FIRST COMMERCIAL BANK
AND ITS SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND REPORT OF INDEPENDENT ACCOUNTANTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

For the convenience of readers and for information purpose only, the auditors' report and the accompanying consolidated financial statements have been translated into English from the original Chinese version prepared and used in the Republic of China. In the event of any discrepancy between the English version and the original Chinese version or any differences in the interpretation of the two versions, the Chinese-language auditors' report and financial statements shall prevail.

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PWCR18000269

REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and Stockholders of First Commercial Bank

Opinion

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

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

Basis for opinion

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

Key audit matters

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

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

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Recognition and measurement of expected credit losses on loans discounted

Description

The recognition and measurement of expected credit losses on loans discounted complies with the regulations under IFRS 9 "Financial Instruments" and relevant regulations issued by the competent authority. For the accounting policy of recognition and measurement of expected credit losses on loans discounted, please refer to Note 4(9); for critical accounting judgements, estimates, and assumption uncertainty of the recognition and measurement of expected credit losses on loans discounted, please refer to Note 5(3). For information on loans discounted allowance for doubtful debts, which amounted to $21,428,241 thousand, as at December 31, 2018, please refer to Note 6(7); for disclosures of related credit risks, please refer to Note 12(2)C(C).

As stated in Notes 3 and 5(3), impairment assessment of loans discounted is based on the expected credit loss model. At each financial reporting date, financial instruments are categorised into three stages based on the degree of change in its credit risk since initial recognition. Provision for impairment loss is measured either using 12-month expected credit losses (stage 1, there has been no significant increase in credit risk since initial recognition) or lifetime expected credit losses (stage 2, there has been a significant increase in credit risk since initial recognition; or stage 3, the credit has been impaired). The measurement of expected credit losses is based on a complex model, which includes various parameters and assumptions and reflects reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. For example, the probability of default and loss given default are estimated using grouping and historical data and subsequently calibrated according to forward-looking information. Major exposure at default of on-balance sheet items is the outstanding loan balance.

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

How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit matter are summarised as follows:

1. Understood and assessed the related written policies, internal control system, the expected credit loss impairment model and methodology (including various parameters and assumptions, reasonableness of the measurement criteria for the three stages of credit risk, and the relevancy of future economic condition criteria in forward-looking information), and the assessment and approval process.
2. Sampled and tested the implementation effectiveness of internal controls related to the recognition and measurement of expected credit losses, including management of collateral and

its value assessment, controls for changes in parameters, and approval for provisioning of expected credit losses.

3. Sampled and tested the consistency of measurement criteria for the samples in the three stages of expected credit loss with the judgement results of the system.
4. Sampled and tested assumptions for the parameters of the expected credit loss model, including the reasonableness of historical data on probability of default, loss given default, and exposure at default.
5. Sampled and tested forward-looking information.
   (1) Sampled and tested the reliability of data on historical economic conditions (economic growth rate, annual inflation rate, etc.) adopted by management to determine whether there is significant increase in credit risk when measuring expected credit losses under IFRS 9.
   (2) Assessed the reasonableness of the forward-looking scenarios and their respective weights adopted by the management.
6. Assessed cases in stage 3 (credit impaired) with material amounts that were previously assessed individually.
   Assessed the reasonableness and calculation accuracy of the various assumed parameter values (including debtor due period, financial and operational conditions, guarantees by external parties and historical data) adopted in the estimation of future cash flows.

Fair value measurement of unlisted stocks without an active market

Description

For the accounting policy for unlisted stocks without an active market (included financial assets at fair value through other comprehensive income), please refer to Note 4(7); for critical accounting judgements, estimates, and assumption uncertainty of unlisted stocks without an active market, please refer to Note 5(2). For information on unlisted stocks of financial assets at fair value through other comprehensive income (fair value of Level 3), which amounted to $7,879,852 thousand, as at December 31, 2018, please refer to Notes 6(4) and 12(1)E.

The fair value of unlisted stocks is determined by valuation methods since these financial instruments have no quoted prices from active market. Management primarily relies on valuation reports prepared by management's expert for the fair value measurement of these financial instruments. These measurements are largely based on comparable listed companies in similar industries or recently published market multiples and subsequently discounted according to market liquidity or specified risk.

The aforementioned fair value measurement of unlisted stocks includes the determination of assumptions and parameters adopted in valuation models and methods. Because this involves subjective judgement and various assumptions and estimates, the measurement result of using these assumptions and estimates will directly affect the related recognised amounts. Thus, we have included the fair value measurement of stocks of unlisted companies with no active market as one of the key audit matters in our audit.

How our audit addressed the matter

The procedures that we have conducted in response to specific aspects of the above-mentioned key audit matter are summarised as follows:

1. Understood and assessed the related written policies, internal control system, fair value measurement models and methodologies, and approval process of the fair value measurement of unlisted stocks.
2. Understood and assessed the independence, professionalism, and competency of management's expert.
3. Assessed whether the valuation models and methodologies used by management's expert are widely adopted in the applicable industries.
4. Assessed the reasonableness of the parameters and assumptions of comparable companies selected by management's expert.
5. Sampled and reviewed the inputs and calculation formulas of the valuation models described in the valuation report prepared by management's expert.

Other matter – Parent company only financial reports

We have audited and expressed an unmodified opinion on the parent company only financial statements of First Commercial Bank, Ltd. as at and for the years ended December 31, 2018 and 2017.

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

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

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

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

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

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

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

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

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

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

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

Chou, Chien-Hung   Chi, Shu-Mei

Chou, Chien-Hung   Chi, Shu-Mei

For and on behalf of PricewaterhouseCoopers, Taiwan

March 15, 2019

The accompanying consolidated financial statements are not intended to present the financial position and results of operations and cash flows in accordance with accounting principles generally accepted in countries and jurisdictions other than the Republic of China. The standards, procedures and practices in the Republic of China governing the audit of such financial statements may differ from those generally accepted in countries and jurisdictions other than the Republic of China. Accordingly, the accompanying consolidated financial statements and report of independent accountants are not intended for use by those who are not informed about the accounting principles or auditing standards generally accepted in the Republic of China, and their applications in practice.

As the financial statements are the responsibility of the management, PricewaterhouseCoopers cannot accept any liability for the use of, or reliance on, the English translation or for any errors or misunderstandings that may derive from the translation.

FIRST COMMERCIAL BANK AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	ASSETS	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
11000	Cash and cash equivalents	6(1) and 7	$ 50,366,717	2	$ 61,433,560	2
11500	Due from the Central Bank and call loans to banks	6(2) and 7	218,656,022	8	177,910,861	7
12000	Financial assets at fair value through profit or loss	6(3), 7 and 12(14)	138,999,510	5	100,249,302	4
12100	Financial assets at fair value through other comprehensive income	6(4) and 8	222,182,260	8	-	-
12200	Investment in debt instruments at amortised cost	6(5) and 8	415,604,459	14	-	-
13000	Receivables, net	6(6) and 12(14)	77,352,470	3	63,380,967	3
13200	Current tax assets	7	1,302,565	-	437,888	-
13500	Loans discounted, net	6(7), 7 and 12(14)	1,695,769,851	59	1,580,079,849	62
14000	Available-for-sale financial assets	8 and 12(14)	-	-	149,792,285	6
14500	Held-to-maturity financial assets	8 and 12(14)	-	-	386,605,113	15
15000	Investments accounted for using equity method, net	6(8)	1,874,089	-	1,829,956	-
15500	Other financial assets, net	6(9) and 12(14)	152,384	-	8,115,659	-
18500	Property and equipment, net	6(10) and 7	26,508,042	1	26,660,231	1
18700	Investment property, net	6(11)	6,921,617	-	6,942,132	-
19000	Intangible assets, net		456,668	-	394,255	-
19300	Deferred tax assets, net	6(34)	2,724,899	-	3,019,820	-
19500	Other assets, net	6(12) and 8	2,664,587	-	3,063,629	-
	Total Assets		$ 2,861,536,140	100	$ 2,569,915,507	100

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FIRST COMMERCIAL BANK AND ITS SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Expressed in thousands of New Taiwan dollars)

	LIABILITIES AND EQUITY	Notes	December 31, 2018 AMOUNT	%	December 31, 2017 AMOUNT	%
21000	Deposits from the Central Bank and banks	6(13) and 7	$ 240,743,329	9	$ 153,890,754	6
21500	Due to the Central Bank and banks		333,951	-	82,364	-
22000	Financial liabilities at fair value through profit or loss	6(14) and 7	33,153,145	1	34,398,308	2
22500	Notes and bonds issued under repurchase agreements	6(15)	15,840,590	1	11,588,250	1
23000	Payables	6(16)	85,521,342	3	76,374,564	3
23200	Current tax liabilities	7	1,839,451	-	2,523,826	-
23500	Deposits and remittances	6(17) and 7	2,180,091,785	76	2,019,708,298	79
24000	Financial bonds payable	6(18)	37,150,000	1	29,300,000	1
25500	Other financial liabilities	6(19)	43,581,823	2	32,883,096	1
25600	Provisions	6(20) and 12(14)	6,505,136	-	6,001,360	-
29300	Deferred tax liabilities	6(34)	6,722,425	-	6,356,729	-
29500	Other liabilities	6(21)	4,893,160	-	4,548,792	-
	Total Liabilities		2,656,376,137	93	2,377,656,341	93
	Equity					
31101	Common stock	6(22)	89,064,000	3	89,064,000	3
31500	Capital surplus	6(22)	34,462,221	1	34,848,216	1
32000	**Retained earnings**					
32001	Legal reserve	6(22)	45,735,991	2	41,193,426	2
32003	Special reserve	6(22)	4,229,939	-	4,157,452	-
32011	Unappropriated earnings	6(23)	19,497,140	1	17,236,130	1
32500	**Other equity interest**	6(24) and 12(14)	12,170,712	-	5,759,942	-
	Total Equity		205,160,003	7	192,259,166	7
	Total Liabilities and Equity		$ 2,861,536,140	100	$ 2,569,915,507	100

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

FIRST COMMERCIAL BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

	Items	Notes	For the years ended December 31, 2018 AMOUNT	2018 %	2017 AMOUNT	2017 %	Changes Percentage (%)
41000	Interest income		$ 48,204,120	103	$ 43,355,647	100	11
51000	Less: Interest expense		(18,714,564)	(40)	(13,808,263)	(32)	36
	Net interest income	6(25) and 7	29,489,556	63	29,547,384	68	-
	Net non-interest income						
49100	Net service fee income	6(26) and 7	7,584,462	16	7,478,924	17	1
49200	Gains on financial assets or liabilities measured at fair value through profit or loss	6(3)(27)	5,482,289	12	5,097,688	12	8
49300	Realized gains on available-for-sale financial assets	12(14)	-	-	769,809	2	(100)
43100	Realised gains on financial assets at fair value through other comprehensive income	6(4)(28)	1,220,695	3	-	-	-
45000	(Impairment losses) reversal of gains on assets	6(29)	(15,611)	-	6,818	-	(329)
49750	Share of profit or loss of associates accounted for using equity method	6(8)	77,122	-	105,311	-	(27)
49600	Foreign exchange gains		2,257,800	5	75,650	-	2885
49800	Net other non-interest income	6(30) and 7	455,482	1	398,707	1	14
	Net profit		46,551,795	100	43,480,291	100	7
58200	Bad debt expense, commitment and guarantee liability provisions	6(7)(20)	(5,530,263)	(12)	(6,808,128)	(16)	(19)
	Operating expenses						
58500	Employee benefit expenses	6(31) and 7	(13,154,063)	(28)	(12,103,384)	(28)	9
59000	Depreciation and amortization expenses	6(32)	(983,988)	(2)	(963,675)	(2)	2
59500	Other general and administrative expenses	6(33) and 7	(6,095,000)	(13)	(5,750,544)	(13)	6
61001	**Income from continuing operations before income tax**		20,788,481	45	17,854,560	41	16
61003	Income tax expense	6(34)	(3,257,734)	(7)	(2,712,676)	(6)	20
64000	**Net income**		17,530,747	38	15,141,884	35	16

(Continued)

FIRST COMMERCIAL BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Expressed in thousands of New Taiwan dollars, except earnings per share amount)

	Items	Notes	For the years ended December 31, 2018 AMOUNT	2018 %	2017 AMOUNT	2017 %	Changes Percentage (%)
	Other comprehensive income						
	Items that will not be reclassified to profit or loss						
65201	Remeasurement of defined benefit plan	6(20)	($ 692,393)	(1)	($ 529,374)	(1)	31
65204	Gains on valuation of investments in equity instruments measured at fair value through other comprehensive income	6(4)	1,118,086	2	-	-	-
65220	Income tax related to components of other comprehensive income that will not be reclassified to profit or loss	6(34)	179,881	-	89,994	-	100
	Items that may be reclassified subsequently to profit or loss						
65301	Exchange differences on translation of foreign financial statements	6(24) and 12(14)	1,044,497	2	(3,164,578)	(7)	(133)
65302	Unrealized gains on valuation of available-for-sale financial assets	12(14)	-	-	2,295,592	5	(100)
65306	Share of other comprehensive income of associates and joint ventures accounted for using equity method, components of other comprehensive income that may be reclassified to profit or loss	6(8)(24) and 12(14)	(68,067)	-	107,250	-	(163)
65308	Unrealised losses on valuation of debt instruments at fair value through other comprehensive income		(1,085,695)	(2)	-	-	-
65320	Income tax related to components of other comprehensive income that may be reclassified to profit or loss	6(24)(34) and 12(14)	16,891	-	(12,688)	-	(233)
	Other comprehensive income (loss), net of tax		513,200	1	(1,213,804)	(3)	(142)
	Total comprehensive income		$ 18,043,947	39	$ 13,928,080	32	30
	Net income, attributable to						
	Owners of parent		$ 17,530,747	38	$ 15,141,884	35	16
	Comprehensive income, attributable to						
	Owners of parent		$ 18,043,947	39	$ 13,928,080	32	30
	Earnings per share (In NT dollars)	6(35)					
	Basic and diluted earnings per share		$	1.97	$	1.70	

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

FIRST COMMERCIAL BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in thousands of New Taiwan dollars)

	Equity attributable to owners of the parent								
			Retained earnings			Other equity interest			
	Common stock	Capital surplus	Legal reserve	Special reserve	Unappropriated earnings	Exchange difference on translation of foreign financial statements	Unrealized gain or loss on valuation of available-for-sale financial assets	Gain or loss on financial assets at fair value through other comprehensive income	Total equity
Year 2017									
Balance at January 1, 2017	$ 89,064,000	$ 34,848,216	$ 35,883,865	$ 4,072,621	$ 20,228,018	$ 1,010,883	$ 5,523,483	$ -	$ 190,631,086
Net income for the year	-	-	-	-	15,141,884	-	-	-	15,141,884
Other comprehensive income for the year	-	-	-	-	(439,380)	(3,057,328)	2,282,904	-	(1,213,804)
Total comprehensive income	-	-	-	-	14,702,504	(3,057,328)	2,282,904	-	13,928,080
Legal reserve	-	-	5,309,561	-	(5,309,561)	-	-	-	-
Special reserve	-	-	-	88,493	(88,493)	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(12,300,000)	-	-	-	(12,300,000)
Reversal of special reserve	-	-	-	(3,662)	3,662	-	-	-	-
Balance at December 31, 2017	$ 89,064,000	$ 34,848,216	$ 41,193,426	$ 4,157,452	$ 17,236,130	($ 2,046,445)	$ 7,806,387	$ -	$ 192,259,166
Year 2018									
Balance at January 1, 2018	$ 89,064,000	$ 34,848,216	$ 41,193,426	$ 4,157,452	$ 17,236,130	($ 2,046,445)	$ 7,806,387	$ -	$ 192,259,166
Retrospective application and retrospective adjustment effects	-	-	-	-	(72,144)	-	(7,806,387)	13,209,416	5,330,885
Balance at 1 January after adjustments	89,064,000	34,848,216	41,193,426	4,157,452	17,163,986	(2,046,445)	-	13,209,416	197,590,051
Net income for the year	-	-	-	-	17,530,747	-	-	-	17,530,747
Other comprehensive income for the year	-	-	-	-	(512,512)	976,430	-	49,282	513,200
Total comprehensive income	-	-	-	-	17,018,235	976,430	-	49,282	18,043,947
Legal reserve	-	-	4,542,565	-	(4,542,565)	-	-	-	-
Special reserve	-	-	-	75,709	(75,709)	-	-	-	-
Cash dividends of ordinary shares	-	-	-	-	(10,088,000)	-	-	-	(10,088,000)
Other capital reserves									
Share-based payment transaction	-	(385,995)	-	-	-	-	-	-	(385,995)
Gain or loss on disposal of investments in equity instruments measured at fair value through other comprehensive income	-	-	-	-	17,971	-	-	(17,971)	-
Reversal of special reserve	-	-	-	(3,222)	3,222	-	-	-	-
Balance at December 31, 2018	$ 89,064,000	$ 34,462,221	$ 45,735,991	$ 4,229,939	$ 19,497,140	($ 1,070,015)	$ -	$ 13,240,727	$ 205,160,003

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

FIRST COMMERCIAL BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from continuing operations before tax	$ 20,788,481	$ 17,854,560
Adjustments to reconcile income before tax to net cash used in operating activities		
Income and expenses having no effect on cash flows		
Provision for bad debt expense, commitment and guarantee liability	8,546,813	9,590,177
Depreciation of property and equipment	779,932	770,092
Depreciation of investment property	8,613	8,260
Amortization expense	195,443	185,323
Interest income	(48,204,120)	(43,355,647)
Interest expense	18,714,564	13,808,263
Dividend income	(736,977)	(638,518)
(Impairment losses) reversal of gains on assets	15,611	(6,818)
Share of profit of associates accounted for using equity method	(77,122)	(105,311)
Losses on retired property and equipment	2,629	15,854
Losses (gains) on disposal of plant and equipment	567	(1,327)
Losses (gains) on disposal of investment property	7,053	(24,108)
Changes in operating assets and liabilities		
Changes in operating assets		
Increase in due from the Central Bank	(5,722,332)	(469,798)
Increase in financial assets at fair value through profit or loss	(43,135,640)	(16,995,923)
Increase in financial assets at fair value through other comprehensive income	(18,181,281)	-
Increase in investments in debt instruments at amortised cost	(67,086,110)	-
Increase in receivables	(12,658,590)	(8,530,205)
Increase in loans discounted	(121,777,710)	(44,961,289)
Increase in available-for-sale financial assets	-	(8,205,779)
Increase in held-to-maturity financial assets	-	(42,021,519)
Increase in other financial assets	(305,318)	(433,355)
Changes in operating liabilities		
Increase in due from the Central Bank	86,852,575	27,637,133
(Decrease) increase in financial liabilities at fair value through profit or loss	(1,245,163)	10,474,386
Increase in payables	8,273,071	9,294,075
Increase in deposits and remittances	160,383,487	44,241,597
Increase (decrease) in other financial liabilities	10,698,727	(7,421,661)
Decrease in liability provisions	(629,862)	(531,364)
Increase in other liabilities	344,368	606,972
Cash outflow used in operations	(4,148,291)	(39,215,930)
Interest received	46,795,958	43,021,614
Interest paid	(17,840,857)	(13,322,613)
Dividend received	738,177	641,302
Income tax paid	(3,949,397)	(2,515,656)
Net cash flows generated from (used in) operating activities	21,595,590	(11,391,283)

(Continued)

FIRST COMMERCIAL BANK AND ITS SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31
(Expressed in thousands of New Taiwan dollars)

	2018	2017
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of property and equipment	($ 628,204)	($ 765,083)
Proceeds from disposal of property and equipment	-	1,625
Increase in intangible assets	(258,412)	(220,163)
Acquisition of investment property	(1,885)	(4,215)
Proceeds from disposal of investment property	6,734	39,196
Disposal of investments using the equity method	14,167	-
Decrease (increase) in other assets	403,038	(809,523)
Net cash flows used in investing activities	(464,562)	(1,758,163)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in due to the Central Bank and banks	251,587	(13,495)
Increase in notes and bonds issued under repurchase agreements	4,252,340	4,055,353
Increase (decrease) in other financial liabilities	7,850,000	(8,000,000)
Payment of cash dividends	(10,088,000)	(12,300,000)
Share-based payment transaction	(385,995)	-
Net cash flows generated from (used in) financing activities	1,879,932	(16,258,142)
Effect of exchange rate changes on cash and cash equivalents	938,738	(3,124,323)
Net increase (decrease) in cash and cash equivalents	23,949,698	(32,531,911)
Cash and cash equivalents at beginning of year	187,298,457	219,830,368
Cash and cash equivalents at end of year	$ 211,248,155	$ 187,298,457
The components of cash and cash equivalents		
Cash and cash equivalents reported in the statement of financial position	$ 50,366,717	$ 61,433,560
Due from Central Bank and call loans to other banks qualified as cash and cash equivalents as defined by IAS 7	160,881,438	125,864,897
Cash and cash equivalents at end of year	$ 211,248,155	$ 187,298,457

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

FIRST COMMERCIAL BANK AND ITS SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the years ended December 31, 2018 and 2017
(Expressed in Thousands of New Taiwan Dollars, Unless Otherwise Indicated)

1. Organization and business

(1) The Bank was incorporated in 1899 as a company limited by shares and had been a listed company since February 9, 1962. The Bank was privatized on January 22, 1998. On January 2, 2003, the Bank became a subsidiary of First Financial Holding Co., Ltd. ("FFHC") through an exchange of shares. After the exchange of shares, the Bank ceased from being listed on the Taiwan Stock Exchange ("TSE") but remains as a public company. As of December 31, 2018, the Bank's operating units consist of Business Division, Trust Division, Offshore Banking Branch, as well as domestic and overseas branches.

(2) The Bank's primary services are as follows:

A. Engaging in business as prescribed under the Banking Law;

B. Conducting trust business as authorized by the competent authorities;

C. Concurrently engaging in insurance agency related businesses as a commercial bank pursuant to the Insurance Act;

D. Establishing overseas branches to operate business approved by the local government; and

E. Engaging in other businesses approved by the competent authorities.

(3) The Bank's parent company is First Financial Holding Co., Ltd., which holds 100% of the Bank's shares as of December 31, 2018.

2. The date of authorization for issuance of the consolidated financial statements and procedures for authorization

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

3. Application of new standards, amendments, and interpretations

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

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

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

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

IFRS 9, 'Financial instruments'

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

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

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

(d) The Bank and its subsidiaries have elected not to restate prior period financial statements using the modified retrospective approach under IFRS 9. For details of the significant effect as at January 1, 2018, please refer to Note 12(14) B and C.

Please refer to Note 12(2)C for detailed information on the credit risk related to the adoption of IFRS 9 on January 1, 2018. Please refer to the same note for detailed information on the credit risk related to the adoption of IAS 39 for the periods before December 31, 2017.

The initial application of IFRS 9 uses the modified retrospective approach. In Note 6, only information pertaining to December 31, 2018 and the year 2018 are disclosed. For information pertaining to December 31, 2017, the year 2017, please refer to Note 12(14).

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

New standards, interpretations and amendments of the International Financial Reporting Standard as endorsed by the FSC effective from 2019 are as follows:

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

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

IFRS 16, ‘Leases’

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

The Bank and its subsidiaries expect to recognise the lease contract of lessees in line with IFRS 16. However, the Bank and its subsidiaries do not intend to restate the prior period financial statements (collectively referred herein as the “modified retrospective approach”). On January 1, 2019, the Bank and its subsidiaries will have to increase right-of-use asset and lease liability by $2,307,929 and $2,100,784, and decrease property and equipment, net, other assets, net and other financial liabilities by $176,694, $62,432 and $31,981, respectively.

(3)<u>IFRSs issued by IASB but not yet endorsed by the FSC</u>

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

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

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

4. Summary of significant accounting policies

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

(1) Compliance statement

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

(2) Basis of preparation

A. Except for the financial assets or financial liabilities (including derivative instruments) at fair value through profit or loss, defined benefit liabilities recognised based on the net amount of pension fund assets less present value of defined benefit obligation and foreclosed asset (which are stated at the lower of its carrying amount or fair value less costs to sell at the end of period) these consolidated financial statements have been prepared under the historical cost convention.

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

C. The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank and its subsidiaries' accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

D. In adopting IFRS 9 and IFRS 15 effective January 1, 2018, the Bank and its subsidiaries have elected to apply the modified retrospective approach whereby the cumulative impact of the adoption was recognised as retained earnings or other equity as of January 1, 2018 and the consolidated financial statements for 2017 were not restated. The consolidated financial statements for 2017 were prepared in compliance with International Accounting Standard 39 (“IAS 39”), International Accounting Standard 18 (“IAS 18”) and related financial reporting interpretations. Please refer to Note 12(14) for details of significant accounting policies.

(3) Basis of consolidation

A. Principles for preparation of consolidated financial statements

(A) The Bank and its subsidiaries prepare the consolidated financial statements by aggregating the Bank’s and its subsidiaries assets, liabilities, revenues and expenses, which have been eliminated versus owners’ equity during the consolidation. In addition, the financial statements of the Bank and its subsidiaries are made in the same reporting period. (Item included in the consolidated financial statements are not classified as current and non-current items.) Relevant items are arranged in order based on current and non-current nature.

(B) A subsidiary refers to an investee that the Bank and its subsidiaries have controlling power over. The Bank and its subsidiaries have control over an investee if the following elements are met:

a. power over the relevant activities of the investee, i.e. the investor has voting rights or other existing rights that give it the ability to direct the relevant activities;
b. exposure, or rights, to variable returns from its involvement with the investee;
c. the ability to use its power over the investee to affect the amount of the investor’s returns.

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

B. The consolidated financial statements include the following directly owned subsidiaries:

			Percentage of holding shares (%)	
Investor	Subsidiary	Business activities	December 31, 2018	December 31, 2017
FCB	First Commercial Bank (USA)	Banking services	100	100
FCB	FCB Leasing Co. Ltd. (FCBL)	Leasing(Note)	100	100

Note： FCBL was approved for establishment in May 1998. Its main business includes chattel guarantees and related repo trades, lease businesses, and receivable factoring.

C. Unconsolidated entities：None.

D. Adjustment on different accounting periods of the subsidiaries: None.

E. Information with respect to the subsidiaries' significant restriction to transfer its funds to the parent company: None.

F. Specific operation risks of the foreign subsidiaries: None.

G. Restrictions on earnings distribution of subsidiaries: None.

(4) Foreign currency translation

A. Functional and presentation currency

Financial statements of the entities in the Bank and its subsidiaries are presented by the currency of the primary economic environment in which the entities operate (that is the "functional currency"). The consolidated financial statements are presented in New Taiwan Dollars.

B. Transactions and balances

Foreign currency transactions denominated in a foreign currency or required to settle in a foreign currency are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

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

Exchange differences arising when foreign currency transactions are settled or when monetary items are translated at rates different from those at which they were translated when initially recognized or in previous financial statements are reported in profit or loss in the period, with one exception. The exception is that exchange differences associated with the gains or losses of the parts of effective hedges of cash flow hedges or hedges of net investments in foreign operations are recognized in other comprehensive income.

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

C. Translation of foreign operations

If the Bank and its subsidiaries have a functional currency (not in an economy with high inflation) that is different from their presentation currency in the consolidated financial statements, its operating results and financial position are translated into the presentation currency using the following procedures:

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

(B) Profit or loss presented is translated using the current average exchange rate (if exchanges rates in the period fluctuate rapidly, then translations use the exchange rates of the dates of transaction); and

(C) All exchange differences arising from translation are recognized in other comprehensive income.

Exchange differences arising from the above-mentioned procedures are recognized as "Exchange differences on translation of foreign financial statements" under equity.

When preparing consolidated financial statements, exchange differences arising from the translation of the net investment in foreign operations and monetary hedges considered a part of those net investments are recognized in other comprehensive income. When a foreign operation is partially disposed of or sold, related exchange differences that were originally recorded in other comprehensive income are reclassified to profit or loss.

(5) <u>Cash and cash equivalents</u>

"Cash and cash equivalents" in the consolidated balance sheet includes cash on hand, due from other banks, short-term highly liquid time deposits and investments that are readily convertible to known amount of cash and subject to an insignificant risk of changes in value. For the consolidated statement of cash flows, cash includes cash and cash equivalents, due from Central Bank and call loans to other banks, securities purchased under resell agreements qualified as cash and cash equivalents as defined by IAS 7.

(6) <u>Securities purchased or sold under resell or repurchase agreements</u>

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

(7) <u>Financial assets and financial liabilities</u>

The financial assets and liabilities of the Bank and its subsidiaries including derivatives are recognized in the consolidated balance sheet and are properly classified in accordance with IFRSs as endorsed by FSC.

A. Financial assets

All financial assets held by the Bank and its subsidiaries are classified according to the business model and characteristics of the contractual cash flows of the underlying asset. The categories are: "loans discounted", "receivables", "financial assets at fair value through profit or loss", "financial assets at fair value through other comprehensive income", and "investment in debt instruments at amortised cost".

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

(A) Regular purchase or sale

Financial assets held by the Bank and its subsidiaries, regardless of type or accounting classification, are all accounted for using trade date accounting by convention at the time of purchase or sale.

(B) Loans and receivables

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

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

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

(C) Receivables

Receivables include those originated and those not originated by the Bank and its subsidiaries. The former originated directly from money, products or services that the Bank and its subsidiaries provided to the debtors, while the latter refers to all other kinds of receivables. Receivables are measured at amortised cost using the effective interest rate method. However, short-term receivables without bearing interest are measured at initial invoice amount if the effect of discounting is material.

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

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

b. At initial recognition, the Bank and its subsidiaries measure the financial assets at fair value and recognise the transaction costs in profit or loss. The Bank and its subsidiaries subsequently measure the financial assets at fair value, and recognise the gain or loss in profit or loss.

c. The Bank and its subsidiaries recognise the dividend income when the right to receive payment is established, future economic benefits associated with the dividend will flow to the Bank and its subsidiaries and the amount of the dividend can be measured reliably.

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

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

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

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

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

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

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

(F) Investments in debt instruments at amortised cost

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

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

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

b. At initial recognition, the Bank and its subsidiaries measure the financial assets at fair value plus transaction costs. Interest income from these financial assets is amortised to profit or loss over the period of bond circulation using the effective interest method. A gain or loss is recognised in profit or loss when the asset is derecognised.

c. The Bank and its subsidiaries' time deposits which do not fall under cash equivalents are those with a short maturity period and are measured at initial investment amount as the effect of discounting is immaterial.

(G) Reclassification of financial assets

Excluding equity instruments and financial assets designated as at fair value through profit or loss that cannot be reclassified, the Bank and its subsidiaries reclassify certain financial assets when there is a change in the business model used to manage the assets. The reclassification of the asset is applied prospectively beginning on the reclassification date, and previously recognised gains, losses (including impairment or reversal of gains), and interest income cannot be restated.

