. Also, it is subject to the FSC. Banking (IV).Tzi No. 09440010950 Letter dated December 19, 2005.

Note 6: The “Other” consumer finance refers to the secured or unsecured consumer finance loans other than the “residential mortgage loans”, “cash cards”, and “small credit loans”, excluding credit cards.

Note 7: The accounts receivable business without recourse is reported as non-performing loans within three months upon confirming that the accounts receivable factoring banks or insurance companies decline to compensate in accordance with the FSC. Banking (V). Tzi No. 094000494 Letter dated July 19, 2005.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 5

NPL or non-performing receivable accounts exempted from report

Unit: NTD thousand

	September 30, 2019		September 30, 2018	
	Total NPL exempted from report	Total non-performing receivable accounts exempted from report	Total NPL exempted from report	Total non-performing receivable accounts exempted from report
Exempted amount after a debt negotiation and contractual performance (Note 1)	$4,110	$81	$6,101	$111
Performance of debt clearance program and rehabilitation program (Note 2)	13,662	76	19,531	118
Total	$17,772	$157	$25,632	$229

Note 1: For the FSC. Banking (I) Tzi No. 0951001270 Letter dated April 25, 2006. It is regarding the matters to be disclosed additionally according to the credit reporting methods and information disclosure requirement of the cases approved according to the “Unsecured Debt Negotiation Mechanism for Consumer Finance Cases of the Bankers Association of the Republic of China”.

Note 2: For the FSC. Banking (I) Tzi No. 09700318940 Letter dated September 15, 2008, it is regarding the matters to be disclosed additionally according to the credit reporting and information disclosure requirements of the pre-negotiation, rehabilitation, and liquidation cases approved according to the “Consumer Debt Clearance Act”.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 6

Concentration of credit risk

Unit: NTD thousand, %

Year	September 30, 2019		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	Ratio of the current net value (%)
1	Company (Group) A – Construction engineering business	7,400,072	18.92%
2	Company (Group) B - General product wholesale business	5,348,293	13.68%
3	Company (Group) C - Unclassified other financial service business	4,400,000	11.25%
4	Company (Group) D - Real Estate Development business	4,320,812	11.05%
5	Company (Group) E - Power supply business	3,449,565	8.82%
6	Company (Group) F - Unclassified other financial service business	2,836,306	7.25%
7	Company (Group) G - Real Estate Rental and Sale business	2,710,530	6.93%
8	Company H - Wire & Cable manufacturing business	2,444,800	6.25%
9	Company (Group) I - Unclassified other financial service business	2,174,000	5.56%
10	Company (Group) J - Wholesale of Metal Building Materials	2,120,600	5.42%

Note 1: Ranked according to the total credit balance of the debtors. Please list the names of the top ten debtors that are not a government agency or a state-owned enterprise. If the debtor is an enterprise of the Group, the credit amount of the said enterprise should be attributed and included in the total amount. Also, it should be disclosed in the form of "code" + "industry" [such as, Company (or Group) A LCD panel and its components manufacturing]. For an enterprise of the Group, the industry with the highest risk exposure to the enterprise of the Group should be disclosed. The industry should be classified to the "detailed category" according to the industry standard classification of the Directorate-General of Budget, Accounting and Statistics.

Note 2: The enterprises mean those defined in Article 6 of " Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings".

Note 3: The total credit balance refers to the total amount of various loans (including import bill advance, export bills negotiations, discounts, overdrafts, short-term loans, short-term secured loans, securities receivables factoring, mid-term loans, mid-term secured loans, long-term loans, long-term secured loans, collection), inward remittance, non-recourse receivables factoring, remittance receivables, and guarantee balances.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 6-1

Concentration of credit risk

Unit: NTD thousand, %

Year	September 30, 2018		
Ranking (Note 1)	The industry that the Company or the Group engaged in (Note 2)	Total balance of loan (Note 3)	Ratio of the current net value (%)
1	Company (Group) A – Construction engineering business	8,353,407	22.20%
2	Company (Group) B - Solar Cell Manufacturing business	6,608,410	17.56%
3	Company (Group) C - General product wholesale business	5,967,350	15.86%
4	Company (Group) D - Cable Telecommunications	5,681,298	15.10%
5	Company (Group) E - Unclassified other financial service business	4,500,000	11.96%
6	Company (Group) F - Power supply business	3,696,516	9.82%
7	Company (Group) G - Cable Telecommunications	3,490,995	9.28%
8	Company H - Wire & Cable manufacturing business	3,232,260	8.59%
9	Company (Group) I - Real Estate Rental and Sale business	2,727,470	7.25%
10	Company (Group) J - Unclassified other financial service business	2,710,634	7.20%

Note 1: Ranked according to the total credit balance of the debtors. Please list the names of the top ten debtors that are not a government agency or a state-owned enterprise. If the debtor is an enterprise of the Group, the credit amount of the said enterprise should be attributed and included in the total amount. Also, it should be disclosed in the form of "code" + "industry" [such as, Company (or Group) A LCD panel and its components manufacturing]. For an enterprise of the Group, the industry with the highest risk exposure to the enterprise of the Group should be disclosed. The industry should be classified to the "detailed category" according to the industry standard classification of the Directorate-General of Budget, Accounting and Statistics.

Note 2: The enterprises mean those defined in Article 6 of " Supplementary Provisions to the Taiwan Stock Exchange Corporation Rules for Review of Securities Listings".

Note 3: The total credit balance refers to the total amount of various loans (including import bill advance, export bills negotiations, discounts, overdrafts, short-term loans, short-term secured loans, securities receivables factoring, mid-term loans, mid-term secured loans, long-term loans, long-term secured loans, collection), inward remittance, non-recourse receivables factoring, remittance receivables, and guarantee balances.