(H) Derecognition of financial assets

The Bank and its subsidiaries derecognise a financial asset when one of the following conditions is met:

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

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

c. The contractual rights to receive cash flows of the financial asset have been transferred; however, the Bank and its subsidiaries have not retained control of the financial asset.

A. Financial liabilities

Financial liabilities held by the Bank and its subsidiaries include financial liabilities at fair value through profit and loss and financial liabilities measured at amortised cost.

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

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

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

a. Hybrid (combined) contracts; or

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

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

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

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

(B) Financial liabilities carried at amortised cost

Financial liabilities, which are not classified as financial liabilities at fair value through profit or loss or financial guarantee contract, all belong to financial liabilities at amortised cost.

(C) Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(8) Offsetting financial instruments

Financial assets and financial liabilities are offset and reported in the net amount in the balance sheet only when (1) there is a legally enforceable right to offset the recognised amounts; and (2) there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

(9) Impairment of financial assets

For loans discounted, receivables, debt instruments measured at fair value through other comprehensive income, financial assets at amortised cost, other financial assets, loan commitments and financial guarantee contracts, at each reporting date, the Bank and its subsidiaries recognise the impairment provision for 12 months expected credit losses if there has not been a significant increase in credit risk since initial recognition or recognise the impairment provision for the lifetime expected credit losses (ECLs) if such credit risk has increased since initial recognition or credit that has been impaired after taking into consideration all reasonable and verifiable information that includes forward-looking information. In measuring the expected credit losses of a financial asset, the Bank and its subsidiaries must reflect the following:

A. Unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes.

B. Discounting for the time value of money.

C. Reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions (available at reporting date without undue cost or effort).

At the balance sheet date, allowance for uncollectible accounts of credit assets should be recognised and impairment assessment performed for credit assets in accordance with relevant regulations such as "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans", Jin-Guan-Yin-Guo-Zi No. 10300329440 issued on December 4, 2014 (related to strengthening the ability of domestic banks to bear risks of real estate loans) and Jin-Guan-Yin-Fa-Zi No. 10410001840 issued on April 23, 2015 (related strengthening the management of domestic banks risk exposure in Mainland China and the risk bearing capacity), and the International Financial Reporting Standard 9 (“IFRS 9”). Between the allowance amount required by the relevant regulations and the allowance amount calculated under IFRS 9, the greater amount should be recorded, and the credit asset should be presented net of such allowance amount.

Loss allowance of lease receivables is measured by lifetime expected credit losses.

(10) Non-hedging and embedded derivatives

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

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

C. Under the non-financial assets, whether the hybrid contracts embedded with derivatives are accounted for separately at initial recognition is based on whether the economic characteristics and risks of an embedded derivative are closely related in the host contract. When they are closely related, the entire hybrid instrument is accounted for by its nature in accordance with the applicable standard. When they are not closely related, the derivative is accounted for differently from the host contract as derivative while the host contract is accounted for by its nature in accordance with the applicable standard. Alternatively, the entire hybrid instrument is designated as financial liabilities at fair value through profit or loss upon initial recognition.

(11) Investments accounted for using equity method

Investments of the Bank and its subsidiaries accounted for using the equity method refers to investments in associates.

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

B. The Bank’s and its subsidiaries’ share of its associates’ post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. When the Bank’s and its subsidiaries’ share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank and its subsidiaries does not recognise further losses, unless it has incurred statutory/constructive obligations or made payments on behalf of the associate.

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

(12) Property and equipment

The property and equipment of the Bank and its subsidiaries are recognized on the basis of the historical cost less accumulated depreciation. The historical cost includes any cost directly attributable to the acquisition of the asset.

If the future economic benefit generated from subsequent cost of the asset can be measured reliably and is very likely to flow into the Bank and its subsidiaries, the subsequent cost of property and equipment including the carrying amount may be individually recognized as asset. Additionally, the carrying amounts of a replaced item are derecognized.

Major renewals and improvements incurred to increase the future economic benefits of the assets are capitalized and depreciated. Routine maintenance and repairs are charged to expense as incurred.

Land is not affected by depreciation. Depreciation for other assets is provided on a straight-line basis over the estimated service lives of the assets until salvage value. Service life is as follows:

Land and improvements	3 ~ 30 years
Buildings and structures (including ancilliary equipment)	5 ~ 55 years
Transportation equipment	5 ~ 10 years
Machinery and equipment	3 ~ 4 years
Miscellaneous assets	5 ~ 17 years

Leasehold improvements are depreciated over the lease terms of the lease agreements or 5 years.

On balance sheet date, the Bank and its subsidiaries assess or appropriately adjusts the salvage value and service life of the asset. When there is an activity or change in the environment suggesting that the carrying amount may not be recovered, the Bank and its subsidiaries shall evaluate impairment on the asset. If the carrying amount of the asset is higher than the recoverable amount, the carrying amount shall be written off until it is equivalent to the recoverable amount. The recoverable amount is the higher of asset at fair value less disposal expense and value in use. Any gain or loss on disposal is calculated by the difference between the carrying amount and proceeds on disposal, and be recognized in the “Other non-interest income, net” in the statement of comprehensive income.

(13) Investment property

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

Part of the property may be held by the Bank and its subsidiaries and another part generates rental income or capital increase. If the property held by the Bank and its subsidiaries can be sold individually, then the accounting treatment should be made separately. IAS 16 as endorsed by FSC applies to the self-used property, and property used to generate rental income or capital increase or both is applicable for investment property set out in IAS 40 as endorsed by FSC. If each part of the property cannot be sold individually and the self-used proportion is not material, then the property is deemed as investment property in its entirety.

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

Investment property is subsequently measured by cost model. Depreciated cost is used to calculate amortization expense after initial measurement. The depreciation method, remaining useful life and residual value should apply the same rules as applicable to property and equipment. The fair value of investment property is disclosed in the financial statements at the balance sheet date, of which the valuation should be carried out by the appraisal segment of the Bank and its subsidiaries based on the internal appraisal guidelines.

(14) Foreclosed assets

Foreclosed properties are stated at the lower of its carrying amount or fair value less costs to sell at the end of period.

(15) Lease

When the Bank and its subsidiaries are the lessor, please refer to Note 4(13) for the accounting treatment of the leased assets satisfying investment property set out in IAS 40, “Investment Property”.

The lease contract of the Bank's and its subsidiaries' subsidiaries includes operating leases and finance leases.

A. Operating lease

When the Bank and its subsidiaries is the lessor or the lessee, rental payable and receivable from the operating lease is calculated through straight-line method based on the lease term, which are recognized respectively as "other non-interest income, net" and "other business and administration expense".

B. Finance lease

When the Bank and its subsidiaries are the lessor, the asset is derecognized when the finance lease contract is signed and the present value of lease payment is recognized as lease payable. The difference between the total lease payable and present value is recognized as unrealized interest income, and transferred to interest income as incurred at period end. Rental income is calculated based on remaining lease payment receivable using the embedded interest rate or incremental borrowing interest rate and recognized as current gain and loss.

When the Bank and its subsidiaries are the lessee, the lower of fair value of lease assets or the lowest present value of the lease payment is capitalized. Rental payment is amortized through financial leasing liabilities and recognized as interest income. Interest expense is calculated based on beginning balance of lease liabilities of each lease term using the embedded interest rate or incremental borrowing interest rate and recognized as current gain and loss. Financing lease liabilities are recognized as "other financial liabilities". Property and equipment acquired through finance lease contracts are measured by cost model.

(16) Intangible assets

The intangible assets of the Bank and its subsidiaries consist of computer software expenditures, which are recognized by cost and amortized over its economic useful life. The maximum estimated useful life is three years.

Subsequent measurements are based on the cost model.

(17) Impairment of non-financial assets

When there is any evidence indicating a possible impairment, the Bank and its subsidiaries immediately perform impairment tests in relation to the assets applicable for IAS 36, "Impairment of Assets".

If the testing result of the cash-generating unit of an asset or an individual asset suggests that the recoverable amount is less than the carrying amount, impairment loss is recognized. Recoverable amount refers to the higher of an asset's fair value less its cost or value in use. Reassess the recoverable amount of an asset when there is an indication that the impairment loss recognized in the prior period decreases or does not exist anymore. If there is any change in the estimated recoverable amount and result in an increase, asset impairment is reversed to the extent that the carrying amounts shall not exceed the amortized cost that would have been determined had no impairment loss been recognized in prior periods.

(18) Provisions, contingent liabilities, and contingent assets

The Bank and its subsidiaries recognize liabilities when all of the following three conditions are met：

(A) present obligation (legal or constructive) has arisen as a result of past event; and

(B) the outflow of economic benefits is highly probable upon settlement; and

(C) the amount is reliably measurable.

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

Measurements for provisions are at discounted present value of expenditure for settlement obligation using a pre-tax discount rate with timely adjustment made that reflects the current market assessments of the time value of money and the risks specific to the liabilities.

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

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

(19) Financial guarantee contract and loan commitments

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

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

Subsequently, the Bank and its subsidiaries should measure the contract at the higher of:

A. Loss allowance recognised in accordance with IFRS 9, as endorsed by the FSC; and

B. The amount initially recognised less, when appropriate, cumulative gains recognised in accordance with IFRS 15.

Impairment loss of the aforementioned guarantee policy reserve is assessed in accordance with "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans" and IFRS 9, and the greater of the two amounts is recorded as provision.

Expected credit losses are recognised for loan commitments of the Bank and its subsidiaries, and the measurement of expect credit losses is described in Note 4(9).

Provision for credit losses is recognised for loan commitments and financial guarantee contracts. If a financial instrument includes a loan (financial asset) and undrawn commitment component (loan commitment), and if the Bank and its subsidiaries cannot separate the expected credit losses of the loan from that of the loan commitment, the expected credit loss of the loan commitment is recognised along with that of the financial asset. The amount of the total credit loss in excess of the carrying amount of the financial asset should be recognised as a provision.

The increase in liabilities due to financial guarantee contract and loan commitments is recognised in "bad debt expense, commitment and guarantee liabilities provision".

(20) Employee benefits

A. Short-term employee benefits

The Bank and its subsidiaries recognize undiscounted short-term employee benefits due in the future as expense during the period that the service is provided.

B. Employee preferential deposit

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

According to "Regulations Governing the Preparation of Financial Statements by Public Banks", the preferential interest paid to current employees is calculated based on accrual basis, and the difference between the preferential interest and the market interest is recognized under "employee benefit expense". According to Article 30 of "Regulations Governing the Preparation of Financial Statements by Public Banks", the interest rate upon retirement agreed with the employees which exceeds general market interest rate is actualized in accordance with IAS 19, Defined Benefit Plan, as endorsed by FSC. However, various parameters should be in compliance with competent authorities if indicated otherwise.

C. Termination benefit

Termination benefit is paid to the employee being terminated who is eligible for retirement or as a result of voluntary termination in exchange of termination benefit. The Bank and its subsidiaries have made commitments in the formal detailed employment termination plan which is irrevocable, and recognizes liabilities when providing termination benefit to employees who voluntarily dismiss. Termination benefit paid 12 months after the financial reporting date should be discounted.

D. Post-employment benefit

The Bank and its subsidiaries adopt both defined benefit plan and defined contribution plan. Overseas branches and subsidiaries adopt defined benefit plans based on regulations of the country in which the entities operate.

The Bank and its subsidiaries adopted the defined contribution plan from July 1, 2005, the date that Labor Pension Act takes effect. Employees may choose to apply the pension policy of the Bank and its subsidiaries or the policy of the Act and retain their work seniority before the Act. For employees who are eligible for the Act, the Bank and its domestic subsidiaries should set aside 6% of their monthly salaries. The Bank and its subsidiaries have no other legal or constructive obligation to set aside additional reserve. Additionally, the pension in each period is recognized as pension cost in the period as incurred. Prepaid pension assets can only be recognized when there is a cash refund or deductible future pension payable.

Defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have durations that are approximate to the durations of the related pension liability.

Remeasurement of defined benefit plan includes: (1) actuarial gains and losses; (2) return on plan assets, but not including amounts already included in net interest of net defined benefit liabilities (assets); and (3) any changes in effect of asset ceiling, but not including amounts already included in net interest of defined benefit plan. The Bank and its subsidiaries chooses to categorize remeasurement of defined benefit plan under retained earnings.

Any actuarial gains and losses on pension of the defined benefit plan are all recognized in other comprehensive income. Past-service cost is recognised immediately in profit in the period incurred.

E. Employees’ compensation

Employees’ compensation is recognised as expenses and liabilities, provided that such recognition is required under legal obligation or constructive obligation and those amounts can be reliably estimated. However, if the accrued amounts for employees’ remuneration is different from the actual distributed amounts as resolved, the differences should be recognised based on the accounting for changes in estimates.

(21) <u>Employee share-based payment</u>

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

(22) Income and expense

Income and expense of the Bank and its subsidiaries are recognized as incurred. Expense consists of employee benefit expense, depreciation and amortization expense and other business and administration expenses. However, interest income is recognized on a cash basis upon receiving the interest when (1) reclassified as non- accrual loans; and (2) interest from restructured loans whose maturities have been extended is not recognized as interest income but recorded in the memo accounts.

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

B. Handling fees and expenses are recognized when cash is received, or the earning process is substantially completed; service fee earned from performing significant items shall be recognized upon the completion of the service, such as syndication loan service fee received from sponsor, handling fees and expenses of subsequent services of loans are amortized or included in the calculation of effective interest rate of loans and receivables during the service period. However, according to the Article 10.8 and 10.11 of the “Regulation Governing the Preparation of Financial Reports by Public Banks”, the loans and receivables may be measured by the initial amounts if the effects on discount are insignificant.

C. For more details on rental income of operating lease and unrealized interest income of finance lease in relation to lease business, please refer to Note 4(15).

(23) Income tax

A. Current tax

Income tax payable (refundable) is calculated on the basis of the tax laws enacted in the countries where the Bank and its subsidiaries operates and generates taxable income. Except for transactions or other matters that are directly recognized in other comprehensive income or equity, all the other transactions should be recognized as income or expense and recorded as gain and loss in the period. An additional tax is levied on the unappropriated retained earnings and is recorded as income tax expense in the year the stockholders resolve to retain the earnings.

Under the amendments to the Income Tax Act which became effective on February 7, 2018, an extra 5% tax will be levied on undistributed retained earnings. This amendment will apply to earnings for the year ended December 31, 2018.

B. Deferred tax

Deferred income tax assets and liabilities are measured based on the tax rate of the anticipated period that the future assets realization or the liabilities settlement requires, which is based on the effective or existing tax rate at the consolidated balance sheet date. The carrying amount of assets and liabilities included in the consolidated balance sheet are calculated through liability method and recognized as deferred income tax. The temporary difference of the Bank and its subsidiaries mainly occurs due to the revaluation on the depreciation of property and equipment and certain financial instruments (including derivatives) and provision and transferring of the reserve for pension and other post-employment benefits. Deductible temporary difference within the scope that it is probable to offset taxable income is recognized as deferred income tax.

Temporary difference related to the investees, branches and affiliated entities are recognized as deferred tax liabilities. However, when the Bank and its subsidiaries is capable of controlling the time length required to reverse the temporary difference and the temporary difference is unlikely to reverse in the foreseeable future, the temporary difference is not recognized.

The land revaluation appraisal occurred due to the revaluation assessment in line with relevant regulations, deemed as taxable temporary difference, and is recognized as deferred tax liabilities.If the future taxable income is probable to be utilized as unused loss carryforwards or deferred income tax credit which can be realized in the future, the proportion of realization is deemed as deferred income tax assets.

C. Consolidated tax return

Pursuant to the provisions of Tai-Cai-Shui-Zi No. 910458039, 'profit-seeking enterprises shall jointly declare and report profit-seeking enterprise income tax in accordance with Article 49 of the Financial Holding Companing Act and Article 40 of the Business Mergers And Acquisitions Act', in which where a financial holding company holds more than 90% of the outstanding issued shares of a domestic subsidiary, such a financial holding company may, for the tax year in which its such shareholding in the subsidiary has existed for the entire twelve months of the tax year, elect to be the tax payer itself, and jointly declare and report profit-seeking enterprise income tax. Thus, in accordance with the aforementioned Letter, the Company along with its parent company, First Financial Holding Co., Ltd. (FFHC), and affiliated companies, First Securities Inc. (FS); First Securities Investment Trust Co., Ltd. (FSIT); First Financial Asset Management Co., Ltd.; First Venture Capital Co., Ltd.; and First Financial Management Consulting Co., Ltd., elect to use a consolidated tax return for the declaration and reporting of their profit-seeking income tax and surplus retained earnings, as well as elect FFHC as the tax payer for the consolidated tax return.

The Company along with its parent company and affiliates elected the consolidated tax return to jointly declare and report their income tax. Related reimbursements and disbursements are accounted for receivables or payables and are presented in net value when preparing the consolidated financial statements.

D. Certain transactions of the Bank and its subsidiaries are recognized in other comprehensive income. The tax effects on these kinds of transactions are also recognized in other comprehensive income.

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

(24) Share capital and dividends

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or stock options are shown in equity as a deduction, net of tax, from the proceeds. Dividends are recorded in the Bank's and its subsidiaries' consolidated financial statements in the period in which they are resolved by the Bank's and its subsidiaries' Board of Directors in substitution for the stockholders. Cash dividends are recorded as liabilities, stock dividends are recorded as stock dividends to be distributed and are reclassified to ordinary shares on the effective date of new shares issuance.

(25) Operating segments

The Bank and its subsidiaries' operating segment reports are consistent with the internal reports provided to the chief operating decision-maker ("CODM"). The CODM is a team that allocates resources to operating segments and evaluates their performance.

5. Critical accounting judgments, estimates and key source of assumption uncertainty

The consolidated financial statements of the Bank and its subsidiaries may be affected by the adoption of accounting policies, accounting estimates and assumptions. Therefore, adoption of the significant accounting policies in Note 4 requires the management's judgment, estimate and assumption, which involves information of significant adjustment made on the carrying amount of assets and liabilities in the next financial statements due to lack of resources. Estimate and assumptions of the Bank and its subsidiaries are the best estimates compliance with IFRS as endorsed by FSC. Estimate and assumptions are made on the basis of past experience and other elements deemed to be relevant. However, the actual results may differ from the estimates. The Bank and its subsidiaries will continually monitor the estimates and assumptions and if the revision of estimate leaves an impact in the current period, the adjustment is recognized in the period. If a revision could affect both current and future periods, then the estimated revision shall be made in current and future periods.

Certain accounting policies and judgments of management could have significantly affected the recognized amounts in the consolidated financial statements. Details are as follows:

(1) Evaluation on financial instruments - debt instruments and derivatives

The Bank and its subsidiaries evaluates the financial instrument at fair value not traded in an active market or with no quoted price. The fair value may be estimated with reference to observable market price in the market if there is observable information of similar instruments. If not, fair value is calculated based on the appropriate evaluation models generally used in the market. The input used in the model should first primarily be based on the observable information in the market. However, in the event that certain information or input cannot be observed directly in the market and/or the model assumption itself is comparatively objective, then the measurement of financial instrument at fair value can be retrieved from historical data or other appropriate assumptions. Every valuation model of the Bank and its subsidiaries are assessed and tested on a regular basis to ensure the output can reflect actual information and the market price. Note 12(1)C provides the main assumptions used in determining the financial instruments at fair value. The competent authorities recognize that the valuation models and assumptions chosen can be appropriately used to determine the fair value of financial instruments.

(2) Evaluation on financial instruments - equity instruments

The fair value of unlisted stocks without active market held by the Bank and its subsidiaries are measured using valuation techniques that involve observable data or models of financial instruments with similar characteristics. If there are no observable inputs from the market, the fair value of the instrument is measured with appropriate assumptions. If fair value is determined by a valuation model, it should be calibrated so that the end result reflects actual data and market prices, and observable data should be used whenever it is possible.

The measurement of fair value is primarily calculated using recently published market multipliers of comparable publicly listed companies in similar industries, and discounted according to market liquidity and particularity of risk. Any changes in these judgements and estimates will impact the fair value measurement of these unlisted stocks. Please refer to Note 12(1)C for the financial instruments fair value information.

(3) Expected credit losses

For debt instruments measured at fair value through other comprehensive income and financial assets measured at amortised cost, the measurement of expected credit losses uses complex models and multiple assumptions. These models and assumptions take into account future macro-economic conditions and credit behaviors of borrowers (e.g. probability of customer default and loss). Please refer to Note 12(2)D for detailed information on parameters, assumptions, and estimation methods used in measuring expected credit losses and disclosure of the sensitivity of credit loss to the aforementioned factors.

The measurement of expected credit losses according to applicable accounting rules involves significant judgement in several areas, for example:

1. The criteria used to judge whether there is significant increase in credit risk.
2. The selection of appropriate models and assumptions for measuring expected credit losses.
3. Determining the forward-looking factors that are necessary for the measurement of expected credit losses for each type of product.

For the purpose of measuring expected credit losses, classifying the financial instruments according to similar credit risk characteristics.

Judgements and estimations used in above expected credit losses, please refer to Note 12(2)C.

(4) Post-employment benefit

The present value of post-employment benefit obligation is based on actuarial result of various assumptions, through which any change could affect the carrying amount of post-employment benefit obligation.

Discount rate is included when determining the net pension cost (income), and the Bank and its subsidiaries decide the appropriate discount rate at the end of each year, which is used to calculate the estimated present value of future cash outflow of post-employment benefit obligation needed. The Bank and its subsidiaries should consider interest rate of government bonds of the same currency and maturity in order to determine the appropriate discount rate.

Other significant assumptions on post-employment benefit are made based on the current market situation.

6. Summary of significant accounts

(1) Cash and cash equivalents

	December 31, 2018	December 31, 2017
Cash on hand	$ 13,661,465	$ 13,041,870
Checks for clearance	22,583,171	22,275,375
Due from other banks	14,122,081	26,116,315
Total	$ 50,366,717	$ 61,433,560

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

	December 31, 2018	December 31, 2017
Reserve for deposits-account A	$ 33,557,817	$ 17,290,422
Reserve for deposits-account B	53,271,378	48,522,065
Inter-Bank clearing fund	6,619,043	5,428,014
Deposits of national treasury account	79,746	96,393
Deposits of overseas branches with foreign Central Banks	7,189,572	6,269,146
Reserve for deposits- foreign currency	483,461	463,898
Call loans and overdrafts to other banks	117,480,286	99,872,492
Subtotal	218,681,303	177,942,430
Less: Allowance for bad debt expense - call loans to banks	(25,281)	(31,569)
Total	$ 218,656,022	$ 177,910,861

A. The Bank and its subsidiaries' reserve for deposits is required by the Banking Law and is determined by applying the reserve ratios set by the Central Bank to the monthly average balance of each type of deposit. The reserve amount is deposited in the reserve deposit account at the Central Bank. According to the regulations, such reserve for deposits - account B cannot be withdrawn except for monthly adjustments of the reserve for deposits.

B. Amounts in conformity and not in conformity with cash and cash equivalents as defined by IAS No.7 were as follows：

	December 31, 2018	December 31, 2017
In conformity with cash and cash equivalents as defined by IAS No.7	$ 160,881,438	$ 125,864,897
Not in conformity with cash and cash equivalents as defined by IAS No.7		
Reserve for deposits-account B	53,271,378	48,522,065
Deposits by overseas branches with foreign Central Banks (Note)	4,528,487	3,555,468
Total	$ 218,681,303	$ 177,942,430

Note: The deposits by overseas branches are reserves required by the respective local central banks. The deposits are restricted from deployment.

C. Information relating to credit risk is provided in Note 12(2)C.

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

		December 31, 2018
Financial assets mandatorily measured at fair value through profit or loss		
Short-term bills	$	58,841,197
Stocks		224,662
Bonds (government bonds, bank debentures, and corporate bonds)		69,499,902
Others		2,425,000
Derivative financial instruments		4,832,333
Valuation adjustment		237,251
Subtotal		136,060,345
Financial assets designated as at fair value through profit or loss		
Bonds		2,887,434
Valuation adjustment		51,731
Subtotal		2,939,165
Total	$	138,999,510

A. Amounts recognised in profit or loss in relation to financial assets and financial liabilities at fair value through profit or loss are listed below:

		For the year ended December 31, 2018
Net gains and losses on financial assets mandatorily measured at fair value through profit or loss and financial liabilities held for trading	$	5,694,374
Net gains and losses on financial assets and financial liabilities designated as at fair value through profit or loss	(	212,085)
Total	$	5,482,289

B. The financial instruments of the Bank and its subsidiaries designated at fair value through profit or loss upon initial recognition were designated to eliminate or reduce recognition inconsistency.

C. As of December 31, 2018, without taking into account any collateral held or other credit enhancements, the maximum exposure to credit risk in respect of the amount of debt investments and derivatives was $133,937,370 and $4,832,333, respectively.

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

		December 31, 2018
Debt instruments		
Bonds	$	192,035,010
Other marketable securities		3,300,327
		195,335,337
Valuation adjustment		901,154
Subtotal		196,236,491
Equity instruments		
Stocks - listed		9,452,372
Stocks - unlisted		3,718,589
Other marketable securities		500,540
		13,671,501
Valuation adjustment		12,274,268
Subtotal		25,945,769
Total	$	222,182,260

A. The Bank and its subsidiaries have selected to classify investments that are considered to be strategic investments or steady dividend income as financial assets at fair value through other comprehensive income. The fair value of such investments amounted to $25,945,769 as of December 31, 2018.

B. The Bank and its subsidiaries sold listed stock investments for stock investments go private due to merge and adjust investment position to diversifying risk. The fair value of the listed stock investments sold was $252,874, and the cumulative gain was $17,971.

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

	For the year ended December 31, 2018
Equity instruments at fair value through other comprehensive income	
Fair value change recognised in other comprehensive income	$ 1,118,086
Cumulative gains or losses reclassified to retained earnings due to derecognition	($ 17,971)
Dividend income recognised in profit or loss	
Held at the end of the period	$ 699,666
Derecognised during the period	7,838
	$ 707,504
Debt instruments at fair value through other comprehensive income	
Fair value change recognised in other comprehensive income	($ 558,451)
Cumulative other comprehensive income reclassified to profit or loss	
Reclassified due to provision of impairment loss	$ 2,838
Reclassified due to derecognition	(513,191)
	($ 510,353)
Interest income recognised in profit or loss	$ 4,533,121

D. Please refer to Note 8 for details of the above financial assets at fair value through other comprehensive income pledged as collateral as of December 31, 2018.

E. On December 28, 2018, the Bank and its subsidiaries invested in real estate investment trusts (REITs) for an amount of $250,540. In line with the ARDF's interpretations on accounting treatment released on December 21, 2018, REITs were reclassified from financial assets at fair value through profit or loss into financial assets at fair value through other comprehensive income. As at December 31, 2018, the fair value of REITs was $214,514. If REITs had not been reclassified, there would have been a loss of $36,026 for fair value change for the year then ended.

F. Information relating to credit risk is provided in Note 12(2)C.

(5) Investment in debt instruments at amortised cost

	December 31, 2018
Certificates of deposits purchased	$ 407,734,350
Bonds	7,786,512
Short-term bills	122,940
Subtotal	415,643,802
Less: Accumulated impairment	(39,343)
Total	$ 415,604,459

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

	For the year ended December 31, 2018
Interest income	$ 2,086,604
Impairment loss	(16,769)
	$ 2,069,835

B. Please refer to Note 8 for details of the above financial assets at amortised cost pledged as collateral as of December 31, 2018.

C. Information relating to credit risk is provided in Note 12(2)C.

(6) Receivables, net

	December 31, 2018
Spot exchange receivable	$ 42,964,683
Factoring receivable	8,257,100
Interest receivable	6,156,300
Acceptances receivable	5,823,243
Credit card accounts receivable	6,719,120
Other receivables	8,197,961
Subtotal	78,118,407
Less: Allowance for bad debts	(765,937)
Net amount	$ 77,352,470

Information relating to credit risk is provided in Note 12(2)C.

(7) Loans discounted, net

	December 31, 2018
Bills and notes discounted	$ 3,039,476
Overdrafts	1,168,863
Short-term loans	543,018,320
Medium-term loans	478,792,372
Long-term loans	683,904,403
Import-export bills negotiations	1,165,748
Loans transferred to non-accrual loans	6,108,910
Subtotal	1,717,198,092
Less: allowance for bad debts	(21,428,241)
Net amount	$ 1,695,769,851

A. Information relating to credit risk is provided in Note 12(2)C.

B. As of December 31, 2018 the recoveries of write-offs, which were accounted as deductions to bad debts expense was $3,016,550.

(8) Investments accounted for using equity method - net

A. Investments accounted for using equity method:

Affiliated Companies	December 31, 2018 Amount	December 31, 2018 Percentage of ownership (%)	December 31, 2017 Amount	December 31, 2017 Percentage of ownership (%)
East Asia Real Estate Management Co., Ltd.	$ 15,489	30	$ 15,309	30
FCBL Capital International (B.V.I) Ltd.	1,858,600	100	1,798,874	100
Turn Cloud Technology Service Inc.(Note)	-	-	15,773	40
	$ 1,874,089		$ 1,829,956	

Note: It disqualified investments accounted for using equity method after the Bank disposed of 35% of ownership on December 21, 2018. Please refer to Note 7(2) for details.

B. The Bank's and its subsidiaries' share of the operating results in all individually immaterial associates are summarised below:

	For the year ended December 31, 2018	For the year ended December 31, 2017
Gain from countinuing operations	$ 77,122	$ 105,311
Other comprehensive income (loss)	(68,067)	107,250
Total comprehensive income	$ 9,055	$ 212,561

C. The affiliated enterprises invested by the Bank and its subsidiaries have no quoted price. The affiliated enterprises' capacity to transfer capital through the distribution of cash dividends, loan repayment or advances is not significantly restricted.

D. The profit or loss of related parties for the years ended December 31, 2018 and 2017, accounted for by the Bank through the equity method are, aside from East Asia Real Estate Management Co., Ltd.'s and Turn Cloud Technology Service Inc.'s concurrent financial statements which have not been audited by a certified public accountant (had the financial statements been audited, the Bank expects the effect to be immaterial), derived from concurrent financial statements of investees which have been audited and attested by a certified public accountant.

(9) Other financial assets - net

	December 31, 2018
Non-accrual loans transferred from other accounts (excluding loans)	$ 891,100
Bills purchased	1,419
Subtotal	892,519
Less: Allowance for bad debts - overdue receivable	(740,135)
Total	$ 152,384

Information relating to credit risk is provided in Note 12(2)C.

(10) Property and equipment - net

Changes in the property and equipment of the Bank and its subsidiaries for the years ended December 31, 2018 and 2017 are as follows:

	Lands and land improvements	Buildings and structures	Machinery and equipment	Transportation and communication equipment	Miscellaneous equipment	Leasehold improvements	Unfinished construction and prepayments for equipment	Total
Cost								
At January 1, 2018	$ 18,971,597	$ 12,070,136	$ 2,773,933	$ 804,918	$ 2,303,894	$ 924,265	$ 78,152	$ 37,926,895
Additions	-	67,501	215,630	50,338	59,705	40,937	194,093	628,204
Transfers	-	74,712	3,119	1,697	11,310	3,341	(94,179)	-
Disposals	-	-	(212,950)	(56,880)	(35,021)	(31,717)	-	(336,568)
Foreign exchange	1,932	(2,345)	1,844	1,046	1,517	10,244	-	14,238
At December 31, 2018	18,973,529	12,210,004	2,781,576	801,119	2,341,405	947,070	178,066	38,232,769
Accumulated depreciation								
At January 1, 2018	-	(6,017,987)	(2,096,706)	(669,828)	(1,715,419)	(766,724)	-	(11,266,664)
Depreciation	-	(313,826)	(250,282)	(39,711)	(123,579)	(52,534)	-	(779,932)
Disposals	-	-	211,451	56,494	34,294	31,133	-	333,372
Foreign exchange	-	584	(933)	(762)	(1,071)	(9,321)	-	(11,503)
At December 31, 2018	-	(6,331,229)	(2,136,470)	(653,807)	(1,805,775)	(797,446)	-	(11,724,727)
Net	$ 18,973,529	$ 5,878,775	$ 645,106	$ 147,312	$ 535,630	$ 149,624	$ 178,066	$ 26,508,042

	Lands and land improvements	Buildings and structures	Machinery and equipment	Transportation and communication equipment	Miscellaneous equipment	Leasehold improvements	Unfinished construction and prepayments for equipment	Total
Cost								
At January 1, 2017	$ 18,953,813	$ 12,083,986	$ 2,594,590	$ 802,271	$ 2,423,818	$ 977,125	$ 44,247	$ 37,879,850
Additions	22,720	56,869	324,389	37,398	144,230	13,834	165,643	765,083
Transfers	-	40,676	56,203	2,102	9,586	23,171	(131,738)	-
Disposals	(283)	(100,912)	(194,405)	(33,328)	(266,591)	(66,490)	-	(662,009)
Foreign exchange	(4,653)	(10,483)	(6,844)	(3,525)	(7,149)	(23,375)	-	(56,029)
At December 31, 2017	18,971,597	12,070,136	2,773,933	804,918	2,303,894	924,265	78,152	37,926,895
Accumulated depreciation								
At January 1, 2017	-	(5,795,098)	(2,054,587)	(664,908)	(1,866,135)	(791,997)	-	(11,172,725)
Depreciation	-	(314,741)	(237,664)	(40,224)	(119,976)	(57,487)	-	(770,092)
Disposals	-	91,249	190,997	33,065	265,882	64,664	-	645,857
Foreign exchange	-	603	4,548	2,239	4,810	18,096	-	30,296
At December 31, 2017	-	(6,017,987)	(2,096,706)	(669,828)	(1,715,419)	(766,724)	-	(11,266,664)
Net	$ 18,971,597	$ 6,052,149	$ 677,227	$ 135,090	$ 588,475	$ 157,541	$ 78,152	$ 26,660,231

There was no interest capitalized on property and equipment acquired for the years ended December 31, 2018 and 2017.

(11) Investment property – net

Please see below table for the investment property of the Bank and its subsidiaries for the years ended December 31, 2018 and 2017:

	Lands and land improvements	Buildings and structures	Total
Cost			
At January 1, 2018	$ 6,695,622	$ 487,688	$ 7,183,310
Additions	-	1,885	1,885
Disposals	(13,416)	(5,671)	(19,087)
At December 31, 2018	6,682,206	483,902	7,166,108
Accumulated depreciation			
At January 1, 2018	-	(241,178)	(241,178)
Depreciation	-	(8,613)	(8,613)
Disposals	-	5,300	5,300
At December 31, 2018	-	(244,491)	(244,491)
Investment property – net	$ 6,682,206	$ 239,411	$ 6,921,617

	Lands and land improvements	Buildings and structures	Total
Cost			
At January 1, 2017	$ 6,709,547	$ 488,347	$ 7,197,894
Additions	-	4,215	4,215
Disposals	(13,925)	(4,874)	(18,799)
At December 31, 2017	6,695,622	487,688	7,183,310
Accumulated depreciation			
At January 1, 2017	-	(237,057)	(237,057)
Depreciation	-	(8,260)	(8,260)
Disposals	-	4,139	4,139
At December 31, 2017	-	(241,178)	(241,178)
Investment property – net	$ 6,695,622	$ 246,510	$ 6,942,132

A. As of December 31, 2018 and 2017, the investment property at fair value of the Bank and its subsidiaries was $16,800,487 and $17,176,004, respectively. All the investment properties of the Bank and its subsidiaries are assessed by the internal appraisal expert, and market approach was adopted for all assessments, which belongs to the fair value in level 2.

B. For the years ended December 31, 2018 and 2017, the rental income from investment property were $98,547 and $82,929, respectively, the operating expenses from investment property were $62,645 and $66,003, respectively.

(12) Other assets – net

	December 31, 2018	December 31, 2017
Leased assets – vehicles	$ 1,638,164	$ 1,820,360
Less: Accumulated depreciation	(648,694)	(735,291)
Leased assets – net	989,470	1,085,069
Foreclosed assets		
Cost	61,731	61,731
Less: Accumulated impairment	(61,731)	(61,731)
Net foreclosed assets	-	-
Guarantee deposits paid	1,171,640	1,584,261
Prepayments	448,889	348,362
Others	54,588	45,937
Total	$ 2,664,587	$ 3,063,629

Please refer to Note 8 for details of other assets pledged as collateral as of December 31, 2018 and 2017.

(13) Deposits from the Central Bank and banks

	December 31, 2018	December 31, 2017
Call loans from other banks	$ 237,651,676	$ 152,108,877
Transfer deposits from Chunghwa Post Co. Ltd.	523,418	539,327
Overdrafts from other banks	1,703,127	819,393
Due to other banks	827,304	383,188
Due to the Central Bank	37,804	39,969
Total	$ 240,743,329	$ 153,890,754

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

	December 31, 2018	December 31, 2017
Financial liabilities held for trading		
Derivative instruments	$ 4,619,884	$ 6,758,124
Financial liabilities designated at fair value through profit or loss		
Bonds	27,354,150	26,415,200
Valuation adjustments	1,179,111	1,224,894
Subtotal	28,533,261	27,640,094
Total	$ 33,153,145	$ 34,398,308

A. The Bank's and its subsidiaries' financial instruments that were designated as measured at fair value through profit or loss upon initial recognition were for the purpose of eliminating accounting inconsistency.

B. Fair value changes due to changes in the Bank's credit risk pertaining to bank debentures measured at fair value through profit or loss issued by the Bank for the years ended December 31, 2018 and 2017, were $123,739 and ($267,006), respectively.

C. The Bank sold the financial debentures at the face value. As of December 31, 2018 and 2017, the carrying amounts exclusive of valuation adjustment and the amounts payable to the creditors are identical.

(15) Notes and bonds issued under repurchase agreements

	December 31, 2018	December 31, 2017
Government bonds	$ 1,851,421	$ 2,569,357
Bank debentures	13,989,169	9,018,893
Total	$ 15,840,590	$ 11,588,250

The Bank and its subsidiaries are obliged to repurchase the above bonds at original sale price plus a mark-up pursuant to the repurchase agreement. The repurchase agreement amounts for such bonds and bills were $15,908,406 and $11,620,567 as of December 31, 2018 and 2017, respectively.

(16) Payables

	December 31, 2018	December 31, 2017
Accounts payable	$ 24,395,707	$ 24,004,400
Spot exchange payable	42,947,585	35,448,640
Bank acceptances	6,024,262	6,175,800
Accrued expenses	4,423,091	4,107,006
Interest payable	3,699,034	2,825,327
Other payables	4,031,663	3,813,391
Total	$ 85,521,342	$ 76,374,564

(17) Deposits and remittances

	December 31, 2018	December 31, 2017
Checking accounts deposits	$ 49,213,633	$ 48,752,084
Demand deposits	592,468,939	570,378,531
Time deposits	487,111,974	405,227,826
Negotiable certificates of deposits	25,146,422	11,110,114
Savings account deposits	1,023,188,657	981,238,902
Remittances Outstanding	2,951,076	2,984,869
Others	11,084	15,972
Total	$ 2,180,091,785	$ 2,019,708,298

(18) Financial Bonds Payable

In order to strengthen the capital adequacy ratio and raise mid-to-long-term operating capital for FCB, the Bank resolved through its Board of Directors to raise the quota of authorized bank debenture shares for the issuance of senior and subordinate debentures. This proposition was approved by the Ministry of Finance, R.O.C. and the FSC. The gross approved issuance amount was: $10 billion on February 25, 2011, $15 billion on February 24, 2012, $15 billion on February 27, 2014, $0.3 billion USD on October 16, 2014, $30 billion and $1.5 billion USD on February 26, 2015, $10 billion, $1 billion USD and foreign currency equivalent to NT $ 10 billion on February 26, 2016, $10 billion and equivalent to NT$10 biliion equivalent foreign currency on Febuary 24, 2017, $10 billion and equivalent to NT$10 biliion equivalent foreign currency on Febuary 23, 2018, modified the amount of the previous application of NTD perpectual non-cumulative subordinate financial bonds to $10 biliion on May 11, 2018. The priority of claims for the above mentioned subordinate bonds only takes precedence over the remaining claims distributable for shareholders and is inferior to all other creditors. The detailed terms of each issuance are as follows:

	First to Second issues, 2011
Issue date	March 30, June 24, 2011
Issue amount	NT$6.3 billion (NT$4.15 biliion was redeemed at maturity)
Issue price	At par
Coupon rate	Fixed rate: 1.72%
Interest and repayment terms	Interest is paid annually. The principal is to be paid pursuant to face value at maturity.
Maturity period	10 years

	First to Second issues, 2012
Issue date	September 25, December 27, 2012
Issue amount	NT$15,000 million
Issue price	At par
Coupon rate	Fixed rate:1.43%/1.47%/1.59%
Interest and repayment terms	Interest is paid annually. The principal is to be paid pursuant to face value at maturity.
Maturity period	7 /10 years

	First issues, 2014
Issue date	September 26, 2014
Issue amount	NT$1,000 million
Issue price	At par
Coupon rate	Fixed rate:3.5%
Interest and repayment terms	Interest is paid annually. After the expiration of five years. Early redemption would be possible if it has approval from authority.
Maturity period	Perpetual

	Second issues, 2014
Issue date	November 26, 2014
Issue amount	US $300 million ($140 million were redeemed in advance)
Issue price	At par
Coupon rate	This is a zero-coupon debenture with the implicit interest rate is 4.07%
Interest and repayment terms	The bond can be redeemed after five years from the issue date. The principal is to be paid pursuant to face value at maturity and interest is paid.
Maturity period	20 years

	First issues, 2015
Issue date	March 25, 2015
Issue amount	NT$7,000 million
Issue price	At par
Coupon rate	A: Fixed rate:1.83% B: Fixed rate:2.05%
Interest and repayment terms	A: Interest is paid annually. The principal is to be paid pursuant to face value at maturity and interest is paid. B: Interest is paid annually. The principal is to be paid pursuant to face value at maturity and interest is paid.
Maturity period	A: 7 years B: 10 years

	Second issues, 2015
Issue date	May 28, 2015
Issue amount	US $230 million
Issue price	At par
Coupon rate	A:This is a zero-coupon debenture with the implicit interest rate is 4.06% B: This is a zero-coupon debenture with the implicit interest rate is 4.02%
Interest and repayment terms	A: The bond can be redeemed after two years from the issue date. The principal is to be paid pursuant to face value at maturity and interest is paid. B: The bond can be redeemed after three years from the issue date. The principal is to be paid pursuant to face value at maturity and interest is paid.
Maturity period	20 years

	First issue, 2017
Issue date	February 15, 2017
Issue amount	US $500 million
Issue price	At par
Coupon rate	A: This is a zero-coupon bond with the implicit interest rate at 4.05% B: This is a zero-coupon bond with the implicit interest rate at 4.00%
Interest and repayment terms	A: The bond can be redeemed after two years from the issue date. The principal is to be paid pursuant to face value at maturity and interest is paid. B: The bond can be redeemed after three years from the issue date.The principal is to be paid pursuant to face value at maturity and interest is paid.
Maturity period	30 years

	First issue, 2018
Issue date	May 28, 2018
Issue amount	NT$5 billion
Issue price	At par

Coupon rate	Fixed rate:2.57%
Interest and repayment terms	Interest is paid annually. After the expiration of five years and 2 months, early redemption would be possible if it has approval from authority.
Maturity period	Perpetual

	Second issue, 2018
Issue date	September 25, 2018
Issue amount	NT$7 billion
Issue price	At par
Coupon rate	Fixed rate:2.36%
Interest and repayment terms	Interest is paid annually. After the expiration of five years and one month, early redemption would be possible if it has approval from authority.
Maturity period	Perpetual

As of December 31, 2018 and 2017, the range of interest rates of the above mentioned corporate bonds was 1.43%~4.07%.

As of December 31, 2018 and 2017, the outstanding balances of the above-mentioned bank debentures amounted to $64.504 billion and $55.715 billion New Taiwan dollars, respectively. Among the preceding mentioned bank debentures, the senior bank debentures with face value of $27.354 billion and $26.415 billion New Taiwan dollars were designated as held for trading financial liabilities and hedged by interest rate swap contracts. As such interest rate swap contracts were valued at fair value with changes in fair value recognized as profit or loss, the bank debentures stated above were designated as financial liabilities at fair value through profit or loss in order to eliminate or significantly reduce recognition inconsistency.

(19) Other financial liabilities

	December 31, 2018	December 31, 2017
Received principal of structured notes	$ 39,500,607	$ 29,880,377
Commercial papers payable	2,999,235	2,049,592
Short-term borrowing	1,050,000	900,000
Others	31,981	53,127
Total	$ 43,581,823	$ 32,883,096

These short-term borrowings were credit borrowings as of December 31, 2018 and 2017, the interest rate range were 1.10%~1.11% and 0.89%, respectively.

(20) Provisions

	December 31, 2018	December 31, 2017
Provisions for employee benefit	$ 5,182,573	$ 5,120,108
Reserve for guarantees	678,100	879,639
Reserve for loan commitments	603,784	-
Others	40,679	1,613
Total	$ 6,505,136	$ 6,001,360

Details for the Bank's elected provisions for employee benefit as reported by the actuarial report are as follows:

	December 31, 2018	December 31, 2017
Consolidated balance sheet:		
Defined benefit plans	$ 4,115,830	$ 4,094,722
Preferential saving plan for employees	847,587	805,764
Total	$ 4,963,417	$ 4,900,486

A. Defined contribution plans

Effective from July 1, 2005, the Bank and its subsidiaries established a funded defined contribution plan pursuant to the Labor Pension Act, which covers the employees with R.O.C. nationality and those who choose to or are required to follow the Labor Pension Act. The contributions are made monthly based on not less than 6% of the employees' monthly salaries and are deposited in the employee's individual pension fund account at the Bureau of Labor Insurance. The payment of pension benefits is based on the employee's individual pension fund accounts and the cumulative profit in such accounts, and the employees can choose to receive such pension benefits monthly or in lump sum. For the years ended December 31, 2018 and 2017, the pension costs of the Bank and its subsidiaries under the defined contribution plan were $183,957 and $163,005 respectively.

For employees working overseas, pension expenses under defined contribution plans are recognised according to the local regulations. For the years ended December 31, 2018 and 2017, pension expenses of current period were $15,969 and $16,175, respectively.

B. Defined benefit plans

The Bank and its subsidiaries have a defined benefit pension plan set up in accordance with the Labor Standards Law of the R.O.C., covering all regular employees for their services prior to the implementation of the Labor Pension Act on July 1, 2005 and those employees who choose continuously to be applicable to the Labor Standards Law for the services after the implementation of the Labor Pension Act. The payment of pension benefits is based on the length of the service period and average monthly compensation in the last six months prior to retirement. Under the defined benefit plan, employees are granted two points for each year of service for the first 15 years and are granted one point for each additional year of service from the 16th year, but are subject to a maximum of 45 points. Monthly contributions made by the Bank and its subsidiaries to the pension fund that are deposited in the designated pension account at the Bank of Taiwan were based on 10% of the total monthly salaries and wages. Also, the Bank would assess the balance in the aforementioned labor pension reserve account by the end of December 31, every year. If the account balance is insufficient to pay the pension calculated by the aforementioned method, to the employees expected to be qualified for retirement next year, the Company will make contributions to cover the deficit by next March.

The net pension costs under defined contribution pension plans of the Bank for the years ended December 31, 2018 and 2017 were $349,231 and $371,955, respectively. As of December 31, 2018 and 2017, the balances of the pension fund deposited in the Bank of Taiwan were $7,374,909 and $6,915,693, respectively.

(A) The amounts recognised in the balance sheet are as follows:

	December 31, 2018	December 31, 2017
Present value of funded obligations	$ 11,529,970	$ 11,048,060
Fair value of plan assets	(7,414,140)	(6,953,338)
Net defined benefit liability	$ 4,115,830	$ 4,094,722

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	$ 11,048,060	($ 6,953,338)	$ 4,094,722
Current service cost	300,507	-	300,507
Interest expense (income)	128,542	(82,461)	46,081
	11,477,109	(7,035,799)	4,441,310
Remeasurements (Note):			
Return on plan assets	-	(195,145)	(195,145)
Change in financial assumptions	237,586	-	237,586
Experience adjustments	649,829	-	649,829
	887,415	(195,145)	692,270
Pension fund contribution	-	(1,017,750)	(1,017,750)
Paid pension	(834,554)	834,554	-
Balance at December 31	$ 11,529,970	($ 7,414,140)	$ 4,115,830

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	$ 10,836,395	($ 6,568,613)	$ 4,267,782
Current service cost	306,507	-	306,507
Interest expense (income)	158,066	(98,775)	59,291
	11,300,968	(6,667,388)	4,633,580
Remeasurements (Note):			
Return on plan assets	-	19,479	19,479
Change in financial assumptions	340,368	-	340,368
Experience adjustments	169,344	-	169,344
	509,712	19,479	529,191
Pension fund contribution	-	(1,068,049)	(1,068,049)
Paid pension	(762,620)	762,620	-
Balance at December 31	$ 11,048,060	($ 6,953,338)	$ 4,094,722

Note: Return on plan assets excluding amounts included in interest income or expense.

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

For the years ended December 31, 2018 and 2017, actual return on plan assets were $277,606 and $79,296, respectively.

For the years ended December 31, 2018 and 2017, defined benefit plan recognized through other comprehensive income a remeasurement of ($692,393) and ($529,374), respectively, for net defined benefit liability.

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

	2018	2017
Discount rate	1.00%	1.20%
Future salary increases	1.50%	1.50%

Assumption on future death rate is based on the 4th historical life chart by the Taiwan life insurance enterprises.

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

	Impact on the present value of the defined benefit obligation		
	Change in actuarial assumption (%)	Positive change in actuarial assumption	Negative change in actuarial assumption
December 31, 2018			
Discount rate	±0.25%	($ 295,814)	$ 307,848
Future salary increases	±0.25%	$ 305,533	($ 295,098)

	Impact on the present value of the defined benefit obligation		
	Change in actuarial assumption (%)	Positive change in actuarial assumption	Negative change in actuarial assumption
December 31, 2017			
Discount rate	±0.25%	($ 284,776)	$ 296,560
Future salary increases	±0.25%	$ 294,924	($ 284,639)

The sensitivity analysis above is based on other conditions are unchanged but only one assumption is changed. In practice, more than one assumption may change all at once.

The method of analyzing sensitivity and the method of calculating net pension liability in the balance sheet are the same.

(E) As of December 31, 2018, the weighted average duration of that retirement plan is 10.1 years.

(F) Expected contributions to the defined benefit pension plan of the Bank and its subsidiaries for the year ending December 31, 2019 amounts to $466,722.

C. Employee preferential savings plan

The Bank's payment of an allotment for preferential savings of retired and current employees after retirement is in accordance with "First Commercial Bank's preferential savings plan for retired employees". Under the employee preferential savings plan, the Bank recognized pension cost of $479,796 and $457,102 for the years ended December 31, 2018 and 2017, respectively. Please see Note 4(20)B for details.

(A) As of December 31, 2018 and 2017, net liability in the balance sheet was $847,587 and $805,764, respectively.

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

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2018			
Balance at January 1	$ 805,764	$ -	$ 805,764
Interest expense	30,110	-	30,110
	835,874	-	835,874
Remeasurements:			
Change in financial assumptions	-	-	-
Experience adjustments	244,951	-	244,951
	244,951	-	244,951
Pension fund contribution	-	(233,238)	(233,238)
Paid pension	(233,238)	233,238	-
Balance at December 31	$ 847,587	$ -	$ 847,587

	Present value of defined benefit obligations	Fair value of plan assets	Net defined benefit liability
Year ended December 31, 2017			
Balance at January 1	$ 759,199	$ -	$ 759,199
Interest expense	28,349	-	28,349
	787,548	-	787,548
Remeasurements:			
Change in financial assumptions	-	-	-
Experience adjustments	242,018	-	242,018
	242,018	-	242,018
Pension fund contribution	-	(223,802)	(223,802)
Paid pension	(223,802)	223,802	-
Balance at December 31	$ 805,764	$ -	$ 805,764

(C) For the years ended December 31, 2018 and 2017, there were no actuarial loss recognized in other comprehensive income.

(D) The principal actuarial assumptions of employee preferential savings plan were as follows:

	2018	2017
Discount rate	4.00%	4.00%
Return on capital deposited	2.00%	2.00%
Annual decreasing ratio of account balance	1.00%	1.00%
Variable ratio of preferential savings program	50.00%	50.00%

Assumption on future death rate is based on the 4th historical life chart by the Taiwan life insurance enterprises.

The analysis for the impact on the present value of the employee preferential savings plan obligation as a result of changes in the primary actuarial assumption is as follows:

	Impact on the present value of the employee preferential savings plan obligation		
	Change in actuarial assumption (%)	Positive change in actuarial assumption	Negative change in actuarial assumption
December 31, 2018			
Discount rate of employee preferential savings	±0.25%	($ 13,028)	$ 13,422
Return rate of capital deposited	±0.25%	($ 112,768)	$ 112,768
Annual diminishing rate of account balance	±0.25%	($ 12,655)	$ 12,989
Potential future variable rate of preferential saving	±10.00%	$ 169,517	($ 169,517)

	Change in actuarial assumption (%)	Positive change in actuarial assumption	Negative change in actuarial assumption
December 31, 2017			
Discount rate of employee preferential savings	±0.25%	($ 12,290)	$ 12,659
Return rate of capital deposited	±0.25%	($ 103,926)	$ 103,927
Annual diminishing rate of account balance	±0.25%	($ 11,930)	$ 12,244
Potential future variable rate of preferential saving	±10.00%	$ 161,153	($ 161,153)

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

(E) Expected contributions to the employee preferential savings plan of the Bank for the year ending December 31, 2019 amounts to $110,228.

D. Credit risk information relating to provisions for loan commitments, guarantee liability and others is provided in Note 12(2)C.

(21) Other liabilities

	December 31, 2018	December 31, 2017
Guarantee deposits received	$ 3,055,563	$ 3,095,063
Collections in advance	1,518,456	1,339,595
Temporary receipts and suspense accounts	207,173	1,444
Others	111,968	112,690
Total	$ 4,893,160	$ 4,548,792

(22) Equity

A. Common stock

As of December 31, 2018 and 2017, the Bank's authorized and paid-in capital was both $89,064,000, consisting of 8,906,400 thousand shares of common stock outstanding with a par value of $10 (in dollars) per share.

B. Capital surplus

As required by the Companies Act, additional paid-in capital resulting from the amount received in excess of par value of the issuance of capital stock and donated income may not only be used to offset the accumulated losses but also to issue new shares or distribute cash dividends in proportion to the number of shares being held by original shareholders. In addition, according to the Securities and Exchange Act, the additional paid-in capital used for capital increase shall not exceed 10% of total issued capital stock. A company should not use the capital surplus to cover its capital loss, unless the surplus reserve is insufficient.

As of December 31, 2018 and 2017, the details on the Bank's capital surplus are as follows:

	December 31, 2018		December 31, 2017	
Share premium	$	34,460,326	$	34,460,326
Share-based payments		1,895		387,890
Total	$	34,462,221	$	34,848,216

Note: The Bank and its subsidiaries' payment of $385,995 for the parent company, FFHC, on June 8, 2018, resulted from the participation in FFHC's capital increase in 2011 and 2015. The payment was previously recognised as employees' bonus and compensation.

C. Legal reserve and special reserve

(A) Legal reserves

According to the Company Law of the R.O.C., legal reserve can be used only to recover accumulated deficits or to increase capital stock and shall not be used for any other purposes. However, it is permitted that the legal reserve be used to increase capital stock if the balance of the legal reserve has reached 25% of the issued capital stock, and only half of the legal reserve can be capitalized.

(B) Special reserve

Upon the first-time adoption of IFRSs, Jin-Guan-Zheng-Fa No. 1010012865 dated April 6, 2012 requires the Company to reverse special earnings reserve in the proportion of the original recognition when the Company subsequently uses, disposes or reclassifies related assets. If the above related assets belong to investment properties, reversal of land is made when being disposed or reclassified and others are reversed during the periods of being used. In addition, the "trading loss reserve" and "default loss reserve" have been abolished in "Regulations Governing Securities Firms". The "trading loss reserve" and "default loss reserve" set aside before the end of December 2010 should be transferred to "special earnings reserve" according to Jin-Guan-Zeng-Chung No. 0990073857 dated January 11, 2011. Moreover, the additional special reserve should be transferred to "special earnings reserve" by the net of tax after the annual closing. On the other hand, if the special reserve is insufficient to write-off or to recover the amount that could be written-off or recovered, the insufficiency may be recovered or written-off through the "special earnings reserve". The special earnings reserve can only be used in offsetting an entity's deficit or 50% of such reserve can be transferred to capital given that such reserve is equivalent to 50% of the paid-in capital or more. No other purpose is permitted.

In accordance with Jin-Guan-Yin-Fa-Zi Letter No. 10510001510, as a response to the development of financial technology, and to ensure the rights of personnel involved in securities investment trust businesses, the Bank shall, upon appropriating the earnings of 2016 to 2018, provision 0.5% to 1% of income after taxes as special reserve. Starting from the 2017 accounting year, public banks may reverse an amount of the aforementioned special reserve commensurate to employee termination or arrangement expenditures resulting from the development of financial technology.

(23) Unappropriated earnings

A. In accordance with the Bank's Articles of Incorporation, if there are earnings upon formulating the year-end budget, other than paying all taxes and offsetting cumulative deficits, 30% shall be appropriated as legal reserve and, depending on business needs, a special reserve may be appropriated. The remainder, if any, plus prior year unappropriated earnings, is the amount distributable as bonus. After the Board of Directors' consideration for the Bank's capital adequacy and business development needs, the amount may be distributed upon a resolution by the stockholders' meeting.

Prior to legal reserve exceeding total capital or the proprietary capital to risk-weighted assets ratio exceeding banking regulations, the maximum cash dividends which may be distributed shall be distributed according to the Banking Act of the Republic of China and regulations prescribed by the central regulating authority.

B. Dividend policy for the next three years

The Bank is part of a mature industry and has stable profitability and sound financial structure. Distribution of dividends is in principle in cash; however, for the purpose of improving the Bank's proprietary capital to risk-weighted assets ratio in order to strengthen the Bank's competitiveness, distributions are support alongside with stock dividends.

C. The appropriation of 2017 and 2016 earnings were resolved by the stockholders at the stockholders' meeting dated May 11, 2018 and June 30, 2017, respectively. Relevant information was as follows:

	2017		2016	
	Earnings distribution	Dividend per share (NT dollar)	Earnings distribution	Dividend per share (NT dollar)
Legal reserve	$ 4,542,565	$ -	$ 5,309,561	$ -
Special reserve	75,709	-	88,493	-
Cash dividends on common stock	10,088,000	1.1327	12,300,000	1.3810
	$ 14,706,274	$ 1.1327	$ 17,698,054	$ 1.3810

(24) Other equity interest

	Exchange difference on translation of foreign financial statements	Unrealised gain or loss on financial assets at fair value through other comprehensive income	Total
Balance, January 1, 2018	($ 2,046,445)	$ 13,209,416	$ 11,162,971
Financial assets at fair value through other comprehensive income			
- Valuation adjustment	-	542,833	542,833
- Change of accumulated impairment	-	2,749	2,749
- Realised	-	(531,162)	(531,162)
Exchange difference on the financial statements of foreign entities	1,044,497	-	1,044,497
Share of the profit or loss of associates accounted for using the equity method	(68,067)	-	(68,067)
Income tax related to components of other comprehensive income that may be reclassified to profit or loss	-	16,891	16,891
Balance, December 31, 2018	($ 1,070,015)	$ 13,240,727	$ 12,170,712

(25) Net interest income

	2018	2017
Interest income		
Interest income on loans discounted	$ 38,030,792	$ 34,585,995
Interest income on securities investment	6,619,725	5,536,186
Interest income due from bank	3,140,514	2,661,110
Interest income on credit cards recurrence	177,711	165,570
Other interest income	235,378	406,786
Subtotal	48,204,120	43,355,647
Interest expense		
Interest expense for deposits	(13,754,564)	(10,678,684)
Interest expense due to Central Banks and banks	(4,110,139)	(2,276,828)
Interest expense, bank debentures	(589,241)	(614,686)
Interest expense on structured notes	(110,976)	(110,154)
Interest expense of bonds payable under repurchase agreements	(113,771)	(101,648)
Other interest expense	(35,873)	(26,263)
Subtotal	(18,714,564)	(13,808,263)
Total	$ 29,489,556	$ 29,547,384

(26) Net service fee income

	2018	2017
Service fee income		
Trust business and affiliated business	$ 2,425,352	$ 2,467,290
Insurance agency	2,546,595	2,378,960
Foreign exchange	925,636	906,031
Credit extension	1,283,941	1,290,064
Credit card	846,473	821,341
Other service fee income on deposits and remittances	1,218,949	1,155,190
Subtotal	9,246,946	9,018,876
Service fee expense		
Trust business and affiliated business	(263,307)	(229,293)
Insurance agency	(362,997)	(353,818)
Credit card	(457,488)	(411,617)
Other service fee expense on deposits and remittances	(578,692)	(545,224)
Subtotal	(1,662,484)	(1,539,952)
Total	$ 7,584,462	$ 7,478,924

Note：

A. As of December 31, 2018 and 2017, the fee income generated by the Bank and its subsidiaries concurrently in electronic payment business amounted to $1,971 and $1,224, respectively.