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 7

Interest Rate Sensitive Assets and Liabilities Analysis Table (NTD)

2019.01.01~2019.09.30

Unit: NTD thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	$169,460,087	$1,554,654	$518,113	$37,097,045	$208,629,899
Interest rate sensitivity liabilities	157,742,494	10,035,053	16,787,728	1,601,366	186,166,641
Interest rate sensitivity gap	11,717,593	(8,480,399)	(16,269,615)	35,495,679	22,463,258
Net value					34,912,353
Interest rate sensitivity assets and liabilities rate					112.07
Interest rate sensitivity gap and net worth rate					64.34

2018.01.01~2018.09.30

Unit: NTD thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	$173,578,652	$150,103	$5,666,649	$35,855,034	$215,250,438
Interest rate sensitivity liabilities	164,254,771	9,309,628	14,895,491	1,503,504	189,963,394
Interest rate sensitivity gap	9,323,881	(9,159,525)	(9,228,842)	34,351,530	25,287,044
Net value					35,919,741
Interest rate sensitivity assets and liabilities rate					113.31
Interest rate sensitivity gap and net worth rate					70.4

Note:
1. This form is prepared to report the amount in NTD (excluding foreign currency) of the head office and domestic and foreign branches
2. Interest rate sensitivity assets and liabilities mean the assets and liabilities with interest of which the income or cost varies depending on the interest rate.
3. Interest rate sensitivity gap=Interest rate sensitivity assets - Interest rate sensitivity liabilities.
4. Interest rate sensitivity assets and liabilities rate=Interest rate sensitivity assets ÷ interest rate sensitivity liabilities (i.e. interest rate sensitivity assets and interest rate sensitivity liabilities in NTD)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 7-1

Interest rate sensitivity assets and liabilities analysis data (USD)

2019.01.01~2019.09.30

Unit: US thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	$293,273	$54,820	$5,135	$1,154,910	$1,508,138
Interest rate sensitivity liabilities	1,225,229	162,746	48,081	227	1,436,283
Interest rate sensitivity gap	(931,956)	(107,926)	(42,946)	1,154,683	71,855
Net value					134,743
Interest rate sensitivity assets and liabilities rate					105
Interest rate sensitivity gap and net worth rate					53.33

2018.01.01~2018.09.30

Unit: US thousand, %

Item	1 to 90 days	91 to 180 days	181 days to 1 year	Over 1 year	Total
Interest rate sensitivity assets	$349,353	$38,257	$92,063	$990,161	$1,469,834
Interest rate sensitivity liabilities	1,428,206	49,874	40,862	-	1,518,942
Interest rate sensitivity gap	(1,078,853)	(11,617)	51,201	990,161	(49,108)
Net value					55,791
Interest rate sensitivity assets and liabilities rate					96.77
Interest rate sensitivity gap and net worth rate					(88.02)

Note:
1. This form is prepared to report the amount in USD of the head office and domestic branches, international financial business branches, and overseas branches, excluding contingent assets and contingent liabilities.
2. Interest rate sensitivity assets and liabilities mean the assets and liabilities with interest of which the income or cost varies depending on the interest rate.
3. Interest rate sensitivity gap=Interest rate sensitivity assets - Interest rate sensitivity liabilities.
4. Interest Rate Sensitive Assets to Liabilities Ratio = Interest Rate Sensitive Assets ÷ Interest Rate Sensitive Liabilities (refers to USD interest rate sensitive assets and interest rate sensitive liabilities)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 8

Profitability

Unit: %

Item		2019.09.30	2018.09.30
ROA	Before tax	0.83	1.58
	After tax	0.72	1.32
ROE	Before tax	6.30	11.76
	After tax	5.46	9.81
Net profit rate		32.00	64.23

(Note):
1. ROA = Income before (after) tax/Average total assets
2. ROE=Income before (after) tax / Average net worth
3. Profit rate = Income after tax/income-net.
4. Income before (after) tax means the income accumulated from January of the current year until the current quarter

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Table 9

Analysis of maturity structure of NTD

2019.09.30

Unit: NTD thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	$228,240,513	$69,483,975	$9,979,884	$17,427,759	$39,343,164	$92,005,731
Outward remittance of due fund	241,048,153	24,455,238	26,021,740	30,956,352	42,103,170	117,511,653
Period Difference	(12,807,640)	45,028,737	(16,041,856)	(13,528,593)	(2,760,006)	(25,505,922)

2018.09.30

Unit: NTD thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	$233,220,541	$62,165,020	$10,495,505	$14,891,346	$42,799,265	$102,869,405
Outward remittance of due fund	247,780,408	38,101,369	28,754,662	29,288,123	39,157,210	112,479,044
Period Difference	(14,559,867)	24,063,651	(18,259,157)	(14,396,777)	3,642,055	(9,609,639)

(In Thousands of New Taiwan Dollars, unless otherwise specified)

Attached table 9-1

USD maturity date structure analysis table

2019. 09.30

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	$1,591,302	$79,558	$27,686	$21,213	$31,604	$1,431,241
Outward remittance of due fund	1,620,013	1,123,447	73,388	176,869	75,170	171,139
Period Difference	(28,711)	(1,043,889)	(45,702)	(155,656)	(43,566)	1,260,102

2018.09.30

Unit: US thousand

	Total	Remaining balance to maturity				
		1 to 30 days	31 to 90 days	91 to 180 days	181 days to 1 year	More than one year
Inward remittance of due fund	$1,598,791	$74,360	$39,590	$72,472	$98,363	$1,314,006
Outward remittance of due fund	1,644,914	1,231,423	145,473	68,664	78,276	121,078
Period Difference	(46,123)	(1,157,063)	(105,883)	3,808	20,087	1,192,928