B. Due to the Bank and its subsidiaries concurrently in electronic payment business, as of December 31, 2018 and 2017, the interest earned from utilizing funds received from users amounted to $9 and $11, respectively, based on the calculation required in Article 4 of "Regulations Governing the Organization and Administration of Sinking Fund Established by Electronic Payment Institutions"

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(27) Gains on financial assets or liabilities measured at fair value through profit or loss

	2018	2017
Gain or loss from disposal of financial assets and financial liabilities at fair value through profit or loss		
Short-term bills	($ 76,189)	($ 65,236)
Bonds	(222,484)	(136,342)
Stocks	226,813)	94,059
Interest rate	(92,988)	210,939
Exchange rate	5,277,456	3,590,149
Options	(13,091)	117,402
Futures	4,440	2,718
Other	51	-
Subtotal	4,650,382	3,813,689
Evaluation gain or loss on financial assets and financial liabilities at fair value through profit or loss		
Short-term bills	5,414	(6,049)
Bonds	802,119	252,849
Stocks	35,826	(17,162)
Interest rate	(1,117,372)	313,923
Exchange rate	258,035	452,449
Options	10,879	27,267
Futures	(1,244)	11
Other	(5,572)	3,349
Credit risk valuation adjustment	3,968	7,382
Subtotal	(7,947)	1,034,019
Coupon and dividend income on financial assets at fair value through profit or loss	29,473	21,289
Interest income on financial assets at fair value through profit or loss	2,052,683	1,243,864
Interest expense on financial liabilities at fair value through profit or loss	(1,242,302)	(1,015,173)
Total	$ 5,482,289	$ 5,097,688

Net income on exchange rate instruments are realized and unrealized gain and loss on spot and forward exchange contracts, FX options and FX futures.

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

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

	2018
Gain on disposal	
Bonds	$ 534,026
Loss on disposal	
Bonds	(20,835)
Dividends income	707,504
Total	$ 1,220,695

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

	2018	2017
Impairment losses on debt instruments at fair value through other comprehensive income	($ 2,838)	$ -
Impairment losses of debt instruments amortised at cost	(16,769)	-
Gains on reversal of impairment loss on other assets	3,996	6,818
Total	($ 15,611)	$ 6,818

(30) Net other non-interest income

	2018	2017
Net gain on financial assets carried at cost	$ -	$ 143,022
Net income and losses from rent	247,532	251,468
(Loss) Gain on disposal of property	(4,894)	27,523
Loss on retired assets	(2,629)	(15,558)
Other net income and losses	215,473	(7,748)
Total	$ 455,482	$ 398,707

(31) Employee benefit expenses

	2018	2017
Wages and salaries	$ 11,248,574	$ 10,269,721
Labor and health insurance fees	565,431	559,000
Pension costs	1,028,953	1,008,237
Board of Directors' compensation	15,285	26,935
Other employee benefit	295,820	239,491
Total	$ 13,154,063	$ 12,103,384

A. The calculation for the employee benefit expense is based on the number of employee of 7,869 and 7,636 for the years of 2018 and 2017, respectively. (Pension expenses include preferential interest deposit for retired employees amounted to $479,796 and $457,102 for the years of 2018 and 2017, respectively.)

B. According to the Bank’s Articles of Incorporation, if the Bank has profits before tax, 1% to 6% of income before tax prior to deductions of employees’ compensation shall be provisioned as employees’ compensation. However, when the Bank’s accumulated losses should be covered first.

C. As of December 31, 2018 and 2017, the Bank's and its subsidiaries' estimated employees' compensation were $1,102,946 and $685,935 respectively. The aforementioned amounts are accounted for under employee benefit expenses.

After considering earnings, employees' compensation for 2018 and 2017 were estimated on a 1% to 6% basis. Employees' compensation for 2017 as resolved by the Board of Directors in 2018 was $647,761. This was a decrease of $34,039, compared to employees' compensation amount $681,800 in 2017. The difference in amounts was due to estimation difference. The changes amount in estimate in 2017 is treated as a change in accounting estimate, where the difference was recognized as profit or loss in 2018.

D. Information about employees' compensation of the Bank as resolved by the shareholders' meeting will be posted in the "Market Observation Post System" at the website of the Taiwan Stock Exchange. In addition, the Bank has not distributed any directors' and supervisors' remuneration.

(32) Depreciation and amortization expenses

	2018	2017
Depreciation expense	$ 788,545	$ 778,352
Amortization expense	195,443	185,323
Total	$ 983,988	$ 963,675

(33) Other general and administrative expenses

	2018	2017
Taxes	$ 2,120,247	$ 2,043,497
Rental	1,196,409	1,142,042
Insurance premium	578,948	561,119
Post and cable	273,428	252,111
Water, electricity and gas	132,838	134,561
Stationery	116,164	107,423
Maintenance	183,766	189,878
Entrustment of investigate and research	168,202	163,338
Police and security	137,675	134,344
Land occupancy	143,618	145,654
Advertising	234,110	167,342
Others	809,595	709,235
Total	$ 6,095,000	$ 5,750,544

(34) Income tax expenses

A. Income tax expense

	2018	2017
Current tax		
Current tax on profits for the period	$ 2,319,205	$ 3,445,388
Adjustments for over (under) provisions of prior years' income tax expense and others	81,140	(10,771)
Total current tax	2,400,345	3,434,617
Deferred tax		
Origination and reversal of temporary differences	1,137,620	(721,941)
Impact of change in tax rate	(280,231)	-
Total deferred tax	857,389	(721,941)
Income tax expense	$ 3,257,734	$ 2,712,676

B. Details of reconciliation between income tax expense and accounting profit

	2018	2017
Income tax from pretax income calculated at regulated tax rate	$ 4,265,940	$ 3,396,953
Adjustments for over provisions of prior years' income tax expense and others	81,140	(10,771)
Adjusted effects on income tax exemption and other income tax	(809,115)	(673,506)
Impact of change in tax rate	(280,231)	-
Income tax expense	$ 3,257,734	$ 2,712,676

C. Amounts of deferred tax assets or liabilities as a result of temporary difference are as follows:

	2018			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
Allowance for bad debt in excess of tax limits	$ 1,520,148	($ 320,460)	$ -	$ 1,199,688
Impairment loss of foreclosed assets	10,494	1,852	-	12,346
Unappropriated employee benefit liabilities reserve	853,110	(25,207)	179,881	1,007,784
Overseas branches and overseas subsidiary	564,337	(103,287)	2,316	463,366
Others	71,731	(44,591)	14,575	41,715
Deferred tax assets-net	$ 3,019,820	($ 491,693)	$ 196,772	$ 2,724,899
Deferred tax liabilities:				
Increment tax on land value	$ 5,703,133	$ -	$ -	$ 5,703,133
Others	653,596	365,696	-	1,019,292
Deferred tax liabilities:-net	$ 6,356,729	$ 365,696	$ -	$ 6,722,425

	2017			
	January 1	Recognized in profit or loss	Recognized in other comprehensive income	December 31
Deferred tax assets:				
Allowance for bad debt in excess of tax limits	$ 663,474	$ 856,674	$ -	$ 1,520,148
Impairment loss of foreclosed assets	11,653	(1,159)	-	10,494
Unappropriated employee benefit liabilities reserve	814,151	(51,035)	89,994	853,110
Overseas branches and overseas subsidiary	663,469	(97,448)	(1,648)	564,337
Others	(567,196)	649,931	(11,004)	71,731
Deferred tax assets-net	$ 1,585,551	$ 1,356,963	$ 77,306	$ 3,019,820
Deferred tax liabilities:				
Increment tax on land value	$ 5,707,995	($ 4,862)	$ -	$ 5,703,133
Others	13,712	639,884	-	653,596
Deferred tax liabilities:-net	$ 5,721,707	$ 635,022	$ -	$ 6,356,729

D. The Bank's filed income tax returns through 2014 have been assessed and approved by the Tax Authority. As for 2003's "available loss deduction", where the assessed amount disagreed with the actual amount, after the Ministry of Finance, R.O.C. maintained its original position for the administrative appeal on January 6, 2016, the Bank decided to cease further litigation for its 2003 administrative appeal. However, because the result involved the use of loss deductions for subsequent years, which 2003's loss deduction was exhausted (i.e. year of 2012), the Bank has filed to rectify the loss deduction amount for the year. The Bank has taken administrative remedy to contest the assessment result for 2012 by applying for a review of the administrative action with Tax Authority. The case is currently still in the assessment phase.

Profit-seeking enterprise income tax returns of FCBL through 2016 have been assessed and approved by the Tax Authority.

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

(35) Earnings per share

Basic

Basic earnings per share is calculated by dividing profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period.

	2018	2017
Profit or loss attributable to ordinary shareholders of the Bank (in thousand dollars)	$ 17,530,747	$ 15,141,884
Weighted average number of ordinary shares outstanding (in thousand shares)	8,906,400	8,906,400
Basic earnings per share (in dollars)	1.97	1.70

Note:For the years ended December 31, 2018 and 2017, basic earnings per share were equal to diluted earnings per share.

7. Related party transactions

(1) Parent and ultimate controlling company

The Bank is controlled by First Financial Holding Co., Ltd., which holds 100% of the Bank's shareholding, and the Bank's ultimate controlling company is First Financial Holding Co., Ltd.

(2) Details of the related parties

Names of related parties	Relationship with the Bank
Bank of Taiwan Co., Ltd.	Substantive related parties
East Asia Real Estate Management Co., Ltd. (EAREM)	Investee accounted for under the equity method
Turn Cloud Technology Service Inc.	Investee accounted for under the equity method(Note)
The First Education Foundation	Over one third of total fund is donated by the Bank
First Financial Holding Co., Ltd.	Parent company of the Bank
First Securities Inc. (FS)	Subsidiary of FFHC
First Securities Inc. (Asia)	Subsidiary of FFHC
First Capital Management Inc.	Subsidiary of FFHC
First Securities Investment Trust Co., Ltd. (FSIT)	Subsidiary of FFHC
First Financial Asset Management Co., Ltd. (FFAM)	Subsidiary of FFHC
First Venture Capital Co., Ltd. (FVC)	Subsidiary of FFHC
First Financial Management Consulting Co., Ltd. (FFMC)	Subsidiary of FFHC
First P&C Insurance Agency Co., Ltd.(FPCIA) (Residual property distribution on August 15, 2017)	Subsidiary of FFHC
First-Aviva Life Insurance Co., Ltd. (FALI)	Subsidiary of FFHC
Mutual funds managed by FSIT	Mutual funds managed by the subsidiary of FFHC
Others	Related parties, Spouses of representatives of the Bank's directors and supervisors, chairman and president, and relatives within second degree of kinship of the Bank's chairman and president

Note: The Bank's ownership to investments accounted for using equity method, Turn Cloud Co., Ltd., declined to 5% after disposing of the investments on December 21, 2018. Turn Cloud Co., Ltd. was no longer a related party of the Bank and its subsidiaries thereafter.

(3) Major balances and transactions with related parties:

A. Call loans to banks

	December 31, 2018		
	Highest balance	Ending balance	Annual interest rate (%)
Other related parties			
Bank of Taiwan	$ 15,000,000	$ -	0.174~0.300

	December 31, 2017		
	Highest balance	Ending balance	Annual interest rate (%)
Other related parties			
Bank of Taiwan	$ 10,200,000	$ 1,200,000	0.168~0.184

For the years ended December 31, 2018 and 2017, the interest income on above related parties were $2,730 and $763, respectively.

Terms and conditions of the related party transactions are not significantly different from those of transactions with third parties.

B. Call loans from banks

	December 31, 2018		
	Highest balance	Ending balance	Annual interest rate (%)
Other related parties			
Bank of Taiwan	$ 15,000,000	$ -	0.173~0.190

	December 31, 2017		
	Highest balance	Ending balance	Annual interest rate (%)
Other related parties			
Bank of Taiwan	$ 14,000,000	$ -	0.168~0.220

For the years ended December 31, 2018 and 2017, the interest expense on above related parties were $930 and $3,335, respectively.

Terms and conditions of the related party transactions are not significantly different from those of transactions with third parties.

C. Due from other banks

	December 31, 2018	
	Ending balance	Percentage of Due from banks(%)
Other related parties		
Bank of Taiwan	$ 247,605	1.75

	December 31, 2017	
	Ending balance	Percentage of Due from banks(%)
Other related parties		
Bank of Taiwan	$ 287,796	1.10

Terms and conditions of the related party transactions are not significantly different from those of transactions with third parties.

(Blank below)

D. Loans

December 31, 2018

Items	Category of related party (Note 1)	Number or name of related party (Note 2)	Maximum balance for current period	Ending balance	Status of performance: Performing loans	Status of performance: Non-performing loans	Collateral	Terms Differences Compared to Non-Related Parties
Consumer loans	Other related parties	44	$ 17,491	$ 15,278	$ 15,278	$ -	None	None
Residential mortgage loans	Other related parties	140	779,793	771,076	771,076	-	Real estate	None
Other loans	Other related parties	10	81,636	58,847	58,847	-	Certificates of deposits of the Bank、real estate、land	None
Other loans	Sister company	FFAM	130,000	-	-	-	Real estate	None
Other loans	Sister company	FS	166,630	-	-	-	Other Collateral	None

December 31, 2017

Items	Category of related party (Note 1)	Number or name of related party (Note 2)	Maximum balance for current period	Ending balance	Status of performance: Performing loans	Status of performance: Non-performing loans	Collateral	Terms Differences Compared to Non-Related Parties
Consumer loans	Other related parties	39	$ 17,251	$ 15,805	$ 15,805	$ -	None	None
Residential mortgage loans	Other related parties	128	635,152	625,938	625,938	-	Real estate	None
Other loans	Other related parties	11	129,248	102,047	102,047	-	Certificates of deposits of the Bank、real estate、land、demand deposit of credit guarantee fund (reserve)	None
Other loans	Sister company	FFAM	330,000	330,000	330,000	-	Real estate	None
Other loans	Sister company	FS	11,216	11,216	11,216	-	Other Collateral	None

For the years ended December 31, 2018 and 2017, the interest income received from the above related parties were $11,233 and $10,204, respectively.
Note 1: None of the ending balances of individual borrowers exceeded 1% of the total ending balance. Hence, the transactions are not listed individually in detail.
Note 2: Account numbers are calculated based on the statistics at the end of the year.

E. Deposits

	December 31, 2018			December 31, 2017	
	Ending balance	Percentage of Deposits(%)		Ending balance	Percentage of Deposits(%)
Parent company					
First Financial Holding Co., Ltd.	$ 3,026,682	0.14		$ 1,893,285	0.09
Sister company					
First-Aviva Life Insurance Co., Ltd.	481,230	0.02		65,824	-
First Securities Inc.	557,999	0.03		545,134	0.03
Others	290,959	0.01		385,813	0.02
Other related parties					
Others (Note)	1,638,135	0.08		1,578,252	0.08
Total	$ 5,995,005	0.28		$ 4,468,308	0.22

The interest expense paid to the above related parties for years ended December 31, 2018 and 2017 were $45,708 and $31,651, respectively.

Note: Staff savings accounts of FCB are provided to the above related parties with interest rate of 13% p.a. and limited to a balance of $480. Deposits exceeding $480 is calculated at demand savings deposit rate. Interest rates for others are the same as those offered to other customers.

F. Derivative instrument transactions

December 31, 2018

Category of related party	Name of related party	Title of derivative instrument contract	Contract period	Nominal principal	Gain (loss) on valuation for current period	Period-end balance: Item	Period-end balance: Balance
Other related parties	A mutual fund managed by FSIT	Foreign exchange contracts	2018/10/23~ 2019/02/13	$ 2,220,604	$ 2,703	Valuation adjustment for financial assets mandatorily measured at fair value through profit or loss– currency exchange rate	$ 2,703
Other related parties	Bank of Taiwan	Foreign exchange contracts	2018/10/02~2019/10/02	1,844,100	(8,815)	Valuation adjustment for trading Liabilities – currency exchange rate	8,815

December 31, 2017

Category of related party	Name of related party	Title of derivative instrument contract	Contract period	Nominal principal	Gain (loss) on valuation for current period	Period-end balance: Item	Period-end balance: Balance
Other related parties	A mutual fund managed by FSIT	Foreign exchange contracts	2017/12/04~2018/03/06	$ 4,067,644	$ 36,086	Valuation adjustment for trading assets – currency exchange rate	$ 36,086

Note 1: Gain (loss) on valuation for the current period refers to gains or losses resulting from year-end fair value valuation on derivative instruments as of the balance sheet date.

Note 2: Period-end balance is the year-end balance of those accounted as financial asset or liabilities measured at fair value through profit or loss.

G. Current income tax assets

	December 31, 2018	December 31, 2017
Parent company		
First Financial Holding Co., Ltd.(Note)	$ 637,650	$ -

Note: Receivable as a result of consolidated income tax return filing of parent company.

H. Current income tax liabilities

	December 31, 2018	December 31, 2017
Parent company		
First Financial Holding Co., Ltd.(Note)	$ -	$ 1,023,792

Note: Payable as a result of consolidated income tax return filing of parent company.

I. Financial liabilities at fair value through profit or loss

	December 31, 2018	December 31, 2017
Sister company		
First-Aviva Life Insurance Co., Ltd. (FALI)	$ 361,843	$ 335,853

For the years ended December 31, 2018 and 2017, the interest expense on above related parties were $13,867 and $13,443, respectively.

J. Handling charges income and other income

	For the years ended December 31,	
	2018	2017
Parent company		
First Financial Holding Co., Ltd.	$ 25,826	$ 24,588
Sister company		
First Securities Inc.	84,607	83,231
First Securities Investment Trust Co., Ltd.	64,553	55,252
First-Aviva Life Insurance Co., Ltd.	835,157	665,768
First Capital Management Inc.	7,772	10,369
First Financial Asset Management Co., Ltd.	4,557	4,577
Other related parties		
Others	5,898	5,393
Total	$ 1,028,370	$ 849,178

Terms and conditions of the related party transactions are not significantly different from those of transactions with third parties.

K. Rental expense and other expenses

	For the years ended December 31,	
	2018	2017
Parent company		
First Financial Holding Co., Ltd.	$ 941	$ 454
Sister company		
First Financial Asset Management Co,, Ltd.	75,424	84,392
First Securities Inc.	81,335	70,346
Other related parties		
Others	9,763	9,631
Total	$ 167,463	$ 164,823

Terms and conditions of the related party transactions are not significantly different from those of transactions with third parties.

L. Property transactions

On September 20, 2017, the Bank entered into a contract with Turn Cloud Co., Ltd to purchase 5,000 sets of multi-payment POS system amounting to $77,981. Terms and conditions of the related party transactions are not significantly different from those of transactions with third parties.

M. Information on salaries and remunerations to the Bank's directors, supervisors, president, vice-president and others:

	For the years ended December 31,	
	2018	2017
Salaries and other short-term employee benefits	$ 84,037	$ 81,894
Post-employment benefits	2,340	2,090
Other long-term employee benefits	214	220
Total	$ 86,591	$ 84,204

8. Pledged assets

Pledged assets provided by the Bank and its subsidiaries as of December 31, 2018 and 2017 were as follows:

Items	December 31, 2018	Purpose of Pledge
Financial assets at fair value through other comprehensive income	$ 4,449,918	Guarantees deposited with the court for the provisional seizure, guarantees for trust business reserves, foreign branch's guarantee deposited with Federal Reserve Bank and Federal Credit Bank, operating guarantee deposit.
Investment in debt instruments at amortised cost	204,372	Deposits with Federal Deposit Insurance Corporation and Federal Reserve Bank.
Refundable deposits	1,171,640	Guarantees deposited with the court for provisional seizure and deposits for the building lease.
	$ 5,825,930	

Items	December 31, 2017	Purpose of Pledge
Available-for-sale financial assets	$ 4,382,648	Guarantees deposited with the court for the provisional seizure, guarantees for trust business reserves, foreign branch's guarantee deposited with Federal Reserve Bank and Federal Credit Bank, operating guarantee deposit.
Held-to-maturity financial assets	263,579	Guarantees deposited with the court for the provisional seizure, operating guarantee deposits, deposits with Federal Deposit Insurance Corporation and Federal Reserve Bank.
Refundable deposits	1,584,261	Guarantees deposited with the court for provisional seizure and deposits for the building lease.
	$ 6,230,488	

9. Significant contingent liabilities and unrecognized contractual commitments

The Bank has the following commitments as of December 31, 2018 and 2017:

	December 31, 2018	December 31, 2017
Unused loan commitments	$ 136,677,071	$ 131,137,328
Unused credit commitments for credit cards	89,253,643	67,426,775
Unused letters of credit issued	34,462,317	32,847,998
Guarantees	71,065,602	69,166,023
Collections receivable for customers	126,551,400	131,321,992
Collections payable for customers	272,362,595	265,798,431
Travelers' checks consignment-in	269,768	280,494
Guaranteed notes payable	47,605,897	47,178,790
Trust assets	656,959,077	673,826,470
Customers' securities under custody	568,383,234	512,371,420
Book-entry for government bonds under management	184,975,000	196,062,400
Depository for short-term marketable securities under management	76,766,335	80,456,450

10. Significant losses from disasters: None.

11. Significant subsequent events: None.

12. Others:

(1) Fair value and hierarchy information on financial instruments

A. Scope

Fair value is the amount for which an asset could be exchanged or a liability can be settled between knowledgeable, willing parties in an arm's length transaction. Financial instruments are initially recognised by fair value, which is transaction price in most cases. Subsequent recognitions are measured by fair value except that certain financial instruments are recognised by amortised cost. The best evidence of fair value is the quoted market price in an active market. If the market in which financial instruments traded is not active, the Bank then adopts valuation technique or takes reference to Bloomberg, Reuters or the fair value of financial instrument from counterparties.

B. Fair value information of financial instruments

The fair value information of financial instruments measured at fair value is provided in Note 12(1) C and E.

Except for those listed in the table below, the carrying amount of some of the Bank's financial instruments (e.g. cash and cash equivalents, due from Central Bank and call loans to other banks, receivables, loans discounted, refundable deposits, deposits from the Central Bank and banks, due to Central Bank and other banks, bills and bonds under repurchase agreements, payables, deposits and remittances, bonds payable, other financial liabilities and guarantee deposits) is approximate to their fair value (Please refer to Note 12 (1) D).

	December 31, 2018			
		Fair value		
	Book value	Level 1	Level 2	Level 3
Financial assets				
Investments in debt instruments at amortised cost	$ 415,604,459	$ 4,646,366	$ 410,873,510	$ -

	December 31, 2017			
		Fair value		
	Book value	Level 1	Level 2	Level 3
Financial assets				
Held-to-maturity financial assets-net	$ 386,605,113	$ 1,938,413	$ 385,418,902	$ -
Other financial assets- bond instruments without active market	2,729,400	-	2,729,400	-

C. Financial instruments measured at fair value

(A) Determination of the fair value

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

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

In addition to above financial instruments with an active market, other financial instruments at fair value are assessed by evaluation technique with reference to other financial instruments at fair value with similar conditions and characteristics in actual practice, cash flow discounting method and other evaluation technique, including market information obtained by exercising the model at balance sheet date (such as yield curve used in OTC and the Taipei Interbank Offered Rate (Taibor) price curve).

When a financial instrument has no standardized evaluation and with less complexity involved, such as interest rate swap, currency swap and options. The Bank and its subsidiaries usually adopt the valuation generally accepted by market users. The inputs used in these financial instruments valuation usually are observable information in the market.

For financial instruments with higher complexity, the fair value is assessed through the valuation model developed by general valuation methods and techniques generally accepted by competitors. These kinds of valuation models are usually applicable for derivative instruments, debt instruments with no quoted market price (including debt instrument of embedded derivatives) or other debt instruments with low market liquidity. Certain inputs used in these valuation models are not observable in the market, and the Bank and its subsidiaries needs to make appropriate estimates based on the assumptions.

The output of the evaluation model is always an estimate, and the valuation technique may not reflect all the relevant factors of the financial instruments held by the Bank and its subsidiaries. As a result, the estimate generated by valuation model will be slightly adjusted based on additional inputs, such as model risk, liquidity risk or credit risk of counterparties. According to the Bank and its subsidiaries valuation model management and other related controlling procedures, the adjustment made is adequate and necessary and the balance sheet is believed to present fairly, in all material aspects, the fair value of financial instruments. The pricing information and input are prudently evaluated in the valuation process, and shall be timely adjusted by market condition.

(B) Valuation methods by financial instruments of the Bank and its subsidiaries are shown by types and nature as follows:

a. NTD Central Government Bond: the latest transaction price announced by Electronic Bond Trading System of GTSM or SEC or the yield rates across different contract lengths bulletined by OTC are used.

b. NTD corporate bonds & bank debentures: fair value of different maturities announced by GTSM is adopted. If the fair value is not available, yield rate curve of the corresponding credit rating provided by GTSM is used to compute the theory price. Securitization instruments: future cash flows discounted by market interest rate or the quotations provided by the counterparties are adopted for valuation.

c. Securitization instruments: prices quoted from Bloomberg.

d. Convertible corporate bond: closing prices bulletined by the GTSM or the latest closing prices is adopted as valuation standard.

e. NTD short-term bills: valuation is based by TAIBOR curve rate from The Bankers Association of the Republic of China, discounted from future cash flows.

f. Foreign securities: prices quoted from Bloomberg, Reuters, or counterparties are adopted.

g. Listed stocks: the closing price listed in TSE or OTC is adopted.

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

i. Bank debentures designated at fair value issued by the Bank: valuation is based by TAIBOR curve rate from The Bankers Association of the Republic of China, discounted from future cash flows.

j. Derivatives:

(a) Call (put) warrant, stock index futures, and stock index futures options: prices quoted from an active market are deemed the fair value.

(b) Forward FX, currency swap, interest swap and cross currency swap: discounted future cash flows is adopted.

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

(d) Certain derivatives use the quoted price from counterparties.

k. Unlisted stock: Equity instruments that are not accounted for using the equity method are valued using the market approach, income approach, or net asset approach. The market approach uses the price-to-earnings ratio or the price-to-book ratio of investments with similar characteristics. The income approach includes the discounted cash flow method. The net asset approach includes the net value method.

(C) Adjustments for credit risks

Adjustments for credit risks are mainly credit valuation adjustments and debit valuation adjustments. Definition is as follows:

a. Credit valuation adjustment (CVA) is a measurement to derivatives which are not transacted through the Stock Exchange Market, or the over the counter (OTC) derivatives. CVA reflects fair value of counterparty default and the possibility of not collecting the full market value.

b. Debit valuation adjustment (DVA) is a measurement to derivatives which are not transacted through the Stock Exchange Market, or the over the counter (OTC) derivatives. DVA is the fair value of a derivative reflecting the default of the company and the possibility of the company unable to pay the full market value.

CVA is calculated by applying loss given default (LGD) to exposure at default (EAD), along with the consideration of counterparty's probability of default (PD) (under the condition of the Bank does not default). On the other hand, DVA is calculated by applying the Bank's estimated loss to the risk exposure amount, along with the consideration of the Bank's PD (under the condition of the counterparty does not default).

D. Financial instruments not measured at fair value

The methods and assumption used by financial instruments not measured at fair value of the Bank and its subsidiaries are as follows:

(A) The book value of cash and cash equivalents, due from Central Bank and call loans to banks, securities purchased under resell agreements, receivables, refundable deposits, due to Central Bank and banks, fund borrowed from Central Bank and banks, securities sold under repurchase agreements, commercial papers issued, payables, other borrowings, deposits, and other financial liabilities which have a short maturity period will be considered as their fair value.

(B) Loans discounted (including overdue receivables and assumed receivables from leasing subsidiary): Considering the nature of the financial industry, the fair value is determined by the market rate (market price). The effective interest rates of loans are generally based on the benchmark interest rate plus or minus certain adjustment (equivalent to floating rate) to reflect the market interest rate. As a result, it is reasonable to assume that the carrying amount, after adjustments of estimated recoverability, approximates the fair value. Fair values for medium-term or long-term loans with fixed interest rates shall be estimated using their discounted values of expected future cash flows. However, as such loans account for only a small portion of all loans, book value was used to estimate the fair value.

(C) Debt instruments at amortised / Held-to-maturity financial assets (December 31, 2017): When there is a quoted market price available in an active market, the fair value is determined using the market price. If there is no quoted market price for reference, a valuation technique or quoted price offered by the counterparties will be adopted to measure the fair value.

a. NTD Central Government Bond: fair value of bonds of different maturities bulletined by Over-The-Counter (hereinafter OTC).

b. NTD corporate bonds, bank debentures, government bonds and beneficiary bond certificates: future cash flow discounted by the yield curve of OTC is used to measure present valuation.

c. NTD and US short-term bills and NTD beneficiary securities: valuation is based by TAIBOR curve rate from The Bankers Association of the Republic of China, discounted from future cash flows.

(D) Deposits: Considering the nature of the financial industry, the fair value is determined by the market rate (market price) while the deposit transactions usually mature within one year. As a result, the carrying amount is a reasonable basis to estimate the fair value. Fair values of the long-term fixed rate deposits shall be estimated using discounted expected future cash flows. Additionally, as the maturities are less than three years, it is reasonable to use the carrying amount to estimate the fair value.

(E) Financial Bonds Payable: Since the coupon rates of the bank debentures issued by the Bank approximate the market rates, the fair value based on the discounted value of expected future cash flow approximates the book value.

(F) Other financial assets - bond instruments without active market (December 31, 2017): If a quoted price is available from a transaction or a market maker, the latest transaction price and quoted price is used as foundation for fair value measurement. If no quoted market price is available for reference, the valuation method is adopted. The estimate and assumption adopted are the discounted value of expected future cash flow used to estimate the fair value.

E. <u>Hierarchy of fair value estimation of financial instruments</u>

(A)Definition for the hierarchy classification of financial instruments measured at fair value

a. Level 1

Inputs that are quoted prices unadjusted in active markets for identical assets or liabilities. An active market refers to a market in which transactions for an asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis. The fair value of the Bank's and its subsidiaries' investment in listed stocks, beneficiary certificates, on-the-run Taiwan central government bonds and derivative instruments with quoted market prices is included in Level 1.

b. Level 2

Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).The fair value of the Bank and its subsidiaries' investment in off-the-run government bonds, corporate bonds, bank debentures, convertible bonds and most derivative instruments bank debentures issued by the First Group is included in Level 2.

c. Level 3

Inputs for the asset or liability that are not based on observable market data. The fair value of the Bank and its subsidiaries' investment in the derivatives and certain overseas securities invested by the First Group is included in Level 3.

(Blank below)

(B)Hierarchy of fair value estimation of financial instrument

Financial instruments measured at fair value	December 31, 2018			
	Total	Level 1	Level 2	Level 3
Recurring fair value measurements				
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets mandatorily measured at fair value through profit or loss				
Short-term notes	$ 58,884,156	$ -	$ 58,884,156	$ -
Stock investments	229,808	229,808	-	-
Bond investments	69,688,631	283,527	69,405,104	-
Others	2,425,417	-	2,425,417	
Financial assets designated as at fair value through profit or loss	2,939,165	-	2,939,165	-
Financial assets at fair value through other comprehensive income				
Stock investments	25,480,005	17,600,153	-	7,879,852
Bond investments	192,938,134	3,497,741	189,440,393	-
Others	3,764,121	465,764	3,298,357	-
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss	28,533,261	-	28,533,261	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	4,832,333	95,167	4,737,166	-
Liabilities				
Financial liabilities at fair value through profit or loss	4,619,884	-	4,619,884	-
Total	$ 394,334,915	$ 22,172,160	$ 364,282,903	$ 7,879,852

Financial instruments measured at fair value	December 31, 2017			
	Total	Level 1	Level 2	Level 3
Recurring fair value measurements				
Non-derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss				
Financial assets held for trading				
Short-term notes	$ 48,746,002	$ -	$ 48,746,002	$ -
Stock investments	1,151,736	1,151,736	-	-
Bond investments	11,985,077	454,941	11,530,136	-
Financial assets designated as at fair value through profit or loss on initial recognition	33,639,629	-	33,639,629	-
Available-for-sale financial assets				
Stock investments	13,863,124	13,863,124	-	-
Bond investments	134,444,178	1,725,022	132,719,156	-
Others	1,484,983	-	1,484,983	-
Liabilities				
Financial liabilities at fair value through profit or loss				
Financial liabilities designated as at fair value through profit or loss on initial recognition	27,640,094	-	27,640,094	-
Derivative financial instruments				
Assets				
Financial assets at fair value through profit or loss	4,726,858	135,063	4,591,795	-
Liabilities				
Financial liabilities at fair value through profit or loss	6,758,214	-	6,758,214	-
Total	$ 284,439,895	$ 17,329,886	$ 267,110,009	$ -

(C) Movement of financial assets and liabilities at fair value classified as Level 3

a. Movement of financial assets at fair value classified as Level 3

For the year ended 2018

Items	Beginning balance	Gain and loss on valuation		Addition		Reduction		Ending balance
		Amount recognised in gain and loss	Amount recognised in other comprehensive income	Purchased or issued	Transferred to Level 3	Sold, disposed or settled	Transferred from Level 3	
Non-derivative financial instruments								
Equity instruments measured at fair value through other comprehensive income	$ 8,230,251	$ -	($ 388,043)	$ 37,644	$ -	$ -	$ -	$ 7,879,852

For the year ended December 31, 2017, the Bank and its subsidiaries did not hold any Level 3 financial assets.

b. Movement of financial liabilities at fair value classified as Level 3

For the years ended December 31, 2018 and 2017, the Bank and its subsidiaries did not hold any Level 3 financial liabilities.

(D) Material transfers between Level 1 and Level 2

There were no material transfers of the Bank's and its subsidiaries' held financial instruments between Level 1 and Level 2 for the years ended December 31, 2018 and 2017.

(Blank below)

(E) <u>Sensitivity analysis of fair value to reasonable possible alternative assumptions for Level 3 fair value measurements</u>

The fair value measurement that the Bank and its subsidiaries made for the financial instruments is deemed reasonable; however, different valuation models or inputs could result in different valuation results. Specifically, if the valuation input of financial instruments classified in the valuation moves to 10%, the effects on gain and loss in the period or the effects on other comprehensive income are as follows:

December 31, 2018	Change in fair value recognised in profit and loss		Change in fair value recognised in other comprehensive income	
	favorable	unfavorable	favorable	unfavorable
Assets				
Equity instruments measured at fair value through other comprehensive income	$ -	$ -	$ 787,985	($ 787,985)

There were no financial instruments classified as Level 3 for the year ended December 31, 2017.

Favorable and unfavorable movements of the Bank and its subsidiaries refer to the fluctuation of fair value, and the fair value is calculated through the valuation technique according to the non-observable inputs to different extent.

If the fair value of a financial instrument is affected by more than one input, the above table only illustrates the effect as a result of one single input, and the correlation and variance among multiple inputs are not listed here.

(F) <u>Quantitative information of fair value measurement for significant unobservable inputs (Level 3)</u>

The Bank's and its subsidiaries' Level 3 fair value measurement are mainly financial assets at fair value through other comprehensive income – equity instrument without an active market.

The multiple significant unobservable inputs of equity instrument without an active market are independent from each other, thus, they are not correlative.

Table below summarises quantitative information of significant unobservable inputs:

	Fair value as of December 31, 2018	Valuation technique	Significant unobservable inputs	Range (weighted-average)	Relationship between inputs and fair value
Items measured at fair value on a repetitive basis					
Non-derivative financial assets					
Financial assets at fair value through other comprehensive income					
Equity investment	$ 7,879,852	Market approach – Market comparable companies	Price-to-earnings ratio multiple	8.39-40.94	The higher the multiple is, the higher the fair value is.
			Price-to-book ratio multiple	0.58-2.96	The higher the multiple is, the higher the fair value is.
			Enterprise value to EBITA multiple	4.81-16.81	The higher the multiple is, the higher the fair value is.
			Discount for marketability	30%	The higher discount for marketability is, the lower the fair value is.
		Income approach – Discounted cash flow	Revenue growth rate	2.5%	The higher the revenue growth rate is, the higher the fair value is.
			Discount Rate	5.5%-6.1%	The higher discount rate is, the lower the fair value is.
			Discount for marketability	10%	The higher discount for marketability is, the lower the fair value is.
		Asset approach – Net asset value	Discount for marketability	15%、30%	The higher discount for marketability is, the lower the fair value is.

The Bank and its subsidiaries did not hold any financial instruments classified in Level 3 as of December 31, 2017, thus, no quantitative information of fair value measurement for significant unobservable inputs (Level 3).

(G) Fair value measurement process for instruments classified in Level 3

The Bank and its subsidiaries’ financial instruments within Level 3 are primarily equity investments in unlisted stocks.

In accordance with “First Financial Holding’s Regulations for Equity Investment Valuation”, the Bank’s equity instruments without an active market are valued using the market approach, income approach, or asset approach. By using publicly available information, valuation results are close to market conditions, and sources for information are independent, reliable, in agreement with other sources and represent exercisable prices. Inputs, information and other necessary fair value adjustments for the valuation model are updated periodically to ensure that the valuation results are reasonable. Relevant valuation results are recorded after the Bank's internal review and approval.

(2) Management objective and policy for financial risk

A. Scope

The Bank's and its subsidiaries' financial risk management objective incorporates the general operating strategy and financial targets. It considers risk appetite and external regulations along with other elements, through effective risk management policies, including but not limited to risk identification, evaluation, monitoring and reporting, and takes appropriate measures to control business risks and potential financial losses within an endurable range in order to ensure a sound business development for the Bank and its subsidiaries and accomplish the objective of maintaining a reasonable risk and return, to further increase shareholders' value.

The primary risks arising from operations of the Bank and its subsidiaries includes but are not limited to credit risks incident upon on-balance-sheet and off-balance-sheet transactions, market risks, operating risks and liquidity risks. In order to put into effect the risk management culture and strategy, the Bank and its subsidiaries has established a risk management policy, system, process and method. The bank and its subsidiaries abides by relevant regulations and evaluates and adjusts in a timely manner. Through managing risks, prescribing limits on each risk, monitoring and reporting periodically, as well as through the internal control and internal audit mechanisms and monitoring of high level committees, the primary risks are effectively identified, evaluated, monitored, and controlled, in order to abide regulations, accomplish strategic objectives and provide reliable financial reporting information.

B. Organization structure for risk management

Bank

The Bank's Board of Directors has the ultimate approval right in risk management. Major management risk items include overall risk management policy, risk tolerance limit, and authority wich must be approved by the Board of Directors.

Under the Board of Directors, there is a Risk Management Committee (RMC), which is headed by the Bank's President and comprised of several committee members including Executive Vice President. Besides, Credit Review Division, Credit Analysis Division, Loan Asset Management Division, and Legal Affairs Division are required to participate in the committee. Risk Management Division is a business line under Risk Management Committee. It is responsible for handling of overall affairs for the committee. RMC is responsible for integration of review, supervision, reporting and coordinating interaction between each division for firm-wide risk management. Besides, the committee needs to resolve affairs related to risk management policies, system and procedures, risk tolerance limits and authorities, risk measurement methods, assessment procedures and monitoring system, implementation of risk management and status report on anti-money laundering and countering the financing of terrorism, and then deliver orders to each business segment in accordance with their responsibilities and approval procedures. RMC also submits regular reports about the risk evaluation of the Bank to the Board of Directors and supervisors.

The Auditing department regularly reviews the execution of risk management based on relevant internal control system to ensure the effective operation for risk management and assessment control, which should be reported to the Board of Directors regularly.

The Subsidiary, FCB Leasing

FCB Leasing's Board of Directors has the ultimate approval right in risk management. Major items of risk control include risk management policy, risk tolerance limit, and authority, which shall all be approved by the Board of Directors. FCB Leasing also set up Department of Management I and II to take charge of implementation and management of overall risk management strategies.

C. Credit risk

(A) Source and definition of credit risk

Financial instruments held by the Bank and its subsidiaries may incur losses if counterparties are not able to fulfill their obligations at the maturity date. Credit risk may happen due to items in or off the balance sheet. For items in the balance sheet, credit risk exposure of the Bank and its subsidiaries mainly comprises of bill discounted and loans and credit card business, leases, deposits and call loans from banks, debt instrument and derivatives, etc. Off balance sheet items include finance guarantee, bank acceptance, letter of credit, and loan commitment.

(B) Policy for credit risk management

Risk management program and procedures are as follows:

a. Establishing the qualification condition and credit limit of the counterparty and granting different credit limits by referring to information from domestic and foreign credit rating institutions or by establishing its own rating system before each transaction;

b. Avoiding the concentration risk, that is, through limiting the amount of financing to or investing in a single customer, single industry, single conglomerate, single stock, or related parties;

c. Monitoring credit risk by industry, counterparty (individual and group) and country through the limits;

d. Setting up loan approval and review procedure for credit extension business as well as specific review policy for complicated credit extension cases;

e. Establishing policy of loan percentage on collateral, collateral appraisal, management and disposal in relation to credit extension;

f. Reporting to the senior management with regard to the summary of credit risk information.

In addition, each foreign operating entity of the Bank and its subsidiaries sets aside the loss reserve and appraises the assets quality, unless otherwise indicated by competent authorities of the domestic countries in which the subsidiaries reside, in conformity with risk management policy of each operating entity.

The Bank and its subsidiaries classify debt instruments and credit assets into 5 categories by referring to internal ratings and external rating institutions. Comparisons between the internal rating and external long-term rating scales are as follows:

No direct correlation between the internal rating of credit assets and external rating of debt investments has been shown in the following table, but merely shows two different rating scales of the same category.

Credit quality category	Internal rating of credit assets	The Debt investments	
		External rating (Note)	Taiwan rating
Low risk	Level 1 to level 7	Above level BB	Above level twBBB+
Medium risk	Level 8 to level 9	Level BB- to level B+	twBBB～twBB+
Medium-high risk	Level 10	Level B (including the debt investments of non rating)	twBB～twBB-
High risk	Level 11 to level 12	Level B- to level C	twB+～twCCC+
Default	Level 13	Level D	

(Note) These are ratings of Moody's, Fitch and S&P.

Procedures and methods used in credit risk management for the core businesses of the Bank and its subsidiaries are as follows:

a. Credit business (including accounts receivable of lease business, loan commitments and guarantees of the lease subsidiaries):

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

(a)Credit asset classification

Credit assets are classified into five types. Other than normal credit assets shall be classified as Category One, the remaining unsound assets are assessed based on the collateral provided and the time period of overdue payment as follows: Category Two for assets requiring special mention. Category three for assets deemed recoverable. Category Four for assets that are doubtful. Category Five for assets that are not recoverable. In order to manage credit extension, the Bank and its subsidiaries established Operation Guidelines for Credit Extension Assets Risks, Regulations Governing the Setting Aside of Asset Losses Valuation and Non-Performing Loans, Guidelines for Claims Receivables, Standard Procedures for Collection of Overdue receivables as the principles for managing non-performing and overdue payments.

(b)Internal risk rating

In response to the characteristics and scale of business, the Bank and its subsidiaries implement a credit risk internal evaluation module or set up a credit rating table in order to management risk.

The Bank and its subsidiaries, mainly by the statistic and professional judgement of expertise and consideration of client information, developed an objective indicator for evaluating client's credit risk. That is the "Borrower's risk rating" of the Bank and its subsidiaries, among which 13 thresholds are set up based on the default possibility, and then divided into 5 sub-categories as follows:

I. Low risk: Level 1 to level 7 have a default rate lower than 2%. Clients in this threshold usually have ability to sustain the payment of interest and principal even under the adverse impact of economic environment, and the default rate is low.

II. Medium risk: Level 8 to level 9 have a default rate ranging around 2-5%. Clients in this threshold usually have potential issues and adverse economic environment that could damage the borrower's willingness and capacity to make the payment of interest and principal.

III. Medium-high risk: Level 10 has a default rate ranging around 5-10％. Clients' ability to make the payment of interest and principal are relatively lower and easily affected by the economic fluctuation.

IV. High risk: Level 11 to level 12 have a default rate ranging from 10% and above to less than 100%. Clients' ability the make the payment of interest and principal are extremely weak with a high possibility of default.

V. Default: Level 13 has a default rate of 100%. Definition of default includes interest or principal payments that have been overdue for more than 60 days, overdue or non-performing loans transferred, suspended interest, C Chart, debt negotiation records and others.

The Bank should perform credit rating to the corporations at least once a year and to those who sign a mid-long-term credit contract at least once a year during the contract term. Same applies to the collective credit extension. Credit rating mainly processed by investigation division and regional center that are independent from operating units and only cases with certain amount and below may be processed by operating units.

Petty loans and mortgage loans are assessed through internal credit rating module, and the rest of retail banking are assessed by experts. Methods used in rating credit for petty loans and mortgage loans are as follows:

I. Credit rating for petty loans:

The credit rating results, Possibility of Default (PD), Loss Given Default (LGD) and Expected Loss (EL) are assessed by credit evaluation module of the borrowers, from which 3 categories were divided as follows: 'Low risk', 'Medium high risk' and 'High risk'.

II. Credit rating for mortgage loans:

Possibility of default (PD), loss given default (LGD) and exposure at default (EAD) of the borrowers assessed by credit evaluation module are used to calculate the expected loss (EL). The expected loss (EL) together with cost of capital, operation cost, and service fee are integrated into information on cost aspect. In addition, information on income aspect such as interest income and service fee income are assessed based on the credit line and interest rate at the time the borrowers applied for loans to produce 'expected profit' (revenue minus cost) and expected loss. Based on the expected default frequency within the next year, the credit rating results are classified into four levels, which are 'low risk', 'medium risk', 'medium-high risk' and 'high risk', respectively.

b. Deposits and call loans

The Bank regularly reviews the limit (including limit of call loan) set up for every counterparty in the financial industry. The credit approval unit, with reference to credit risk limit granted based on long-term credit rating of external rating institutions, is responsible for individual assessment and implementation.

c. Debt investment and derivatives

The risk management of the Bank's and its subsidiaries' debt instruments is based on credit rating of external institutions, credit quality of bonds, condition by geographical location and counterparty risk to identify the credit risk.

The counterparties of the derivative instruments are mostly financial institutions being rated at BB or above, and the credit extension (including the extension of call loan) granted to each financial institution counterparty is regularly reviewed and controlled by the credit granting segment. Those counterparties without credit rating or being rated below BB should apply risk limit to the credit granting segment by case which is then managed and controlled individually. If the counterparties are general clients, controlling is implemented through risk limits and conditions of derivatives as approved by general credit extension procedures to manage credit exposure of counterparties.

(C) Recognition and measurement of expected credit losses

In the assessment of impairment and calculation of expected credit losses, the Bank considers reasonable and supportable information (including forward-looking information) about past events, current conditions and reasonable and supportable forecasts of future economic conditions. The Bank determines at the balance sheet date whether there has been a significant increase in credit risk since initial recognition or whether credit impairment has occurred, and recognises expected credit loss according to which stage the asset belongs: no significant increase in credit risk or low credit risk at balance sheet date (Stage 1), significant increase in credit risk (Stage 2), and credit impaired (Stage 3). 12-month expected credit losses are recognised for assets in Stage 1, and lifetime expected credit loses are recognised for assets in Stage 2 and Stage 3.

The definition of and expected credit losses recognised for each stage are as follows:

	Stage 1	Stage 2	Stage 3
Definition	There has been no significant deterioration of the credit quality of the financial asset since initial recognition, or the financial asset is considered low-risk at the balance sheet date.	There has been significant deterioration of the credit quality of the financial asset since initial recognition, but the asset is not yet credit impaired.	The financial asset is credit impaired at the financial reporting date.
Expected credit losses recognition	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

(a) Credit business

The Bank considers reasonable and supportable information (including forward-looking information) when determining whether there has been significant increase in credit risk. The main indicators that are taken into account are as follows:

I. The borrower is over 30 days past due.

II. Placed on the warning list of the Bank.

III. Both internal and external credit ratings have deteriorated:

   i. Internal rating: The rating on the rating date has dropped more than 3 scales compared to the rating on the initial recognition date.

   ii. External rating: The external rating agency has lowered the rating by more than 2 scales to a non-investment grade.

IV. Record of bad credit after assessment, including the following circumstances:

   i. Approved the delay of principal payments by borrower while continuing the collection of interest payments due to the deterioration of the financial condition of borrower or concern that loan is not recoverable.

   ii. Terms of the loan agreement have been modified, before being classified as non-performing, so that borrower can pay back principal and interest in installments due to the deterioration of the financial condition of the borrower or concern that loan is not recoverable.

   iii. Borrower makes partial interest payments with the unpaid amount recorded as owed.

   iv. The length of the loan is repeatedly extended.

   v. The debtor is on a “No business transaction” list.

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

   vii. The debtor is no longer in business.

   viii. The auditor issues an opinion expressing material uncertainty over the company’s ability to continue as a going concern.

   ix. The Bank reported a returned check issued by debtor.

   x. The credit of the borrower has deteriorated or subsidiaries, affiliates, or parents of the borrower have ceased operations.

   xi. The debtor has other records of bad credit.

If the internal and external credit ratings of a credits asset satisfies the following conditions, it is considered to be “low-risk at the balance sheet date” and assumed to have no significant increase in credit risk.

I. According to internal credit ratings of the Bank, the asset meets the requirements of a “low-risk level” asset, which is estimated to have a default probability less than 2%, and is considered to be “low-risk at the financial reporting date”.

II. External credit ratings: investment grade or above.

The Bank will periodically review and assess the appropriateness of the criteria used to determine where there has been a significant increase in credit risk.

(b) Bond investments

If there is a change in a credit risk indicator that crosses a threshold since initial recognition, it is considered to have significant increase in credit risk. The thresholds for changes in the stage of credit risk indicators are as follows:

I. Bonds are over 30 days past due.

II. The final external credit rating has lowered by 2 scales or more, and the bond is rated as non-investment grade at the reporting date.

III. The cost of the financial asset measured at amortised cost compared to its fair value: The market price of the instrument is not more than 50% of its original investment cost, and the decrease is not the result of changes in market interest rates.

IV. Bond is on the Bank’s warning list.

A bond investment of the Bank that is not considered to be in Stage 2 or Stage 3 of credit impairment is considered to have no significant increase in credit risk or an asset with low credit risk (Stage 1).

After the impairment assessment of bond investments the associated sales unit will review and confirm the results of the assessment and report to senior management. Data on impairment parameters should be reviewed periodically and updated if necessary; parameters should be updated at least once every year.

a. Definitions of financial assets in default and credit-impaired financial assets

According to the definition stated in Appendix A of IFRS 9, a financial asset is credit-impaired when one or more events that have occurred and have a significant impact on the expected future cash flows of the financial asset.

(a) Credit business

I. Principal or interest payments over 3 months (90 days) past due, or the bank has begun collection procedures or liquidation of collateral.

II. New payment schedule is negotiated so that loan is not classified as non-performing.

III. Non-performing loans in negotiation according to the rules of the Debt Negotiation Mechanism issued by the Bankers Association in 2006 (including pre-mediation).

IV. Loans that have gone through pre-mediation and have signed agreements in accordance with the Consumer Debt Clearance Act (excluding secured loans where the original terms of the loans are enforced).

V. Cases where the court has initiated reorganisation or liquidation proceedings.

VI. Declaration of bankruptcy in court.

VII. Reclassified as overdue receivables.

VIII. Special criterion for credit card products: credit card accounts closed by the issuer.

IX. Debtor’s loans from other banking institutions have been recognised as non-performing, and reclassified as non-accrual or written off as uncollectible.

X. Debtor has filed for bankruptcy, reorganisation, or other debt clearance proceedings.

XI. Debtor renews, extends the length of, and negotiates new payment terms on the loan in accordance with applicable rules issued by the Bankers Association.

XII. Non-performing loans with negotiated payment installment plan.

XIII. Loans classified as “in default” according to the Bank’s internal credit rating model.

(b) Bond or bill investments

A bond or bill investment by the Bank is considered credit impaired if any of the following conditions apply:

I. Principal or interest payments are over 3 months (90 days) past due.

II. The S&P credit rating of the bond is “in default” or the equivalent rating is assigned by another credit rating agency.

III. Court has initiated reorganisation or liquidation proceedings.

IV. Declaration of bankruptcy in court.

V. Bond or bill issuer has led for bankruptcy, reorganisation, or other debt clearance proceedings.

b. Write-off policy

If any of the following conditions apply, the Bank writes off its non-performing and non-accrual loans as uncollectible, less the estimated recoverable amount:

(a) The loan cannot be fully or partially recovered due to the dissolution of, disappearance of, settlement with, or declaration of bankruptcy by the debtor.

(b) The collateral and assets of the primary and secondary debtors cannot be used to recover the loan due to low appraisal value, liquidity preference, or high administrative costs associated with seizure and liquidation.

(c) The collateral and assets of the primary and secondary debtors could not be auctioned off after multiple attempts.

(d) The non-performing and non-accrual loans are two years past due, and could not be recovered from collection procedures.

c. Measurement of expected credit losses

Expected credit losses (ECL) are calculated from the following three parameters: probability of default (PD), loss given default (LGD), and exposure at default (EAD).

(a) Credit business

I. Probability of default (PD)

The estimation and grouping of the PD of domestic credit assets is based on the product type and internal credit ratings, with the one-year PD and multi-year PD estimated separately.

i. One-year PD: Calculate the actual one-year PD from historical data and use it to estimate the one-year PD parameter.

ii. Multi-year PD: The multi-year PD is estimated using a Markov Chain with a transition matrix constructed from historical one-year credit ratings, assuming the credit rating transition probability remains constant in each period. Applying the multi-year PD to each loan requires selecting the corresponding lifetime. The lifetime of the loan is estimated based on the length of the remaining contract.

II. Loss given default (LGD)

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

III. Exposure at default (EAD)

i. On balance sheet-Loans and loan receivables: calculated from credit balance.

ii. Off balance sheet-Loan commitments and financial guarantees: off balance sheet figures multiplied by the credit conversion factor (CCF). The credit conversion factor is estimated according to the rules described in the "Calculation Method of Equity Capital and Risky Assets and Accompanying Forms-Credit Risk Standard Rules" and the Bank's and its subsidiaries' internal historical information on actual drawn down amount.

(b) Bond or bill investments

I. PD calculated based on external credit ratings, incorporating forward-looking information.

II. LGD: Average LGD published by external credit rating agencies.

III. EAD:

i. Stage 1 and stage 3: Total carrying amount (including interest receivable).

ii. Stage 2: The cash flows as determined by the bond issuance agreement in lifetime.

Total carrying amount is the amortised cost of the financial asset before any adjustment to the loss allowance .

d. Consideration of forward-looking information

(a) Credit business

The Bank incorporates forward-looking information when determining whether there has been a significant increase in credit risk since initial recognition and measuring expected credit loss.

I. Pertaining to significant increase in credit risk

i. The Bank's credit approval process includes evaluation of forward-looking information such as business potential, financial condition, industry outlook, loan collateral, and ability to repay.

ii. Identify customers with potential risk through the Bank's early warning system

II. Pertaining to measuring expected credit loss

Reflected in the adjustment of model parameters including PD and LGD. Historical data is used to identify the important economic factors that affect the credit risk and expected credit loss of each asset portfolio, including the economic growth rate, inflation, unemployment rate, and real estate prices.

Subsequent predictions of the important economic factors are made, including the best estimates for the economy in the coming year. In addition to the basic economic scenario, the Bank also evaluates other possible economic scenarios and relevant information that is weighted accordingly.

By nature, the predicted values and estimated probabilities are highly uncertain, and the actual results may be very different from the predictions. However, the Bank believes the predictions provide the best estimates of the most probable outcomes.

(b) Bond or bill investments

The forward-looking estimate of PD incorporates changes in the business cycle, which can be measured based on economic growth rates. The overall process of the point-intime (PIT) framework begins with constructing country-specific models, then the PD derived from the country-specific models are linked to GDP growth factor of each nation through regression modeling. The regression models are then adjusted using correction factors in order to obtain the PD rate for each credit rating level and the term structure of conditional default rate.

(D) Credit risk hedging and mitigation policy

a. Collateral

The Bank and its subsidiaries adopt a series of policies and measures to mitigate credit risks in relation to credit business, and one of the most common methods is requesting the borrower for the collateral. The Bank sets up the scope of collateral that can be recovered and the appraisal, as well as the management and disposing procedures to ensure the credit right. On the other hand, the loan security, terms of collateral, conditions to writing-off are addressed in the credit extending contract. The reduced facility, shortened repayment period or whether or not a loan is deemed matured are all well defined to mitigate credit risk in case that the credit event does incur.

b. Credit risk limit and risk concentration control

The Bank complies with the Banking Act in relation to the provision of business credit to the same individual, the same related parties, or the same affiliated companies as well as residential architecture, corporate architecture. In order to effectively control credit risk concentration, the Bank sets up risk assumption limit by rating, industry types, groups, countries and listed securities based on risk management strategy, change in market environment, business complexity, and report to senior management regularly. Assessment and modification shall be performed to various credit risk assumption limit based on overall economic cycle, finance environment and business development strategy regularly (at least once a year) or irregularly.

c. Net settlement with gross agreement

The transactions of the Bank and its subsidiaries are usually carried out by gross settlement. Despite that, net settlement is signed in a form of agreement with some trading counterparties, and is executed when a default occurs and all transactions were to terminate in order to further mitigate credit risk.

d. Other credit enhancements

Primarily refers to guarantees by a third-person or credit providing institutions.

(E) Maximum credit risk exposure and concentration of the Bank and its subsidiaries

Maximum credit risk exposure

The maximum risk exposure of assets in the consolidated balance sheet, without consideration of the collateral or other credit enhancements, is equivalent to the carrying amount. The maximum credit risk exposure relating to accounts off the balance sheet (without consideration of collaterals or the maximum exposure of other credit enhancements) are the unused loan commitments, unused credit commitments for credit cards, unused letters of credit and other guaranteed commitments. As of December 31, 2018 and 2017, please see Note 9 for details.

The management of the Bank and its subsidiaries believes that through a series of stringent evaluation procedures and follow-up reviews afterwards, credit risk exposure off the balance sheet of the Bank and its subsidiaries can be minimized and continuously controlled.

The total carrying amount of loans discounted - The Bank’s and First Commercial Bank (USA) largest credit risk exposure as follows:

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December 31, 2018	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (credit-impaired financial assets that were neither purchased nor originated)	Difference in impairment recognised under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	Total
Level of risk					
Low risk	$ 1,364,434,185	$ 27,622,855	$ -	$ -	$ 1,392,057,040
Medium risk	243,133,182	26,494,080	-	-	269,627,262
Medium-high risk	10,040,935	13,975,337	-	-	24,016,272
High risk	217,386	18,005,323	294,059	-	18,516,768
Default	-	-	12,912,937	-	12,912,937
Gross carrying amount of financial assets	1,617,825,688	86,097,595	13,206,996	-	1,717,130,279
Allowance for doubtful account (total impairment recognised under IFRS 9)	(5,541,577)	(2,192,411)	(3,682,094)	-	(11,416,082)
Difference in impairment recognised under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	(10,012,159)	(10,012,159)
Net	$ 1,612,284,111	$ 83,905,184	$ 9,524,902	($ 10,012,159)	$ 1,695,702,038

Credit risk concentration of the credit assets in the balance sheet

The credit risks are deemed significantly concentrated when the financial instrument transactions significantly concentrate on a single person, or when there are multiple trading counterparties engaging in similar business activities with similar economic characteristics making the effects on their abilities of fulfilling the contractual obligation due to economy or other forces similar.

The credit risks of the Bank and its subsidiaries concentrate on accounts in and off balance sheet that occurs through obligation fulfilling or implementation of transactions (either products or services), or through trans-type exposure portfolio, including loans, placements and call loan from the banks, securities investment, receivables and derivatives. The nature that the debtor engages in could be a sign of credit risk concentration. The credit business of bank and its subsidiaries is one of the core businesses; however, the Bank does not significantly carry out transactions with single client or single counterparty, nor does any of total trading volume to a single client or a single counterparty account for more than 5% the balance of loans discounted and overdue receivable. The credit risk concentration of the bills discounted, overdue receivables and lease business of the Bank and its subsidiaries by industry, location and collateral are shown as follows:

Loans discounted, overdue receivable and receivable of the Bank and its subsidiaries by industry are shown as follows:

	December 31, 2018		December 31, 2017	
Industry	Amount	%	Amount	%
Private enterprises	$ 867,811,108	50.54	$ 823,798,533	51.42
Private individual	579,492,525	33.75	535,658,841	33.43
Overseas and others	263,883,405	15.37	238,055,131	14.86
Non-profit organizations	3,536,292	0.20	4,354,109	0.27
Government institutions	451,323	0.02	316,385	0.02
State-owned enterprises	2,023,439	0.12	-	-
Total	$ 1,717,198,092	100.00	$ 1,602,182,999	100.00

Loans discounted, overdue receivable and receivable of the Bank and its subsidiaries by location (Note) are shown as follows:

	December 31, 2018		December 31, 2017	
Geographical location	Amount	%	Amount	%
Asia	$ 1,588,265,495	92.49	$ 1,480,359,151	92.40
North America	79,541,218	4.63	78,450,433	4.90
Oceania	28,760,580	1.68	23,438,610	1.46
Europe	20,630,799	1.20	19,934,805	1.24
Total	$ 1,717,198,092	100.00	$ 1,602,182,999	100.00

Note: the above geographical location is made on the basis of the branch of debtor.

Loans discounted, overdue receivable and receivable of the Bank and its subsidiaries by collateral are shown as follows:

	December 31, 2018		December 31, 2017	
Collateral type	Amount	%	Amount	%
Unsecured loans	$ 418,716,973	24.38	$ 387,329,864	24.18
Secured loans				
-Real estate	900,114,178	52.42	837,146,899	52.25
-Guarantee	76,402,952	4.45	77,081,840	4.81
-Financial collateral	44,748,879	2.61	42,124,780	2.63
-Other collateral	23,088,408	1.34	34,320,747	2.14
Overseas and others	254,126,702	14.80	224,178,869	13.99
Total	$ 1,717,198,092	100.00	$ 1,602,182,999	100.00

The affected financials from collateral, net settled master netting arrangements and other credit enhancement for the Bank and its subsidiaries assets exposed to credit risk are as follows :

Expressed: In thousands of New Taiwan Dollars

December 31, 2018	Collateral	Net settled master netting arrangements	Other credit enhancement	Total
On balance sheet items				
Financial assets measured at fair value through profit or loss				
Debt instruments	$ -	$ -	$ 8,227,283	$ 8,227,283
Derivative instruments	1,760,197	1,994,273	-	3,754,470
Others	-	-	307,350	307,350
Receivables				
Credit card business	5,983	-	-	5,983
Others	4,675,732	-	279,077	4,954,809
Loans discounted	1,122,225,716	-	81,057,254	1,203,282,970
Financial assets at fair value through other comprehensive income				
Bond investment	-	-	15,252,353	15,252,353
Others	-	-	307,350	307,350
Off-balance sheet items				
Irrevocable loan commitments	2,660,216	-	296,938	2,957,154
Unused letters of credit issued	4,785,231	-	1,502,582	6,287,813
All types of guarantees	8,894,580	-	4,352,723	13,247,303
Total	$ 1,145,007,655	$ 1,994,273	$ 111,582,910	$ 1,258,584,838

Expressed: In thousands of New Taiwan Dollars

December 31, 2017	Collateral	Net settled master netting arrangements	Other credit enhancement	Total
On balance sheet items				
Financial assets measured at fair value through profit or loss				
Debt instruments	$ -	$ -	$ 3,676,992	$ 3,676,992
Derivative instruments	1,780,330	1,808,134	-	3,588,464
Others	-	-	296,800	296,800
Receivables				
Credit card business	4,663	-	-	4,663
Others	3,796,439	-	394,526	4,190,965
Loans discounted	1,053,498,045	-	84,266,130	1,137,764,175
Available-for-sale financial assets				
Bond investment	-	-	7,847,694	7,847,694
Others	-	-	296,800	296,800
Held-to-maturity financial assets				
Bond investment	-	-	4,996,800	4,996,800
Other financial assets				
Others	120	-	-	120
Off-balance sheet items				
Irrevocable loan commitments	5,355,109	-	957,720	6,312,829
Unused letters of credit issued	3,588,353	-	1,664,557	5,252,910
All types of guarantees	12,112,851	-	4,335,247	16,448,098
Total	$ 1,080,135,910	$ 1,808,134	$ 108,733,266	$ 1,190,677,310

Note1:"Collateral" refers to fixed and non-fixed asset liens, as well as non-fixed asset or equity pledges and guarantees; Collateral for credit assets refer to the lower of appraisal value and maximum exposure.

Note 2: Details of improvement to net settlement master netting arrangements and other credits are provided in Note 12(2) C.(c).

The Bank and subsidiaries closely monitor the value of collateral of financial instruments, taking into account credit-impaired financial assets for which impairment should be recognised. Information on credit-impaired financial assets and the value of collateral that can offset potential losses was as follows:

Expressed: In thousands of New Taiwan Dollars

December 31, 2018	Gross carrying amount	Total impairment recognised under IFRS 9	Total risk exposure (amortised cost)	Fair value of collateral
Impaired financial assets				
On balance sheet items				
Receivables				
Credit card business	$ 176,080	$ 84,932	$ 91,148	$ -
Others	2,847	2,561	286	-
Loans discounted	13,206,996	3,682,094	9,524,902	6,634,671
Off-balance sheet items				
Irrevocable loan commitments	799	323	476	-
Unused letters of credit issued	1,337,124	188,210	1,148,914	-
Total	$ 14,723,846	$ 3,958,120	$ 10,765,726	$ 6,634,671

As of December 31, 2018, the Bank's written-off financial assets that are still under recourse procedures amounted to $9,131,143.

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(F) The changes in the Bank's and its subsidiaries' allowance for bad debt, accumulative impairment and provision for financial assets are as follows:

a. Credit business

(a) For the year ended December 31, 2018, the reconciliation of the balance of allowance for uncollectible accounts from expected credit losses was as follows:

I. Loans discounted

For the year ended December 31, 2018	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (credit-impaired financial assets that were neither purchased nor originated)	Total impairment recognised under IFRS 9	Difference in impairment recognised under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	Allowance for bad debts
Balance at the beginning of the period	$ 5,644,705	$ 1,723,942	$ 4,300,009	$ 11,668,656	$ 8,293,494	$ 19,962,150
Changes from financial instruments recognised at the beginning of the period:						
-Transferred to 12-month expected credit losses	23,299	(22,680)	(619)	-	-	-
-Transferred to lifetime expected credit losses	(913,154)	948,332	(35,178)	-	-	-
-Transferred to credit-impaired financial asset	(987,892)	(218,656)	1,206,548	-	-	-
-Additional provision and reversal	1,350,564	(48,052)	327,558	1,630,070	-	1,630,070
Originated or purchased	3,094,631	398,335	1,187,728	4,680,694	-	4,680,694
Derecognised	(2,702,370)	(546,384)	(357,312)	(3,606,066)	-	(3,606,066)
Difference in impairment recognised under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	-	1,718,665	1,718,665
Write-off of uncollectible amount	(11,728)	(35,216)	(2,957,884)	(3,004,828)	-	(3,004,828)
Foreign exchange and other changes	43,522	(7,210)	11,244	47,556	-	47,556
Balance at the end of the period	$ 5,541,577	$ 2,192,411	$ 3,682,094	$ 11,416,082	$ 10,012,159	$ 21,428,241

II. Receivables

For the year ended December 31, 2018	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (credit-impaired financial assets that were neither purchased nor originated)	Total impairment recognised under IFRS 9	Difference in impairment recognised under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	Allowance for bad debts
Balance at the beginning of the period	$ 79,519	$ 328,512	$ 178,419	$ 586,450	$ 67,093	$ 653,543
Changes from financial instruments recognised at the beginning of the period:						
-Transferred to 12-month expected credit losses	1,050	(1,035)	(15)	-	-	-
-Transferred to lifetime expected credit losses	(7,471)	7,516	(45)	-	-	-
-Transferred to credit-impaired financial asset	(12,888)	(14,765)	27,653	-	-	-
-Additional provision and reversal	14,380	12,595	(10,115)	16,860	-	16,860
Originated or purchased	138,774	12,400	41,325	192,499	-	192,499
Derecognised	(64,518)	(39,497)	(24,904)	(128,919)	-	(128,919)
Difference in impairment recognised under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	-	(62,775)	(62,775)
Write-off of uncollectible amount	(81)	(537)	(25,414)	(26,032)	-	(26,032)
Foreign exchange and other changes	(662)	(507)	(2,628)	(3,797)	-	(3,797)
Balance at the end of the period	$ 148,103	$ 304,682	$ 184,276	$ 637,061	$ 4,318	$ 641,379

III. Other financial assets

For the year ended December 31, 2018	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (credit-impaired financial assets that were neither purchased nor originated)	Total impairment recognised under IFRS 9	Difference in impairment recognised under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	Allowance for bad debts
Balance at the beginning of the period	$ 13	$ -	$ 3,092,247	$ 3,092,260	$ 551	$ 3,092,811
Changes from financial instruments recognised at the beginning of the period:						
-Transferred to 12-month expected credit losses	-	-	-	-	-	-
-Transferred to lifetime expected credit losses	-	-	-	-	-	-
-Transferred to credit-impaired financial asset	-	-	-	-	-	-
-Additional provision and reversal	-	-	209,417	209,417	-	209,417
Originated or purchased	7	-	160,001	160,008	-	160,008
Derecognised	(13)	-	(58)	(71)	-	(71)
Difference in impairment recognised under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	-	14,220	14,220
Write-off of uncollectible amount	-	-	(2,739,049)	(2,739,049)	-	(2,739,049)
Foreign exchange and other changes	-	-	2,799	2,799	-	2,799
Balance at the end of the period	$ 7	$ -	$ 725,357	$ 725,364	$ 14,771	$ 740,135

IV. Provision for loan commitments, provision for guarantee liabilities, and other provisions

For the year ended December 31, 2018	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (credit-impaired financial assets that were neither purchased nor originated)	Total impairment recognised under IFRS 9	Difference in impairment recognised under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	Allowance for bad debts
Balance at the beginning of the period	$ 1,230,833	$ 234,394	$ 273,533	$ 1,738,760	$ 131,879	$ 1,870,639
Changes from financial instruments recognised at the beginning of the period:						
-Transferred to 12-month expected credit losses	5,817	(5,816)	(1)	-	-	-
-Transferred to lifetime expected credit losses	(16,133)	16,134	(1)	-	-	-
-Transferred to credit-impaired financial asset	(307)	(109)	416	-	-	-
-Additional provision and reversal	(194,955)	(75,198)	(78,567)	(348,720)	-	(348,720)
Originated or purchased	477,337	16,302	11	493,650	-	493,650
Derecognised	(782,407)	(113,865)	(4,914)	(901,186)	-	(901,186)
Difference in impairment recognised under "Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans"	-	-	-	-	212,469	212,469
Write-off of uncollectible amount	(28)	(18)	(854)	(900)	-	(900)
Foreign exchange and other changes	(1,772)	(2,381)	(915)	(5,068)	-	(5,068)
Balance at the end of the period	$ 718,385	$ 69,443	$ 188,708	$ 976,536	$ 344,348	$ 1,320,884

(b) Material changes to the total carrying amount for the year ended December 31, 2018.

Material changes to the total carrying amount of allowance for uncollectible accounts for loans discounted are described as follows:

The Board of Directors approved the write-off of uncollectible accounts in the amount of $6,507,797 for the year ended December 31, 2018.

Changes to the gross amount of loans discounted is as follows:

For the year ended December 31, 2018	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (credit-impaired financial assets that were neither purchased nor originated)	Total
Balance at the beginning of the period	$ 1,520,266,644	$ 64,546,383	$ 17,296,793	$ 1,602,109,820
Changes from financial instruments recognised at the beginning of the period:				
-Transferred to 12-month expected credit losses	8,308,585	(8,138,758)	(169,827)	-
-Transferred to lifetime expected credit losses	(30,690,320)	31,985,474	(1,295,154)	-
-Transferred to credit-impaired financial asset	(3,341,882)	(1,234,134)	4,576,016	-
-Additional provision and reversal	(62,670,496)	(2,532,191)	(542,823)	(65,745,510)
Originated or purchased	800,740,218	26,155,643	1,271,266	828,167,127
Derecognised loans discounted	(614,081,117)	(24,330,311)	(2,939,820)	(641,351,248)
Write-off of uncollectible amount	(1,011,884)	(489,333)	(5,006,580)	(6,507,797)
Foreign exchange and other changes	305,940	134,822	17,125	457,887
Balance at the end of the period	$ 1,617,825,688	$ 86,097,595	$ 13,206,996	$ 1,717,130,279

(c) The simplification of loans, accounts receivable, contract assets and lease receivables

The Bank and FCBL included loans and accounts receivable in the impairment assessment, and the results were as follows:

	Overdue day of Loans and receivables					
	Not overdue	Overdue for 1–90 days	Overdue for 91-180 days	Overdue for 181-360 days	Overdue for more than 361 days	Total
Percentage of expected credit losses	1%	3%	10%	50%	100%	-
Gross amount	$ 4,418,217	$ 58,750	$ 133,445	$ 62,424	$ 26,403	$ 4,699,239
Amount of expected credit losses	(51,837)	(1,762)	(13,344)	(31,212)	(26,403)	(124,558)
Net value of loans and receivables	$ 4,366,380	$ 56,988	$ 120,101	$ 31,212	$ -	$ 4,574,681

b. Debt instruments

(a) The reconciliation of the balance of the cumulative impairment for the year ended December 31, 2018 was as follows:

I. Financial assets at fair value through other comprehensive Income

For the year ended December 31, 2018	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (credit-impaired financial assets that were neither purchased nor originated)	Total impairment recognised under IFRS 9	Other equity
Balance at the beginning of the period	$ 56,602	$ -	$ -	$ 56,602	$ 56,602
Changes from financial instruments recognised at the beginning of the period:					
-Transferred to 12-month expected credit losses	-	-	-	-	-
-Additional provision and reversal	(2,539)	-	-	(2,539)	(2,539)
Originated or purchased	27,070	-	-	27,070	27,070
Derecognised	(19,247)	-	-	(19,247)	(19,247)
Foreign exchange and other changes	(2,535)	-	-	(2,535)	(2,535)
Balance at the end of the period	$ 59,351	$ -	$ -	$ 59,351	$ 59,351

II. Investments in debt instruments carried at amortised cost

For the year ended December 31, 2018	12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses (credit-impaired financial assets that were neither purchased nor originated)	Total impairment recognised under IFRS 9	Accumulated impairment
Balance at the beginning of the period	$ 22,410	$ -	$ -	$ 22,410	$ 22,410
Changes from financial instruments recognised at the beginning of the period:					
-Transferred to 12-month expected credit losses	-	-	-	-	-
-Additional provision and reversal	1	-	-	1	1
Originated or purchased	38,670	-	-	38,670	38,670
Derecognised	(21,898)	-	-	(21,898)	(21,898)
Foreign exchange and other changes	160	-	-	160	160
Balance at the end of the period	$ 39,343	$ -	$ -	$ 39,343	$ 39,343

(b) There has been no material changes to the cumulative impairment of debt instruments for the year ended December 31, 2018.

c. The credit risk quality of loans discounted and receivables, and securities investments

December 31, 2017	Positions that are neither past due nor impaired					Positions that are past due but not impaired(B)	Impaired amount (C)	Total	Recognized losses(D)		Net
	Low risk	Medium risk	Medium-high risk	High risk	Subtotal (A)			(A)+(B)+(C)	With individual impaired evidence	With no individual impaired evidence	(A)+(B)+(C)-(D)
Due from the central bank and call loans to banks (Note1)	$ 172,514,416	$ -	$ -	$ -	$ 172,514,416	$ -	$ -	$ 172,514,416	$ -	$ 31,569	$ 172,482,847
Receivables	9,680,076	-	-	-	9,680,076	22,954	718,766	10,421,796	466,962	145,767	9,809,067
Loans discounted (Note2)	1,213,177,031	341,041,154	26,287,742	18,791,957	1,599,297,884	3,925,641	22,396,820	1,625,620,345	7,387,053	16,791,017	1,601,442,275
Available-for-sale financial assets											
-Bonds investment	134,444,178	-	-	-	134,444,178	-	-	134,444,178	-	-	134,444,178
-Others	1,484,983	-	-	-	1,484,983	-	-	1,484,983	-	-	1,484,983
Held-to-maturity financial assets											
-Certificates of time deposit purchased	342,035,000	-	-	-	342,035,000	-	-	342,035,000	-	-	342,035,000
-Bonds investment	40,286,073	3,500,000	-	-	43,786,073	-	-	43,786,073	-	-	43,786,073
-Others	784,040	-	-	-	784,040	-	-	784,040	-	-	784,040
Other financial assets											
-Investment deposits	2,729,400	-	-	-	2,729,400	-	-	2,729,400	-	-	2,729,400
Total	$ 1,917,135,197	$ 344,541,154	$ 26,287,742	$ 18,791,957	$ 2,306,756,050	$ 3,948,595	$ 23,115,586	$ 2,333,820,231	$ 7,854,015	$ 16,968,353	$ 2,308,997,863

Note 1: Inter-bank clearing fund not included.

Note 2: Loans (including credit cards), interest receivable derived from loans, accounts unrelated to loans that are reclassified to overdue receivables: guaranty, acceptances and accounts factoring included.

d. In relation to loans discounted of the Bank and its subsidiaries that were neither past due nor impaired and loans and receivables (including amounts due from Central Bank and inter-bank lending), the credit quality analysis is based on the credit quality rating by client:

December 31, 2017	Positions that are neither past due nor impaired				
	Low risk	Medium risk	Medium-high risk	High risk	Total
Other receivables (note)	$ 182,194,492	$ -	$ -	$ -	$ 182,194,492
Credit card business	4,616,073	1,375,780	307,994	107,147	6,406,994
Consumer banking	435,160,570	4,973,898	965,348	111,515	441,211,331
Corporate banking	645,606,659	246,824,740	24,039,131	17,252,089	942,722,619
Overseas and others	118,793,729	87,866,736	975,269	1,321,206	208,956,940
Total	$ 1,395,371,523	$ 341,041,154	$ 26,287,742	$ 18,791,957	$ 1,781,492,376

Note: other receivables as mentioned above includes due from the central bank and call loans to banks.

e. Aging analysis of overdue financial assets with no impairment of the Bank and its subsidiaries:

The delayed processing of the borrower and other administrative reasons may give rise to an overdue financial asset with no impairment. According to the internal risk management policy of the Bank and its subsidiaries, financial assets overdue for less than 90 days are usually not deemed impaired unless other evidence indicates otherwise.

Aging analysis of the overdue financial assets with no impairment of the Bank and its subsidiaries:

Items	December 31, 2017		
	Overdue for less than 1 month	Overdue for 1~3 months	Total
Receivables	$ -	$ 22,954	$ 22,954
Loans discounted (Note)			
Credit card business	12,675	23,884	36,559
Consumer banking	2,129,924	485,114	2,615,038
Corporate banking	828,739	445,305	1,274,044
Total	$ 2,971,338	$ 977,257	$ 3,948,595

Note: includes loans (credit cards); interest receivable arising from loans; non-loan guarantees, acceptances, and account factoring transferred as overdue receivables.

f. Analysis of impaired financial assets of the Bank and its subsidiaries

Items			Loans discounted (Note 1)	Impaired amount
			December 31, 2017	December 31, 2017
With individual objective evidence of impairment	Individual assessment	Corporate loans-secured	$ 14,798,667	$ 6,021,756
		Residential mortgage loans	167,515	28,256
		Overseas and others (Note 2)	3,712,152	364,222
	Collective assessment	Corporate loans-secured	1,412,285	467,080
		Residential mortgage loans	1,956,241	374,205
		Overseas and others (Note 2)	349,960	131,534
Without individual objective evidence of impairment	Collective assessment	Corporate loans-secured	943,923,480	9,863,704
		Residential mortgage loans	413,663,934	4,549,024
		Overseas and others (Note 2)	245,636,111	2,378,289
Total			$ 1,625,620,345	$ 24,178,070

Note 1: includes loans (credit cards); interest receivable arising from loans; non-loan guarantees, acceptances, and account factoring transferred as overdue receivables.

Note 2: other includes small credit loans, consumer loans, debit & credit cards etc.

Items			Total receivables (Note)	Impaired amount (Note)
			December 31, 2017	December 31, 2017
With individual objective evidence of impairment	Individual assessment	Receivables	$ 718,766	$ 466,962
		Overseas and others	-	-
Without individual objective evidence of impairment	Collective assessment	Receivables	124,382,362	45,145
		Overseas and others	57,835,084	132,191
Total			$ 182,936,212	$ 644,298

Note: total receivables as mentioned above includes due from the central bank and call loans to banks.

(G) Policy for assumed collateral management

The collaterals assumed by the Bank and its subsidiaries as of December 31, 2018 and 2017 are of the nature of land and property and the carrying amounts were both $0.

The assumed collateral shall be disposed once it is disposable and the proceeds of disposal shall be used to offset the remaining unpaid loan. Collaterals are classified under other assets in the consolidated balance sheet.

(Blank below)

(H)Disclosures made in accordance with the Regulations Governing the Preparation of Financial Reports by Public Banks

a. Asset quality

Date & year			December 31, 2018				
Business / Items			Non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (%) (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate Banking	Secured loans		$ 3,457,354	$ 704,393,029	0.49%	$ 7,697,138	222.63%
	Unsecured loans		1,234,695	515,411,563	0.24%	6,222,651	503.98%
Consumer Banking	Residential mortgage loans (Note 4)		732,785	446,560,272	0.16%	6,919,199	944.23%
	Cash cards		-	970	-	117	-
	Micro credit loans (Note 5)		5,063	4,972,473	0.10%	57,564	1136.95%
	Others (Note 6)	Secured	18,623	31,768,097	0.06%	332,523	1785.55%
		Unsecured	-	11,054	-	216	-
Gross loans business			5,448,520	1,703,117,458	0.32%	21,229,408	389.64%
			Non-performing loans	Balance of receivables	Non-performing loan ratio (%)	Allowance for doubtful accounts	Coverage ratio
Credit card services			10,519	6,719,120	0.16%	106,103	1008.68%
Without recourse factoring (Note 7)			-	8,257,100	-	82,685	-
Date & year			December 31, 2017				
Business / Items			Non-performing loans (Note 1)	Gross loans	Non-performing loan ratio (%) (Note 2)	Allowance for doubtful accounts	Coverage ratio (Note 3)
Corporate Banking	Secured loans		$ 3,697,279	$ 676,021,728	0.55%	$ 7,816,566	211.41%
	Unsecured loans		961,994	466,582,493	0.21%	6,852,351	712.31%
Consumer Banking	Residential mortgage loans (Note 4)		1,340,423	416,072,052	0.32%	6,893,109	514.25%
	Cash cards		-	1,490	-	149	-
	Micro credit loans (Note 5)		9,612	3,888,893	0.25%	52,909	550.45%
	Others (Note 6)	Secured	104,540	27,187,227	0.38%	306,124	292.83%
		Unsecured	-	21,626	-	422	-
Gross loans business			6,113,848	1,589,775,509	0.38%	21,921,630	358.56%
			Non-performing loans	Balance of receivables	Non-performing loan ratio (%)	Allowance for doubtful accounts	Coverage ratio
Credit card services			12,047	6,703,742	0.18%	144,109	1196.22%
Without recourse factoring (Note 7)			-	5,228,477	-	56,184	-

Note:

1. The amount recognized as non-performing loans is in compliance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans”. The amount included in overdue accounts for credit cards is in compliance with the Jin-Guan-Yin (4) No. 0944000378 dated July 6, 2005.

2. Non-performing loan ratio=non-performing loans/gross loans. Non-performing loan ratio of credit cards ＝Non-performing loan ratio of credit cards /balance of accounts receivable.

3. Coverage ratio for loans=allowance for doubtful accounts of loans/non-performing loans. Coverage ratio for accounts receivable of credit cards＝allowance for doubtful accounts for accounts receivable of credit cards/ Non-performing loan ratio of credit cards.

4. For residential mortgage loans, the borrower provides his/her (or spouse’s or minor child’s) house as collateral in full and mortgages it to the financial institution for the purpose of obtaining funds to purchase or add improvements to own house.

5. Small amount of credit loans apply to the norms of the Jin-Guan-Yin (4) No. 09440010950 dated December 19, 2005, excluding credit card and cash card services.

6. Other consumer banking is specified as secured or unsecured consumer loans other than residential mortgage loans, cash card services and small amount of credit loans, and excluding credit card services.

7. Pursuant to the Jin-Guan-Yin (5) Letter No. 094000494 dated July 19, 2005 amount of without recourse factoring will be recognized as overdue accounts within three months after the factor or insurance company resolves not to compensate the loss.

(Blank below)

b. Non-performing loans and overdue receivables exempted from reporting to the competent authority

	December 31, 2018	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Amounts exempted from reporting to the competent authority under debt negotiation and the contract (Note 1)	$ 693	$ 14,429
Perform in accordance with debt liquidation program and restructuring program (Note 2)	30,104	132,408
Total	$ 30,797	$ 146,837

	December 31, 2017	
	Total amount of non-performing loans exempted from reporting to the competent authority	Total amount of overdue receivables exempted from reporting to the competent authority
Amounts exempted from reporting to the competent authority under debt negotiation and the contract (Note 1)	$ 1,069	$ 19,187
Perform in accordance with debt liquidation program and restructuring program (Note 2)	34,128	131,244
Total	$ 35,197	$ 150,431

Note:

1. The Bank disclosed the total amount of non-performing loans and overdue receivables exempted from reporting to the competent authority as debt negotiation in accordance with the Jin-Guan-Yin (1) No. 09510001270 of the FSC dated April 25, 2006.

2. The supplementary disclosure about credit reporting and information disclosure is pursuant to provisions relating to cases such as preliminary negotiation, preliminary conciliation, restructuring and liquidation led by banks under the “Customer Debt Clearance Act”, as regulated in Jin-Guan-Yin-(I)-Zi Letter No. 09700318940 on September 15, 2008 and Jin-Guan-Yin-Fa Letter No. 10500134790 on September 20, 2016.

c.Profile of concentration of credit risk and credit extensions of the Bank

December 31, 2018			
Ranking (Note 1)	Type of industry (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount/FCB net worth of the current year (%)
1	Group A–Marine Freight Forwarder	$ 18,976,418	9.25%
2	Group B–Plastic Sheets, Pipes and Tubes Manufacturing	16,252,218	7.92%
3	Group C–Hand-crafted Fiber Spinning	14,567,718	7.10%
4	Group D–Iron and Steel Rolls over Extends and Crowding	10,514,327	5.12%
5	Group E–Real Estate Development	10,397,878	5.07%
6	Group F–Unclassified Electronic Components Manufacturing	9,654,553	4.71%
7	Group G–Cardboard Manufacturing	9,088,143	4.43%
8	Group H–Electric Wires and Cables Manufacturing	8,354,042	4.07%
9	Group I–Computers, Electronic and Optical Products Manufacturing	7,657,312	3.73%
10	Group J–Manufacture of Integrated Circuits	7,642,254	3.73%

December 31, 2017			
Ranking (Note 1)	Type of industry (Note 2)	Total outstanding loan amount (Note 3)	Total outstanding loan amount/FCB net worth of the current year (%)
1	Group A–Marine Freight Forwarder	$ 19,628,351	10.21%
2	Group B–Hand-crafted Fiber Spinning	12,045,579	6.27%
3	Group C–Real Estate Development	11,684,064	6.08%
4	Group D–Iron and Steel Rolls over Extends and Crowding	10,656,414	5.54%
5	Group E–Property Leasing	9,081,728	4.72%
6	Group F–Hand-crafted Fiber Woven Fabrics	7,720,153	4.02%
7	Group G–Investment Consulting	7,641,329	3.97%
8	Group H–Wireless Telecommunication	7,194,982	3.74%
9	Group I–Electric Wires and Cables Manufacturing	7,153,641	3.72%
10	Group J–Ships, Boats and Floating Facilities Manufacturing	7,041,477	3.66%

Note:

1. Ranking the top 10 enterprise groups other than government and government enterprise according to their total outstanding loan amount.

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

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

D. Liquidity risk

(A) Definition and resource of liquidity risk

The liquidity risk of the Bank and its subsidiaries refer to a financial loss when assets are not convertible or not enough financing aid can be obtained to inject fund for the financial liabilities soon to be matured. For instance, the client terminates the deposit contract in advance, or financing channel of call loan becomes difficult due to market influence, or deterioration on the credit default rate giving rise to unusual fund collection, difficulty in converting the financial instrument and interest sensitive insurer exercise the right to terminate contract in advance. Above events may mitigate the cash inflows from loan origination, transactions and investing activities from the lease subsidiaries.

Liquidity risk exists in the Bank's operation, which may be given rise by specific event of various industries or overall market movement, such as liquidation protocol of deposit or call loan payment, source of loan or time required for asset liquidation are affected by various industries or certain overall market events, including but not limited to insufficient depth of market, market disorder, low liquidity on funds, credit event, merging or acquisition activities, systematic impact and natural disasters.

Working capital of FCBL is sufficient, therefore there is no liquidity risk regarding inability to raise fund for meeting contractual obligations.

(B) Procedures and evaluation method used for liquidity risk management

In order to prevent liquid risk that gives rise to operating risk, crisis reaction procedures have been set up in relation to liquidity risk and fund liquidity gap shall be monitored on a regular basis.

Management procedure and evaluation method for the liquidity risk of the Bank and its subsidiaries are as follows:

Procedure

In consideration of the operating demand, the sources of fund need to be diverse and stable. The use of fund should avoid high concentration, and the liquid assets held should take precedence of highly liquid earning assets of high quality.

In accordance with the "Management policy of assets and liabilities" and "Management principle of liquidity and interest risk", risk management division is the investigation unit for liquidity risk indicator. Finance division is the execution unit for fund transferring. Also, attention needs to be paid on the movement of market condition and day-to-day capital liquidity to ensure appropriate liquidity and long-term profitability. Unless otherwise indicated by offshore branches, sufficient liquidity shall be maintained in accordance with the local competent authorities.

Risk management division sets up liquid position or indicator limit by the duration and implements after obtaining the approval from assets and liabilities management committee and Board of Directors. Each liquidity risk monitoring indicator are assessed and appraised regularly in the meeting of assets and liabilities management committee.

Risk management division is responsible for reporting the assets and liabilities management committee, risk management committee and Board of Directors to represent the liquidity risk and other monitoring result.

<u>Evaluation method</u>

The content of the liquidity risk report mainly used to estimate cash flow from various business line and the effects on fund transferring so that early warning area and target goal can be set up for cash gap and relevant indicator in order to control both under the tolerable risk limit.

Risk Management Division regularly makes "Analysis table for cash flow gap" and "Adjustment table for cash flow gap" to ensure that the cash flow gap is within the granted limit and reports to the management in relation to fund liquidity matters. Given that the limit has been reached or an obvious deteriorated indicator shown internally or externally, immediate escalation should be made to the assets and liabilities management committee for further response action and report to the Board of Directors. Given the liquidity risk, action shall be taken in accordance with "Contingent plan for liquidity risk".

(C) Duration analysis for the financial assets and liabilities held for liquidity risk management are as follows:

a. Financial assets held for the management of liquidity risk

   The Bank and its subsidiaries hold cash and highly liquid, high quality interest generating assets to support payment obligations and potential emergency fund demands in the market. Assets hold for the management of liquidity risk include: cash and cash equivalents, due from the central bank and call loans to banks, financial assets measured at fair value through profit or loss, loans discounted, receivables, available-for-sale financial assets, and bond investments without an active market etc.

b. Duration analysis for the financial assets and liabilities held for liquidity risk management

   The following table illustrates the cash inflow and outflow of financial assets and liabilities of the Bank and its subsidiaries held for liquidity risk management based on the remaining maturity from the balance sheet date to the contract expiration date. While the amounts disclosed in the table are not discounted by contract cash flow, certain accounts may differ from the responding accounts in the balance sheet.

December 31, 2018	0 - 30 days	31 - 90 days	91 - 180 days	181 days – 1 year	Over 1 year	Total
1.Primary capital inflow upon maturity						
Non-derivative financial instruments						
Cash and due from other banks	$ 85,920,227	$ 5,754,074	$ 6,126,213	$ 8,640,747	$ 31,507,216	$ 137,948,477
Call loans and overdrafts	85,867,887	26,559,061	2,780,642	2,248,178	-	117,455,768
Securities investment	328,542,111	28,652,862	24,770,687	143,974,457	249,346,957	775,287,074
Loans discounted	196,994,326	181,244,471	174,965,854	200,527,102	963,680,316	1,717,412,069
Other capital inflow upon maturity	69,146,228	7,839,283	2,864,307	1,939,216	4,121,041	85,910,075
Derivative financial instruments	655,210	1,334,563	414,097	326,842	2,101,621	4,832,333
Total	767,125,989	251,384,314	211,921,800	357,656,542	1,250,757,151	2,838,845,796
2.Primary capital outflow upon maturity						
Non-derivative financial instruments						
Call loans, overdrafts and due to other banks	171,459,136	61,167,751	4,762,953	3,181,680	-	240,571,520
Demand deposits	56,396,916	57,950,835	59,042,265	86,678,445	1,080,532,786	1,340,601,247
Time deposits	148,188,106	217,652,837	178,178,101	272,355,895	21,042,704	837,417,643
Financial liabilities at fair value through profit and loss – non-derivatives	-	4,308,770	6,341,921	4,745,699	13,136,877	28,533,267
Financial Bonds Payable	-	-	-	8,200,000	28,950,000	37,150,000
Other capital outflow upon maturity	93,513,136	13,018,618	4,749,380	2,257,204	45,100,741	158,639,079
Derivative financial instruments	553,101	385,621	405,469	265,523	3,010,170	4,619,884
Total	470,110,395	354,484,432	253,480,089	377,684,446	1,191,773,278	2,647,532,640
3.Gap upon maturity	$ 297,015,594	($ 103,100,118)	($ 41,558,289)	($ 20,027,904)	$ 58,983,873	$ 191,313,156

December 31, 2017	0 - 30 days	31 - 90 days	91 - 180 days	181 days – 1 year	Over 1 year	Total
1.Primary capital inflow upon maturity						
Non-derivative financial instruments						
Cash and due from other banks	$ 77,775,201	$ 6,618,253	$ 6,805,589	$ 7,785,825	$ 28,847,981	$ 127,832,849
Call loans and overdrafts	77,211,743	19,107,751	2,392,069	1,642,590	-	100,354,153
Securities investment	316,225,539	29,890,083	13,056,098	89,286,547	192,994,667	641,452,934
Loans discounted	158,499,192	168,638,448	172,464,776	183,551,352	919,028.399	1,602,182,167
Other capital inflow upon maturity	54,415,940	7,672,263	2,990,246	1,509,572	6,211,348	72,799,369
Derivative financial instruments	862,134	730,389	441,874	482,582	2,209,879	4,726,858
Total	684,989,749	232,657,187	198,150,652	284,258,468	1,149,292,274	2,549,348,330
2.Primary capital outflow upon maturity						
Non-derivative financial instruments						
Call loans, overdrafts and due to other banks	116,394,391	30,806,575	5,270,080	1,369,923	-	153,840,969
Demand deposits	58,154,484	60,427,455	62,803,810	89,075,612	1,013,316,700	1,283,778,061
Time deposits	136,664,524	200,097,324	142,413,814	237,896,631	16,610,084	733,682,377
Financial liabilities at fair value through profit and loss – non-derivatives	-	-	6,388,204	-	21,251,889	27,640,093
Financial Bonds Payable	-	-	4,150,000	-	25,150,000	29,300,000
Other capital outflow upon maturity	85,369,854	5,497,103	5,789,279	1,887,145	35,320,914	133,864,295
Derivative financial instruments	2,003,489	1,692,652	522,122	598,493	1,941,458	6,758,214
Total	398,586,742	298,521,109	227,337,309	330,827,804	1,113,591,045	2,368,864,009
3.Gap upon maturity	$ 286,403,007	($ 65,863,922)	($ 29,186,657)	($ 46,569,336)	$ 35,701,229	$ 180,484,321

Note: Derivative financial instruments and financial liabilities are disclosed at present value.

Maturity analysis for above demand deposits are amortized to each period based on historical experience of banking subsidiary. Given that all the demand deposits have to be paid in the shortest period, as of December 31, 2018 and 2017, the payment on period of 0-30 days will be increased by $1,284,204,331 and $1,225,623,577, respectively.

(D)Maturity analysis for items off the balance sheet

The loans, loan commitment and letters of credit include unused loan commitments and unused letters of credit issued. Financial guarantee contract refers that the Bank and its subsidiaries represent a guarantor and the issuer of the guaranteed letter of credit.

Please refer to the below table for maturity analysis for items off the balance sheet of the Bank and its subsidiaries:

Financial instruments contracts	December 31, 2018		
	Within one year	More than one year	Total
Unused loan commitments (Note)	$ 11,399,837	$ 125,277,234	$ 136,677,071
Unused credit commitments for credit cards	89,253,643	-	89,253,643
Unused letters of credit issued	32,517,425	1,944,892	34,462,317
Various guarantees	27,971,836	43,093,766	71,065,602
Total	$ 161,142,741	$ 170,315,892	$ 331,458,633

Financial instruments contracts	December 31, 2017		
	Within one year	More than one year	Total
Unused loan commitments (Note)	$ 5,277,928	$ 125,859,400	$ 131,137,328
Unused credit commitments for credit cards	67,426,775	-	67,426,775
Unused letters of credit issued	30,746,610	2,101,388	32,847,998
Various guarantees	35,055,785	34,110,238	69,166,023
Total	$ 138,507,098	$ 162,071,026	$ 300,578,124

Note: Above unused loan commitments include irrevocable loan commitment except for the significant adverse movement.

(E)Maturity analysis on lease contract and capital expense commitment

Lease commitment of the Bank and its subsidiaries includes operating lease and finance lease.

Operating lease commitment is the minimum rental that the Bank and its subsidiaries should make as a lessee or lessor under the lease term not revocable.

Capital expenditure commitment of the Bank and its subsidiaries refers to the capital expenses spent on the contract commitment in order to acquire the building and equipment.

Please refer to the below table for maturity analysis of lease contract commitment and capital expenditure commitment of the Bank and its subsidiaries:

December 31, 2018	Less than 1 year	1 to 5 years	More than 5 years	Total
Lease commitment				
Operating lease expense (Lessee)	$ 765,904	$1,243,426	$ 483,697	$ 2,493,027
Operating lease income (Lessor)	(370,543)	(1,072,008)	(494,603)	(1,937,154)
Total	$ 395,361	$ 171,418	($ 10,906)	$ 555,873

December 31, 2017	Less than 1 year	1 to 5 years	More than 5 years	Total
Lease commitment				
Operating lease expense (Lessee)	$ 579,012	$1,139,790	$ 766,454	$2,485,256
Operating lease income (Lessor)	(431,955)	(978,092)	(540,133)	(1,950,180)
Total	$ 147,057	$ 161,698	$ 226,321	$ 535,076

The present value of finance lease has been recognized under finance lease liabilities. As the amount is immaterial and the liquidity risk is low, no analysis on its maturity value will be taken.

(F)Disclosure required by the Regulations Governing the Preparation of Financial Reports by Public Banks

a. Structure analysis of NTD time to maturity of the Bank

Expressed In Thousands of New Taiwan Dollars

	December 31, 2018						
	Total	0~10 days	11~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Primary capital inflow upon maturity	$ 2,199,714,088	$ 308,936,491	$ 269,537,708	$ 185,600,151	$ 172,474,937	$ 321,132,756	$ 942,032,045
Primary capital outflow upon maturity	(2,897,888,815)	(146,373,669)	(194,061,411)	(403,256,477)	(422,399,374)	(490,120,064)	(1,241,677,820)
Gap	($ 698,174,727)	$ 162,562,822	$75,476,297	($ 217,656,326)	($ 249,924,437)	($ 168,987,308)	($ 299,645,775)

	December 31, 2017						
	Total	0~10 days	11~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Primary capital inflow upon maturity	$2,022,921,517	$ 314,377,095	$220,085,857	$ 175,560,051	$ 155,875,938	$ 247,051,064	$ 909,971,512
Primary capital outflow upon maturity	(2,623,598,815)	(141,716,655)	(198,765,270)	(382,690,014)	(342,265,125)	(422,343,341)	(1,135,818,410)
Gap	($ 600,677,298)	$ 172,660,440	$ 21,320,587	($ 207,129,963)	($186,389,187)	($ 175,292,277)	($ 225,846,898)

b. Structure analysis of USD time to maturity of the Bank

Expressed In Thousands of US Dollars

	December 31, 2018					
	Total	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Primary capital inflow upon maturity	$ 28,322,525	$ 10,681,892	$ 6,800,806	$ 2,758,454	$ 1,642,506	$ 6,438,867
Primary capital outflow upon maturity	(33,703,517)	(10,589,325)	(7,415,269)	(4,350,907)	(5,927,087)	(5,420,929)
Gap	($ 5,380,992)	$ 92,567	($ 614,463)	($ 1,592,453)	($ 4,284,581)	$ 1,017,938

December 31, 2017						
	Total	0~30 days	31~90 days	91~180 days	181 days ~ 1 year	Over 1 year
Primary capital inflow upon maturity	$ 27,035,794	$ 10,958,597	$ 7,105,575	$ 2,066,356	$ 1,452,045	$ 5,453,221
Primary capital outflow upon maturity	(32,695,895)	(9,536,101)	(6,393,517)	(4,424,415)	(5,505,000)	(6,836,862)
Gap	($ 5,660,101)	$ 1,422,496	$ 712,058	($ 2,358,059)	($ 4,052,955)	($ 1,383,641)

E. Market risk

(A) Market risk definition

Market risk occurs when the market price fluctuates leading to movement in fair value of financial instrument held by the Bank and its subsidiaries in or off the balance sheet or the future cash flow. The risk factors that could give rise to market price movement usually include interest rate, exchange rate, equity securities and instrument price. Any movement in above risk factors could result in risk of fluctuation on net profit or value of investment portfolio held by the Bank and its subsidiaries.

The market risks that the Bank and First Commercial Bank (USA) faces mainly are equity securities, interest rate and exchange rate risk. Market risk position of equity securities mainly include domestic listed stocks, domestic stock index options and stock index futures and call and put warrants, etc. Positions with interest rate risk mainly include: bonds and interest-derivative instruments, such as fixed and floating interest swap and bond option, etc. Positions with exchange rate risk mainly include: the consolidated positions invested by the subsidiaries, indirect subsidiaries of the Bank and its subsidiaries, such as various derivatives denominated in foreign currency, credit-linked bonds, US government bonds, and other foreign bonds, etc.

The subsidiaty, FCB Leasing, is engaged in interest rate swap contracts for the purpose of financial hedging Gains or losses arising from changes in interest rates and gains or losses on hedged items are offset substantially. As a result, market price risk is deemed insignificant.

(B) Goal of market risk management

The Bank and First Commercial Bank (USA) have various market risk management policies, standards, key points and the regulations from competent authorities and the Bank to comply.

The Bank sets up “Management policy for market risk”, “Management standards for market risk”, “Management standards for liquidity and interest rate risk” and “Management guidelines for market risk” and others in an attempt to effectively regulate market risk and ensure that the market risk is under the Bank and the First Commercial Bank (USA)’s bearable capacity.

The Bank divided market risk management into trading book and banking book. Interest rate risk management in relation to trading book and banking book is provided in Note 12(2)E(F), (G) and (H). ‘Trading book’ refers to :

a. positions held with an intention to earn profit from interest rate movement or price variance between the purchase price and selling price,

b. positions held for hedging purpose, and

c. interest rate related instruments positions and equity securities positions held for brokerage or proprietary trading on which regular market value assessment and capital provision against market risk shall be made. Financial instrument positions not classified as trading book are classified into the scope of ‘banking book’.

(C) Policy and procedure for market risk management

In order to identify, evaluate, control and monitor market risks that the Bank and its subsidiaries faces and strengthen managing mechanism for market risks, management policies and procedures have been set up to effectively manage market risk and ensure that market risk is controlled under a bearable capacity.

Policy

The Board of the bank is the highest command and supervisory unit in charge of the granting of risk management policy, major risk assumption limit and relevant authorization. The Risk Management Committee under the Board of Directors executes various risk management implementations as resolved and granted by the Board and performs risk supervision. In addition, risk management division set up independent from the business unit is responsible for establishing market risk management structure for the market risk management.

Procedures

The risk management division of the Bank assesses various risk indicators regularly as required by the policies and monitors various risk indicators to be within the limits authorized by the Board of Directors. Any excess over the limits and the usage level of risk limits are summarized and reported to the Board of Directors, risk management committee, general manager, vice-general manager and other related segments.

Business unit, before the engagement in new transaction or developing new market, should identify and evaluate risk in compliance with related procedures. The evaluation module before adoption should be verified through module testing technicians in order to effectively identify various market risks. For financial instruments that cannot be assessed by market price or module evaluation, the risks should be transferred by back-to-back method to avoid that the Bank may assume uncertain market risk.

(D) Management procedure for market risk

The Bank’s management procedure for market risk of interest rate risk, exchange risk and equity securities are as follows:

a. Identification and evaluation

Risk identification: When there is any new product, market or currency of a financial instrument, market risk factors and market risk source should first be identified before the underwriting is permitted.

Risk evaluation: Establish appropriate risk indicators and prescribe risk limits for management. The significant risk indicators of the subsidiaries include, but are not limited to positions, gains and losses, and sensitivity measures (PV01, Delta, Vega, and Gamma). The evaluation of investment portfolios are affected by interest risk, exchange rate risk and equity securities.

b. Monitoring and report

For financial instrument evaluated by the market price, the information of independent source should be assessed at least once a day. For those evaluated by modules, the assumption and input used in the evaluation module as provided by the market data of Reuters and Bloomberg, after the module experience is tested and granted, the calculation on evaluation and sensitivity may be carried on, which is used to control the risk incurred through investment portfolio.

The key subsidiaries of the Bank establish risk reporting programs and procedures. The risk management division should regularly present the daily report, monthly report and other risk management report to the Board of Directors and senior management based on the needs of segment heads, general manager, general president or the Board of Directors to report interest risk, exchange risk and equity securities exposure, including gain and loss, trading position, various risk indicators, risk limit usage, all limit excess or fault and so on, and regularly follow-up and send out warning reminder to ensure corrective action has been taken in a timely manner and in compliance with regulations.

(E) Risk evaluation method (market risk evaluation technique)

In order to effectively evaluate the market risks, the Bank establishes appropriate risk indicators and measurement instruments based on each investment portfolio and business characteristics of trading book and banking book. Meanwhile, by setting up risk limits and controlling mechanism, risk limit control is regularly reported to each responsible segment and reported to the Board of Directors on a weekly/monthly basis. Above risk indicators include: positions, gains and losses, sensitivity indexes (Delta, Gamma, Vega), Value-at-Risk of equity securities (VaR), stress losses and others.

Definitions of various indicators:

PV01: It is the change in related amount of interest rate instrument when the interest rate moves by 1 unit (1bp = 0.01%).

Delta: When the price of underlying asset moves by 1 unit that leads to related movement in Delta ratio of the derivative, by which is multiplied the nominal amount to measure to Delta position.

Vega: It is the change in related amount of derivative instrument when the value of underlying asset moves by 1 unit. It is the change in related amount of the interest rate instrument when the interest rate moves by 100 basic units.

Gamma: It is the change in related amount of Delta when the underlying asset value moves by 1 unit.

Interest rate-sensitive instruments are the change in related amount of PV01 that incurred to the interest rate instrument when interest rate moves by unit.

Exchange rate-sensitive instruments are the change in related amount of Delta that incurred to the exchange rate instrument when exchange rate moves by 1% of the unit.

Stress loss: Provided that all other conditions remain constant, it is the effects from ±100bp interest rate movement, ±15% overall market movement of equity securities, ±3% exchange rate fluctuation on New Taiwan Dollars versus major currencies or ±5% exchange rate fluctuation on New Taiwan Dollars versus other currencies.

(F) Policy and procedures of trading book risk management

Trading book includes financial instruments held for trading or financial instruments and physical commodity positions held for hedging purposes against trading book positions. Positions of financial instruments held for trading refers to positions held for a short-term period with the intention of selling or with the intention of profiting or fixing arbitrage profits from actual or expected short-term price fluctuations. For example, proprietary positions, agency positions (such as transaction match-making brokerage) or positions generated through market making transaction, or positions held to offset all or the majority of risks of asset or portfolio positions on the trading book. Positions not included in the above trading book positions are banking book position.

The Bank establishes specific policies and procedures for their trading strategy of trading book position in order to manage the potential market risk of trading positions and control the risk within limits.

a. Strategy

In order to effectively control market risk and ensure the mobility and adaptability of the trading strategy implemented by sale units, market risk limit of the trading book is set at the level of "investment portfolio" to carry out various assessments and controls. In addition, risk limits of each portfolio are set up according to the trading strategy, types of trading instruments and annual profit objective for better management.

b. Policy and procedure of risk management

In principle, management policy is carried out based on annually revised risk limits of each investment portfolio.

c. Evaluation policy and procedure

Generally, financial instruments are assessed through Mark-to-Market, however, Mark-to-Model may be adopted if there is no fair value in the market. Nonetheless, the model should be independently verified before adoption and relevant guideline model management needs to be set up and implemented accordingly.

Evaluation procedure: The risk management unit confirms that the risk evaluation is consistent with the position information posted on the evaluation system at day-end and the market data adopted. In addition, the risk management unit monitors daily evaluation and risk limit and regularly report risk quota usage and limit exceeding event.

d. Evaluation method

The Bank executes stress testing on ±100bp interest rate movement, ±15% equity securities movement, ±3% exchange rate fluctuation and ±5% circumstance movement on a monthly basis and reports to the risk management committee regularly.

(G) Interest risk management for trading book

Risk management on the interest rate of trading book for the Bank is as follows:

a. Interest risk definition

Interest risk occurs when there is an adverse movement of interest rate resulting in change in fair value of trading book position held.

b. Management objective

The management objective of interest risk lies in effective identification, evaluation, controlling and monitoring of interest rate to enhance managing mechanism of market risk.

c. Management policy and procedure

In principle, annual risk limits are controlled based on investment portfolio of trading book with interest rate revised annually.

d. Evaluation method

Evaluation is calculated based on the risk-sensitive index verified by system calculation. In addition, stress testing is performed based on +/-100bp annual interest rate movement and reported to the risk management committee regularly.

(H) Risk management for banking book interest

Interest risk is the risk that a bank suffers from an adverse movement of interest rate or financial condition of the Bank. Interest movement might change the Bank’s net interest income and other interest-sensitive incomes which further affects the Bank’s earnings. Meanwhile, interest movement could also affect positions in and off the Bank’s balance sheet.

The banking book risk management of the Bank is as follows:

a. Strategy

The objective of interest rate management is to improve banks’ adaptability so that the earnings and economic value in the balance sheet can be assessed and managed through avoiding the impact from interest rate movement.

b. Policy and procedure of risk management

According to “Management policy of asset and liability” and “Management guideline for liquidity and interest risk” of the Bank, risk management division is the monitoring unit that is responsible for interest risk index, analysis and monitoring interest-sensitive position, and regular reporting the monitoring result of interest risk to the asset and liability management committee, risk management committee and Board of Directors.

If various interest risk indexes and stress testing results fall in the warning threshold, risk management division should issue warning notice to the asset and liability management committee. However, if interest risk index exceed the planned threshold, it should be reported to the asset and liability management committee for discussing the responding measures, which is followed by relevant business unit and reported to the Board of Directors.

c. Evaluation method

The interest rate risk of the Bank is mainly the repricing gap risk resulting from the difference between maturities and repricing date of banking book assets and liabilities and off balance sheet accounts. In order to stabilize long-term profit and business development at the same time, Risk Management Division sets up various monitoring indicators for interest rate of most common period and executes stress testing, and tests the effects on net interest income and net fair economic value within one year when the market interest rate moves by +/-200 bps, that is Interest Rate Shock from the perspective of earnings and economic value. Every interest rate risk indicator and stress testing result should be reported to management for review.

(I) Risk management for foreign exchange

a. Definition of foreign exchange

Foreign exchange risk occurs when the net foreign position held fluctuates with the currency exchange rate giving rise to an exchange gain or loss. The foreigner exchange risks of financial instruments held by the Bank and its subsidiaries mainly include foreign investment position, spot exchange and forward contract, FX option and other derivative or non-derivative instruments. Major currencies involving foreign exchange risks include: USD, EUR, JPY, HKD, AUD, CAD, RMB, etc.

b. Objective

The objective of foreign exchange lies in effective identification, evaluation, controlling and monitoring foreign exchange risk of the Bank and enhancement of management mechanism for market risk.

c. Management policy and procedure

Management policy for market risk is adjusted based on the annual risk limit revised by foreign exchange trading investment portfolio annually.

d. Evaluation method

Through risk sensitive indicators calculated by the validated system as a benchmark, the Bank regularly carries out testing and reports the results to the risk management committee given that the currency movement is provided at +/-3% and other currency movement at +/-5%.

(J) Risk management for equity securities

a. Definition of equity securities risk

The market risk of the equity securities held by the Bank includes the individual risk resulting from market price movement of each equity securities and general market risk resulting from overall market price movement.

b. Risk management objective

The objective for equity risk management lies in effective identification, evaluation, risk controlling and monitoring for the equity securities of the Bank and its subsidiaries and enhancement of managing mechanism for market risk.

c. Management policy

Management policy for market risk is adjusted based on the annual risk limit revised by stock trading investment portfolio annually.

d. Evaluation method

The Bank executes stress testing on +/-15% weighted average index of taiwan stock movement on a monthly basis and reports to the risk management committee regularly.

(K) Market risk assessment techniques

Vale at Risk (VaR)

The VaR model is utilised to measure the maximum potential loss, caused by changes in market risk factors, for investment portfolios under a specific time frame and confidence level. For transaction positions, the Bank utilise the VaR model as an instrument to control market risk. Currently, the Bank’s standard of measuring market risk is electing the historical simulation method to estimate VaR and setting the maximum potential loss under a 99% confidence interval. The VaR of the Bank continually undertakes backtesting in order to assess the accuracy of the model.

Expressed in thousands of NTD

	December 31, 2018		
	Average	Maximum	Minimum
Foreign exchange VaR	40,546	77,847	15,371
Interest VaR	20,450	29,730	9,797
Equity securities VaR	19,724	36,885	4,631
Total VaR	80,720	144,462	29,799

Expressed in thousands of NTD

	December 31, 2017		
	Average	Maximum	Minimum
Foreign exchange VaR	57,442	138,881	31,702
Interest VaR	29,268	45,307	11,046
Equity securities VaR	119,879	156,561	83,376
Total VaR	206,589	340,749	126,124

(L) Foreign exchange risk gap

As of December 31, 2018 and 2017, the following table summarizes financial instruments of foreign denominated assets and liabilities by currency of which the foreign exchange exposure is presented by the carrying amount:

Expressed In Thousands of New Taiwan Dollars

	December 31, 2018	
	USD	RMB
Financial assets		
Cash and cash equivalents	$ 7,007,371	$ 3,970,609
Due from the Central Bank and call loans to other banks	50,008,565	31,315,681
Financial assets at fair value through profit or loss	38,593,013	946,713
Financial assets at fair value through other comprehensive income	67,378,992	19,356,836
Loans discounted	276,606,362	17,448,449
Receivables	30,550,807	1,885,659
Investments in debt instruments at amortised cost	3,462,482	290,419
Other financial assets	1,419	5,139,350
Subtotal-financial assets	$ 473,609,011	$ 80,353,716
Financial liabilities		
Due to Central Bank and others	$ 161,432,734	$ 4,052,980
Deposits and remittances	439,313,999	62,751,741
Financial liabilities at fair value through profit or loss	30,724,199	187
Other financial liabilities	13,166,409	325,611
Payables	34,342,048	1,094,380
Subtotal-financial liabilities	$ 678,979,389	$ 68,224,899

Expressed In Thousands of New Taiwan Dollars

	December 31, 2017	
	USD	RMB
Financial assets		
Cash and cash equivalents	$ 9,237,064	$ 6,402,944
Due from the Central Bank and call loans to other banks	47,818,887	28,417,361
Financial assets at fair value through profit or loss	19,128,045	431,124
Available-for-sale financial assets	46,002,275	14,619,648
Loans discounted	245,169,990	20,117,655
Receivables	19,505,159	2,249,838
Held-to-maturity financial assets	3,489,221	4,457,935
Other financial assets	8,838	2,729,400
Subtotal-financial assets	$ 390,359,479	$ 79,425,905
Financial liabilities		
Due to Central Bank and others	$ 89,878,829	$ 3,791,784
Deposits and remittances	421,288,904	60,332,426
Financial liabilities at fair value through profit or loss	28,946,330	691
Other financial liabilities	14,205,486	237,462
Payables	33,330,758	2,887,770
Subtotal-financial liabilities	$ 587,650,307	$ 67,250,133

Note: As of December 31, 2018 and 2017, the exchange rate of USD to NTD was 30.735, and 29.680, respectively. In addition, as of December 31, 2018 and 2017, the exchange rate of RMB to NTD were 4.469, and 4.549, respectively.

(M) Sensitivity analysis

a. Interest rate risk

If the market yield curve shifts upwards or downwards by 20 bps, it could affect the assessed fair value and interest income. Items being assessed include all assets of the trading book position and banking book position, of which the interest income of banking book assets that could be affected is one year.

The Bank and its subsidiaries assumes that yield curve is the only variable when all the other interest curves remain constant and sums up the gain and loss resulting from changes in each yield curve. According to the above estimated net interest income and assessed gain and loss on fair value, sensitivity analysis is as follows:

b. Foreign exchange risk

Assuming that all the other variables remain constant, for the year ended December 31, 2018, if NTD to USD depreciates/appreciates by 3%; AUD depreciates/appreciates by 3%; RMB to other currencies depreciates/appreciates by 4%; and for the year ended December 31, 2017, if NTD to USD depreciates/appreciates by 3%; RMB depreciates/appreciates by 3%; AUD to other currencies depreciates/appreciates by 4%; then the gain or loss sensitivity analysis for the Bank holding the above foreign exchange net positions is as the table below.

c. Equity securities risk

Assuming that all the other variables remain constant, if equity prices rise/fall by 5% (the average rate of rises or falls in the Taiwan Stock Exchange Market Index in the most recent three years); then fair value valuation gains or losses of investment positions in listed and over-the-counter stocks in the trading book held by the Bank are as the table below.

d. Sensitivity analysis is summarized as follows:

December 31, 2018 (Expressed In Thousands of New Taiwan Dollars)

Main risk	Movements	Effect on gain or loss	Effect on equity
Foreign exchange risk	NTD to USD depreciate by 3%, NTD to AUD depreciate by 3%, NTD to RMB and other currencies depreciate by 4%.(Note 1)	9,534	-
Foreign exchange risk	NTD to USD appreciate by 3%, NTD to AUD appreciate by 3%, NTD to RMB and other currencies appreciate by 4%.(Note 2)	(9,534)	-
Interest rate risk	Main interest rate curve increases by 20 bps	(340,382)	(1,235,448)
Interest rate risk	Main interest rate curve decreases by 20 bps	337,885	1,216,122
Equity securities risk	Weighted average index of Taiwan Stock Exchange Market rises by 5%.	12,024	294,036
Equity securities risk	Weighted average index of Taiwan Stock Exchange Market falls by 5%.	(12,024)	(294,036)

December 31, 2017 (Expressed In Thousands of New Taiwan Dollars)

Main risk	Movements	Effect on gain or loss	Effect on equity
Foreign exchange risk	NTD to USD depreciate by 3%, NTD to AUD depreciate by 3%, NTD to RMB and other currencies depreciate by 4%.(Note 3)	152,558	-
Foreign exchange risk	NTD to USD appreciate by 3%, NTD to AUD appreciate by 3%, NTD to RMB and other currencies appreciate by 4%.(Note 4)	(152,558)	-
Interest rate risk	Main interest rate curve increases by 20 bps	(321,379)	(864,614)
Interest rate risk	Main interest rate curve decreases by 20 bps	297,896	859,357
Equity securities risk	Weighted average index of Taiwan Stock Exchange Market rises by 5%.	37,226	168,141
Equity securities risk	Weighted average index of Taiwan Stock Exchange Market falls by 5%.	(37,226)	(168,141)

Note 1: NTD to USD depreciate by 3%, NTD to AUD depreciate by 3%, NTD to RMB and other currencies respectively depreciate by 4%, the effects on profit (loss) will be $146,206, $4,197, ($145,645) and $4,776, respectively.

Note 2: NTD to USD appreciate by 3%, NTD to AUD appreciate by 3%, NTD to RMB and other currencies respectively appreciate by 4%, the effects on profit (loss) will be ($146,206), ($4,197), $145,645 and ($4,776), respectively.

Note 3: NTD to USD depreciate by 3%, NTD to AUD depreciate by 3%, NTD to RMB and other currencies respectively depreciate by 4%, the effects on profit (loss) will be $255,657, $3,076, ($132,003)and $25,828, respectively.

Note 4: NTD to USD appreciate by 3%, NTD to AUD appreciate by 3%, NTD to RMB and other currencies respectively appreciate by 4%, the effects on profit (loss) will be ($255,657), ($3,076), $132,003 and($25,828), respectively.

(N) Disclosure made in accordance with Regulations Governing the Preparation of Financial Reports by Public Banks

Sensitivity analysis of interest rate for assets and liabilities (NTD)
December 31, 2018
(Expressed In Thousands of New Taiwan Dollars, %)

Item	1~90 days	91~180 days	181 days~1 year	Over 1 year	Total
Interest-rate-sensitive assets	1,608,256,914	42,886,881	147,089,614	155,803,098	1,954,036,507
Interest-rate-sensitive liabilities	364,379,497	1,106,079,124	121,859,633	37,811,867	1,630,130,121
Interest-rate-sensitive gap	1,243,877,417	(1,063,192,243)	25,229,981	117,991,231	323,906,386
Net					205,160,003
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					119.87%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					157.88%

Sensitivity analysis of interest rate for assets and liabilities (NTD)
December 31, 2017
(Expressed In Thousands of New Taiwan Dollars, %)

Item	1~90 days	91~180 days	181 days~1 year	Over 1 year	Total
Interest-rate-sensitive assets	1,534,536,605	16,126,034	89,441,199	156,779,207	1,796,883,045
Interest-rate-sensitive liabilities	344,733,926	1,004,874,847	99,243,992	32,862,473	1,481,715,238
Interest-rate-sensitive gap	1,189,802,679	(988,748,813)	(9,802,793)	123,916,734	315,167,807
Net					192,259,166
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					121.27%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					163.93%

Note: The amounts listed above represent the items denominated in NTD for the Bank, excluding contingent assets and contingent liabilities.

Sensitivity analysis of interest rate for assets and liabilities (USD)
December 31, 2018
(Expressed In Thousands of USD, %)

Item	1~90 days	91~180 days	181 days~1 year	Over 1 year	Total
Interest-rate-sensitive assets	22,484,848	3,002,834	1,003,741	873,314	27,364,737
Interest-rate-sensitive liabilities	16,701,563	6,973,566	1,945,409	9,325	25,629,863
Interest-rate-sensitive gap	5,783,285	(3,970,732)	(941,668)	863,989	1,734,874
Net					6,675,126
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					106.77%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					25.99%

Sensitivity analysis of interest rate for assets and liabilities (USD)
December 31, 2017
(Expressed In Thousands of USD, %)

Item	1~90 days	91~180 days	181 days~1 year	Over 1 year	Total
Interest-rate-sensitive assets	22,415,840	2,130,015	818,627	514,465	25,878,947
Interest-rate-sensitive liabilities	14,495,415	8,016,129	1,687,357	14,801	24,213,702
Interest-rate-sensitive gap	7,920,425	(5,886,114)	(868,730)	499,664	1,665,245
Net					6,477,735
Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities (%)					106.88%
Ratio of interest-rate-sensitive gap to stockholders' equity (%)					25.71%

Explanation:The amounts listed above represent the items denominated in USD for the Bank, excluding contingent assets and contingent liabilities.

Note：

A.Interest-rate-sensitive assets and liabilities are those interest earned assets and interest bearing liabilities, revenues and costs which are sensitive to changes in interest rates.

B.Ratio of interest-rate-sensitive assets to interest-rate-sensitive liabilities =Interest-rate-sensitive assets / interest-rate-sensitive liabilities.

C.Interest-rate-sensitive gap = Interest-rate-sensitive assets － interest-rate-sensitive liabilities.

E. Transfer of financial assets

Transferred financial assets that are not derecognised in their entirety.

During the Bank's and its subsidiaries' activities, the transferred financial assets that do not meet derecognition conditions are mainly debt instruments with purchase agreements. The cash flow of the contract has been transferred and related liabilities of transferred financial assets that will be repurchased at a fixed price in the future have been reflected. The Bank and its subsidiaries may not use, sell or pledge the transferred financial assets during the valid period of the transaction. The financial assets were not derecognised as the Bank and its subsidiaries are still exposed to interest rate risk and credit risk.

December 31, 2018 Unit: NTD thousand

Category of financial asset	Carrying amount of transferred financial assets	Carrying amount of related financial liabilities
Financial assets at fair value through other comprehensive income		
Repurchase agreement	$ 14,100,906	$ 13,408,357
Debt instruments at amortised cost		
Repurchase agreement	614,700	580,812

December 31, 2017 Unit: NTD thousand

Category of financial asset	Carrying amount of transferred financial assets	Carrying amount of related financial liabilities
Available-for-sale financial assets		
Repurchase arrangements	$ 9,295,580	$ 9,018,893

F. Offsetting financial assets and financial liabilities

The Bank and its subsidiaries have financial instruments that meet the offsetting criteria in paragraph 42 of IAS 32, the gross financial liability is set off against the gross financial asset, resulting in the presentation of a net amount presented in the balance sheet.

The Bank and its subsidiaries have transactions that do not meet the offsetting criteria but follow the net settled master netting arrangements or other similar arrangements, i.e. global master repurchase agreement, global securities lending agreement or similar agreement with repurchase agreements or reverse repurchase agreement. The above transactions are settled on a net basis after offsetting financial assets with financial liabilities if both parties of the transaction choose to use net settlement; the above transactions are settled on a gross basis if both parties do not choose to use net settlement. However, if one party breaches the contract, the counterparty can choose to use net settlement.

The offsetting of financial assets and financial liabilities are set as below:

(Blank below)

December 31, 2018

Unit: In thousands of New Taiwan Dollars

Financial assets that are offset, or can be settled under agreements of net settled master netting arrangements or similar arrangements						
Description	Gross amounts of recognised financial assets (a)	Gross amounts of recognised financial liabilities set off in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not set off in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial instruments	$ 4,737,166	$ -	$ 4,737,166	$ 1,994,273	$ 1,760,197	$ 982,696
Total	$ 4,737,166	$ -	$ 4,737,166	$ 1,994,273	$ 1,760,197	$ 982,696

(Note) Including net settled master netting arrangements and non-cash collaterals.

Financial liabilities that are offset, or can be settled under agreements of net settled master netting arrangements or similar arrangements						
Description	Gross amounts of recognised financial assets (a)	Gross amounts of recognised financial liabilities set off in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not set off in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial instruments	$ 4,619,884	$ -	$ 4,619,884	$ 1,994,273	$ 620,627	$ 2,004,984
Repurchase arrangements	13,989,169	-	13,989,169	13,989,169	-	-
Total	$ 18,609,053	$ -	$ 18,609,053	$ 15,983,442	$ 620,627	$ 2,004,984

(Note) Including net settled master netting arrangements and non-cash collaterals.

December 31, 2017 | Unit: In thousands of New Taiwan Dollars

Financial assets that are offset, or can be settled under agreements of net settled master netting arrangements or similar arrangements						
Description	Gross amounts of recognised financial assets (a)	Gross amounts of recognised financial liabilities set off in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not set off in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial instruments	$ 4,591,795	$ -	$ 4,591,795	$ 1,808,134	$ 1,780,330	$ 1,003,331
Total	$ 4,591,795	$ -	$ 4,591,795	$ 1,808,134	$ 1,780,330	$ 1,003,331

(Note) Including net settled master netting arrangements and non-cash collaterals.

Financial liabilities that are offset, or can be settled under agreements of net settled master netting arrangements or similar arrangements						
Description	Gross amounts of recognised financial assets (a)	Gross amounts of recognised financial liabilities set off in the balance sheet (b)	Net amounts of financial assets presented in the balance sheet (c)=(a)-(b)	Not set off in the balance sheet (d)		Net amount (e)=(c)-(d)
				Financial instruments (Note)	Cash collateral received	
Derivative financial instruments	$ 6,758,214	$ -	$ 6,758,214	$ 1,808,134	$ 904,033	$ 4,046,047
Repurchase arrangements	9,018,893	-	9,018,893	9,018,893	-	-
Total	$ 15,777,107	$ -	$ 15,777,107	$ 10,827,027	$ 904,033	$ 4,046,047

(Note) Including net settled master netting arrangements and non-cash collaterals.

(3)Capital management

In addition, in order to establish evaluation process for capital adequacy and maintain proper self-owned capital structure of each significant subsidiary within the Bank and its subsidiaries, also to develop business and control risk on both sides for better improvement of capital utilization, subsidiaries have established capital management policies to implement the strategies of senior management and the related information shall be disclosed or reported accordingly.

The management objectives and procedures for capital management of the significant subsidiaries within the Bank and its subsidiaries are as follows:

A.Objective of capital management

(A) To ensure that the Bank and its subsidiaries comply with regulations governing capital adequacy and minimum requirements set up by competent authorities of each industry. To comply with statutory minimum requirement of eligible capital, and statutory minimum self-owned capital and risk assets ratio as shown in “Regulations Governing the Capital Adequacy and Capital Category of Banks” of competent authority.

(B) In response to the capital required from each subsidiary’s operation plan, and to make them have sufficient capital for various risks derived from capital demand, capital allocation is distributed under a goal of utilization of capital arrangement. To attain capital requirement for the business plan, to have sufficient capital for acceptance of various risks including credit risk, market risk, and operating risk, and to manage risk through capital allocation to realize risk-adjusted performance management and optimal capital allocation.

(C) To have sufficient capital and provisions in response to possible losses in stress scenario while performing regular stress testing in accordance with relevant regulations by competent authority.

B.Capital management procedures

The Board of Directors of the Bank is the highest authority of the Bank and its subsidiaries. The general manager supervises all units of the head office to ensure the implementation of the Board of Directors’ capital strategy. The responsible segments of significant banking, securities and life insurance subsidiaries and others should effectively identify, evaluate, monitor and control related risks, and disclose relevant information according to the requirements of the competent authorities with an attempt to reflect evaluation and management situation on the capital required. The Bank also sets up separately a team for capital planning and holds a meeting to ensure the implementation of the Board’s capital strategies on a regular basis in respect of capital adequacy managing objectives, fund gap, responding measures that could impose an effect on risk assets or qualifying self-owned capital and so on.

Major procedures of evaluation on capital included:

(A) Before the start of each fiscal year, the Bank follows the business plan to set up capital adequacy ratio target in compliance with relevant regulations. The target will be implemented upon approval of the Board of Directors.

(B) To assess capital requirements for various key risks according to the capital adequacy ratio target on a monthly basis.

(C) To perform regular stress testing in order to assess whether current capital and provisions that have been made are sufficient to cope with possible losses in stress scenario.

(D) Besides, to estimate impact on self-owned capital, risk-weighted assets, and capital adequacy ratio target based on significant capital utilization, changes in market and business, and plans such as capital increase/reduction or bonds issuance in order to take countermeasures timely.

C. Capital adequacy ratio

Combined capital adequacy ratio

UNIT：In thousands of NT Dollars

Items			December 31, 2018	December 31, 2017
Self-owned capital	Tier 1 Capital of common equity		$ 181,861,970	$ 175,762,425
	Other Tier 1 Capital		11,942,706	406,171
	Tier 2 Capital		36,384,728	36,950,738
	Self-owned capital		230,189,404	213,119,334
Total risk - weighted assets	Credit risk	Standardized Approach	1,566,517,847	1,452,444,722
		Internal Ratings Based Approach	-	-
		Asset securitization	685,759	668,522
	Operation risk	Basic Indicator Approach	-	-
		Standardized Approach/Alternative Standardized Approach	80,388,393	75,694,622
		Advanced Measurement Approaches	-	-
	Market risk	Standardized Approach	19,187,833	30,757,314
		Internal Models Approach	-	-
	Total risk-weighted assets		1,666,779,832	1,559,565,180
Capital adequacy ratio			13.81%	13.67%
Total risk assets based Tier 1 Capital of Common equity, net Ratio			10.91%	11.27%
Total risk assets based Tier 1 Capital, net Ratio			11.63%	11.30%
Leverage ratio			6.39%	6.46%

Note 1: The self-owned capital, risk-weighted assets and exposures amount in the table above should be filled in accordance with “Regulations Governing the Capital Adequacy and Capital Category of Banks” and “the method for calculating Bank’s regulatory capital and risk weighted assets”.

Note 2: The relevant formulas are as follows:

(1) Self-owned capital = Tier 1 Capital of Common equity + Other Tier 1 Capital + Tier 2 Capital。

(2) Total risk-weighted assets = credit risk-weighted assets + (operation risk + market risk) * 12.5

(3) Capital adequacy ratio = Self-owned capital / Total risk-weighted assets

(4) Total risk assets based Tier 1 Capital of Common equity Ratio＝ Tier 1 Capital of Common equity / Total risk-weighted assets

(5) Total risk assets based Tier 1 Capital Ratio＝(Tier 1 Capital of Common equity + Other Tier 1 Capital) / Total risk-weighted assets

(6) Gearing ratio = Tier 1 capital/ exposures amount

(4) Profitability

Units：%

Items		For the years ended December 31,	
		2018	2017
Return on total assets (%)	Before tax	0.76	0.71
	After tax	0.64	0.60
Return on stockholders' equity (%)	Before tax	10.32	9.33
	After tax	8.71	7.91
Net profit margin ratio (%)		37.66	34.82

Note 1: Return on total assets = Income before (after) income tax/average total assets.
Note 2: Return on stockholders' equity = Income before (after) income tax / average stockholders' equity.
Note 3: Net profit margin ratio = Income after income tax / total operating revenues.
Note 4: The term "Income before (after) income tax" represents net income from January 1 to the balance sheet date of the reporting period.

(5) Content and amount of investment trust business in accordance with Trust Enterprise Act

UNIT：In thousands of NT Dollars

Balance Sheet of Trust Accounts

Trust assets	December 31, 2018	December 31, 2017
Bank deposits	$ 9,338,719	$ 8,847,304
Bonds	2,261,848	2,227,317
Stocks	89,790,144	91,668,549
Mutual funds	207,733,251	205,062,214
Accounts receivable	-	781
Structured notes	1,902,909	1,910,000
Real estate	23,673,830	23,007,723
Net assets under collective management accounts	5,621	219,182
Customers' securities under custody	322,252,755	340,883,400
Total	$ 656,959,077	$ 673,826,470
Trust liabilities		
Payables-customers securities under custody	$ 322,252,755	$ 340,883,400
Payables	97	68
Trust capital	334,444,985	332,679,483
Various reserves and accumulated profit or loss	261,240	263,519
Total	$ 656,959,077	$ 673,826,470

As of December 31, 2018 and 2017, the Offshore Banking Unit had book balance of $3,617,773 and $4,089,066 for designated money trust funds investing in foreign securities ; the Offshore Banking Unit had book balance of $424,147 and $349,097 for designated money trust funds investing in local securities, respectively.

UNIT：In thousands of NT Dollars

Property List of Trust Accounts

Investment items	December 31, 2018	December 31, 2017
Bank deposits	$ 9,338,719	$ 8,847,304
Bonds	2,261,848	2,227,317
Stocks	89,790,144	91,668,549
Mutual funds	207,733,251	205,062,214
Accounts receivable	-	781
Structured notes	1,902,909	1,910,000
Real estate	23,673,830	23,007,723
Net assets under collective management accounts	5,621	219,182
Customers' securities under custody	322,252,755	340,883,400
Total	$ 656,959,077	$ 673,826,470

UNIT：In thousands of NT Dollars

Income Statement of Trust Accounts

	For the years ended December 31,	
Trust revenues	2018	2017
Interest income	$ 6,937,890	$ 5,811,459
Dividend income	6,609	3,515
Realized gain on bonds	10,859	38
Realized gain on stocks	30	12,805
Realized gain on mutual funds	2,852,409	3,980,502
Gain on translation	283	2,920
Other income	174	246
Total trust revenues	9,808,254	9,811,485
Trust expenses		
Management fee	(1,004)	(1,030)
Other expense	(49)	(52)
Service fee	(960)	(1,355)
Realized loss on bonds	(3,597)	(759,586)
Realized loss on stocks	(323)	(153)
Realized loss on mutual funds	(3,117,859)	(2,739,993)
Losses on disposal of property	-	(240)
Loss on translation	(1,789)	(2,484)
Total trust expenses	(3,125,581)	(3,504,893)
Net gain before tax	6,682,673	6,306,592
Income tax expense	-	(9)
Net gain after tax	$ 6,682,673	$ 6,306,583

UNIT：In thousands of NT Dollars

(6) Information with respect to the transferring of financial assets and extinguishing of liabilities:

Please refer to Note 12(2) F for the transfer of financial assets.

(7) Adjustment of key organization and significant change in regulatory system:

None.

(8) Significant impact arising from changes in government laws and regulations:

None.

(9) Information with respect to the subsidiary holding the capital stock of parent company:

None.

(10) Information for private placement securities:

None.

(11) Information for discontinued operations:

None.

(12) Major operating assets or liabilities transferred from (or to) other financial institutions:

None.

(13) Information of the Bank's and its subsidiaries' engagement in co-marketing:

The Bank has entered into co-marketing contracts with First-Aviva Life Insurance Co., Ltd., First Securities Inc., First Venture Capital Co., Ltd., First Financial Management Consulting Co., Ltd., First Financial Asset Management Co., Ltd., and FCB Leasing Co., Ltd. The contracts are effective from the respective contract dates but are not allowed to be terminated except with the written consent of FFHC. The contracts cover joint usage of operation sites and facilities as well as the arrangement of personnel for co-marketing affairs. Expenses arising from joint usage of operation sites or facilities are allocated in accordance with separate agreements of the contracting parties. Remuneration apportionment and expenses allocation for co-marketing personnel follow the provisions under the "First Financial Group Integrated Co-marketing Scope and Remuneration Rules".

The Bank has entered into cooperative contracts with First Financial Holding Co., Ltd., First-Aviva Life Insurance Co., Ltd., and First Financial Asset Management Co., Ltd. for the joint usage of information equipment and the planning, development, implementation, operation, maintenance and management of information systems. Calculation methodologies for remuneration apportionment and expenses allocation have also been established.

(14) Effects on initial application of IFRS 9

1. The principal accounting policies applied in the preparation of these consolidated financial statements are set out below for 2017.

(1) Financial assets and financial liabilities

The financial assets and liabilities of the Bank and its subsidiaries including derivatives are recognized in the consolidated balance sheet and are properly classified in accordance with IFRSs as endorsed by FSC.

A. Financial assets

All financial assets held by the Bank and its subsidiaries are in compliance with IFRSs as endorsed by FSC, classified into following five categories:

“loans and receivables”, “financial assets at fair value through profit and loss”, “available-for-sale financial assets”, “held-to-maturity financial assets” and “other financial assets”.

（A）Regular way purchase or sale

Acquisition or disposal of financial assets under general transaction practices are accounted for using trade date accounting or settlement date accounting. Treatment for acquisition and disposal of financial assets of the same category should be consistent. Financial assets held by the Bank and its subsidiaries are all accounted for using trade date accounting.

（B）Loans and receivables

The loans and receivables are the non-derivative financial assets with no quoted prices in an active market. Such financial assets with fixed or determinable receivable amounts include those originated and those not originated by the Bank and its subsidiaries. The former originated directly from money, product or service that the Bank and its subsidiaries provide to the debtors, while the latter refers to all the other loans and receivables.

Loans and receivables are measured at initial fair value of the transaction price, and are recognized on the basis of fair value plus significant transaction cost, expense or significant service fee charge, discount or premium. Subsequently, the loans and receivables shall be measured using effective interest method. However, pursuant to“Regulations Governing the Preparation of Financial Reports by Public Banks”, if there is no material effect from discounting, measurement at the initial cost is permitted.

If there is any objective evidence of impairment, impairment is recognized as impairment losses. The impairment loss is recognized in the credit side of the financial assets, which is recognized as “bad debt expense and reserve for guarantee policy”.

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

These includes financial assets at fair value through profit and loss and those designated as financial assets at fair value through profit and loss at initial recognition.

When the financial assets of the Bank and its subsidiaries are held to repurchase or resell or when the portfolio belongs to derivative instruments, or are held in a short-term profit seeking model, then they should be classified as financial assets at fair value through profit and loss and measured by fair value at initial recognition.

Criteria to designate financial assets and financial liabilities as at fair value through profit or loss at initial recognition are as follows:

a. The designation can eliminate or significantly mitigate a measurement or recognition inconsistency as a result of different measuring basis of assets or liabilities; or

b. The performance of financial instruments is assessed by fair value; or

c. Hybrid instruments include embedded derivatives.

Any change in fair value of financial assets at fair value through profit and loss and financial asset designated at fair value through profit and loss at initial recognition are recognized under “ Gain or loss on financial assets and financial liabilities at fair value through profit and loss” in the consolidated statements of comprehensive income.

(D) Available-for-sale financial assets

Available-for-sale financial assets include assets designated as available-for-sale, financial assets not held to maturity, financial assets at fair value through profit and loss, non-derivative financial assets such as loans and receivables. Equity or debt investments are initially recognized at fair value plus the transaction cost of acquisition or issuance.

Available-for-sale financial assets are measured at fair value with changes in fair value recognized in other comprehensive income. When the financial asset is no longer recognized, the cumulative unrealized gain or loss that was previously recognized in other comprehensive income is recognized in profit or loss.

Impairment loss is recognized when there is objective evidence of impairment of available-for-sale financial assets. If the financial asset has not been derecognized, cumulative loss is reclassified from ‘other comprehensive income’ to ‘profit or losses’. Impairment loss of an investment in an equity instrument recognized in profit or loss shall not be reversed through profit or loss and any subsequent change in equity is recognized in other comprehensive income. If in a subsequent period, the fair value of an investment in a debt instrument increases, and the increase can be related objectively to an event occurring after the impairment loss was recognized, then such impairment loss is reversed through profit or loss.

Equity instruments with no quoted price in an active market are initially recognized at fair value plus acquisition or issuance cost. The fair value can be reasonably estimated when the following criteria are met at the balance sheet date: (a) the variance of the reasonable estimate of an instrument’s fair value is insignificant or (b) the possibility of the estimate in the interval can be reasonably evaluated and used to estimate fair value.

(E) Held-to-maturity financial assets

Held-to-maturity financial assets are the non-derivative financial assets with fixed or determinable payments and fixed maturities and the Bank and its subsidiaries have positive intention and ability to hold to maturity, excluding loans and receivables, assets designated as available-for-sale financial assets and financial assets designated as at fair value through profit and loss upon initial recognition which shall not be treated as held-to-maturity financial assets.

Held-to-maturity financial assets are recognized at fair value plus the acquisition cost. Subsequently, held-to-maturity financial assets shall be measured using effective interest method. If there is any objective evidence of impairment, the impairment is recognized in the credit side of the financial assets' carrying amount as "asset impairment loss".

(F) Other financial assets

Other financial assets include bonds investment without an active market and financial assets measured at cost.

a. Bond investments with no active market

Such financial instruments are initially recognized at fair value plus acquisition or issuance cost. Gains or losses are recognized when the investments are derecognized. Bond investments with no active market shall be subsequently measured at amortized cost using effective interest method.

b. Financial assets measured at cost

Equity instruments with no active market initially are recognized at fair value plus the acquisition or issuance cost. At the balance sheet date, if the interval of reasonable fair value estimates could be significant and the possibility of different estimates cannot be reasonably evaluated, cost is adopted for measurement. For financial assets measured at cost, an impairment loss shall be recognized if there is an objective evidence of impairment. The impairment loss shall not be reversed.

B. Financial liabilities

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

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

These includes financial liabilities at fair value through profit and loss and those designated as financial liabilities at fair value through profit and loss at initial recognition.

Such as financial liabilities incurred with a purpose of repurchasing in a short period of time, identifiable portion of financial instruments in the portfolio belonging to the consolidated management at initial recognition with evidence indicating that its latest operating model is in a short-term profit seeking, are classified as held for trading purpose. Derivative instruments are designated as held for trading excluding those designated as effective hedging instruments or financial guarantee contracts.

Financial liabilities held for trading also include the obligation of the financial assets borrowed from short seller. Above financial liabilities are recognized in “financial liabilities at fair value through profit and loss” in the consolidated balance sheet.

At initial recognition, it is not revocable if a debt instrument is designated at fair value through profit and loss. When the fair value method is adopted, the main contract and the embedded derivative need not be recognized respectively.

In relation to financial liabilities held for trading and those designated as financial liabilities at fair value through profit and loss at initial recognition, any change in fair value is recognized as “gain and loss on financial assets and liabilities at fair value through profit and loss” in the consolidated statement of comprehensive income. However, if the change in fair value of those designated as financial liabilities at fair value through profit and loss is generated by credit risk, it shall be recognized as other comprehensive income except for avoiding accounting mismatch or belonging to loan commitments and financial guarantee contract.

（B）Financial liabilities carried at amortized cost

Financial liabilities carried at amortized cost include liabilities not classified as financial liabilities at fair value through profit and loss, financial guarantee contracts.

C．Derecognition of financial instruments

The Bank and its subsidiaries derecognise a financial asset when one of the following conditions is met:

(A) The contractual rights to receive the cash flows from the financial asset expire.

(B) The contractual rights to receive cash flows of the financial asset have been transferred and the Bank and its subsidiaries have transferred substantially all risks and rewards of ownership of the financial asset.

(C) The contractual rights to receive cash flows of the financial asset have been transferred; however, the Bank and its subsidiaries have not retained control of the financial asset.

A financial liability is derecognised when the obligation under the liability specified in the contract is discharged or cancelled or expires.

(2) Impairment evaluation, provision, and reversal of loans discounted and receivables

If there is any objective evidence indicating that an individual or a group of financial assets are impaired from estimated future cash flow after initial recognition, impairment exists and is recognized as impairment losses.

Impairment of loans discounted and receivables is evaluated based on individual or group classification; loans and receivables are evaluated based on whether objective evidence of significant impairment exists or whether they belong to significant monitored cases. When objective evidence of significant impairment does not exist, the assets shall be included in group of financial assets with similar characteristics and evaluate the impairment losses.

The criteria that the Bank uses to determine whether there is objective evidence of impairment loss is as follows:

A. There is no principal or interest payment after the lapse of 3 full months, or with regard to which the Credit Cooperative has sought payment from primary/subordinate debtors or has disposed of collateral.

B. If a restructured loan meets payment terms agreement, the loan may be exempted from reporting as a non-performing loan.

C. If a loan’s negotiated terms meet regulations by the Bankers Association of the Republic of China in 2006, the loan may be exempted from reporting as a non-performing loan.

D. Cases approved and signed in the negotiations in accordance with the Statute for Consumer Debt Clearance.

E. Cases that are in clearance or settlement proceedings by the court’s ruling.

F. Cases that have begun being reorganized by the court’s ruling.

G. Cases that have been declared for bankruptcy by the court.

H. Cases that meet the self-made evaluation items of the Bank.

In the subsequent period, if the amount of the impairment loss decreases due to an event occurring after the impairment was originally recognized (for example, the upgraded credit rating of the debtor), the previously recognized impairment loss is reversed through the allowance for bad debt to the extent that the carrying amounts do not exceed the amortized cost that would have been determined had no impairment loss been recognized in prior years. The reversal is recognized as current profit and loss.

The above-mentioned evaluation process for loans discounted and receivables and provision of allowance for bad debt reference “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans” promulgated by the FSC and Jin-Guan-Yin-Fa-Zi No. 10410001840 promulgated by the FSC on April 23, 2015, regarding strengthening the monitoring and risk endurance ability of domestic banks to exposures in China.

(3) Derivative instruments

Derivative instruments are initially recognized at fair value at the contract date and subsequently measured at fair value. The fair value includes the public quoted price in an active market or the latest trade price (such as options traded in Stock Exchange Corporation), and evaluation techniques such as cash flow discounting model or option pricing model (such as swap contract and foreign exchange transaction). All derivative assets are recognized as assets when the fair value is positive and as liabilities when the fair value is negative.

Hybrid contracts refer to financial instruments embedded with derivatives. Economic characteristics and risks of the embedded derivatives and the economic characteristics of the main contract should be examined. If the two are not closely related and the main contract is not a financial asset or liability at fair value through profit and loss, the main contract and embedded derivatives should be respectively recognized unless the overall hybrid contract is designated as assets or liabilities at fair value through profit and loss. The embedded derivatives are the financial assets or liabilities at fair value through profit and loss.

(4) Financial guarantee contract

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

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

Subsequently, the Bank and its subsidiaries should measure the contract at the higher of:

A. the amount determined in accordance with IAS 37; and

B. the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with IAS 18, “Revenue”.

The best estimate of the liability amount requires management to exercise their judgment and historical loss data based on the similar transaction experiences.

The increase in liabilities due to financial guarantee contract is recognized in “bad debt expenses and guaranty policy reserve”.

(Blank below)

2. The reconciliations of carrying amount of financial assets transferred from December 31, 2017, IAS 39, to January 1, 2018, IFRS 9, were as follows:

	Amount under IAS 39 at December 31, 2017	Reclassification	Remeasurement	Amount under IFRS 9 at January 1, 2018	Effect from retained earnings at January 1, 2018	Effect from other equity at January 1, 2018	Note
Financial assets at fair value through profit or loss	$ 100,249,302	$ -	$ -	$ 100,249,302	$ -	$ -	
Deduction:							
To amortised at cost(IFRS 9)	-	(1,033,557)	-	(1,033,557)	-	-	(1)
To at fair value through other comprehensive income (IFRS 9)	-	(3,332,456)	-	(3,332,456)	-	-	(1)
To receivables	-	(19,419)	-	(19,419)	-	-	(1)
Financial assets at fair value through profit or loss	$ 100,249,302	($ 4,385,432)	$ -	$ 95,863,870	$ -	$ -	
Financial assets at fair value through other comprehensive income	$ -	$ -	$ -	$ -	$ -	$ -	
Addition-debt instrument:							
From available-for-sale (IAS 39)	-	135,929,161	-	135,929,161	-	-	(5)
From held-to-maturity (IAS 39)	-	41,845,301	755,750	42,601,051	-	755,750	(3)
From fair value through profit or loss (choice of fair value under IAS 39)-condition not conform to the choice of fair value	-	3,332,456	-	3,332,456	(28,055)	28,055	(1)
Deduction-debt instrument:							
Adjustment of loss on impairment	-	-	-	-	(56,602)	56,602	(4)
Addition-equity instrument:							
From available-for-sale (IAS 39)	-	13,863,124	-	13,863,124	-	-	(2)
From measured at cost (IAS 39)	-	3,680,893	4,562,622	8,243,515	-	4,562,622	(2)
Financial assets at fair value through other comprehensive income	$ -	$ 198,650,935	$ 5,318,372	$ 203,969,307	($ 84,657)	$ 5,403,029	

	Amount under IAS 39 at December 31, 2017	Reclassification	Remeasurement	Amount under IFRS 9 at January 1, 2018	Effect from retained earnings at January 1, 2018	Effect from other equity at January 1, 2018	Note
Investments in debt instruments at amortised cost	$ -	$ -	$ -	$ -	$ -	$ -	
Addition:							
From held-to-maturity (IAS 39)	-	344,759,812	-	344,759,812	-	-	(5)
From debt instruments without active market (IAS 39)	-	2,729,400	-	2,729,400	-	-	(5)
From fair value through profit or loss (choice of fair value under IAS 39)-condition conform to the choice of fair value	-	1,033,557	34,923	1,068,480	34,923	-	(1)
Deduction:							
Adjustment of loss on impairment	-	-	(22,410)	(22,410)	(22,410)	-	(4)
Investments in debt instruments at amortised cost	$ -	$ 348,522,769	$ 12,513	$ 348,535,282	$ 12,513	$ -	
Receivables	$ 63,380,967	$ -	$ -	$ 63,380,967	$ -	$ -	
Addition:							
From fair value through profit or loss (choice of fair value under IAS 39)-condition not conform to the choice of fair value	-	19,419	-	19,419	-	-	(1)
Receivables	$ 63,380,967	$ 19,419	$ -	$ 63,400,386	$ -	$ -	

(A) Debt instrument investments for which the designation of fair value through profit or loss was removed:

The Bank and its subsidiaries originally held debt instruments in the amount of $4,385,432 that were designated as financial assets at fair value through profit or loss due to hybrid contracts. Under the transition rules of IFRS 9, the Bank and its subsidiaries classified $3,332,456 of these instruments as financial assets at fair value through other comprehensive income and $1,068,480 of these instruments as debt instrument investments measured at amortised cost. Accordingly, accounts receivable increased by $19,419, retained earnings increased by $6,868 and other equity interest increased by $28,055. The effective interest rate of these instruments range from 2.18% to 4.20% per annum, and the interest income from these instruments was $149,506 for the year ended December 31, 2018.

(B) Investments in equity instruments designated as fair value through other comprehensive income:

In accordance with IFRS 9, the Bank and its subsidiaries have made an irrevocable election to designate certain equity investments in its portfolio not held for trading purposes, including strategic investments and high dividend yield stocks, as financial assets at fair value through other comprehensive income in the amount of $22,106,639. Accordingly, other equity interest increased by $4,562,622. These equity investments were previously classified as other financial assets—financial assets measured at cost in the amount of $3,680,893 and available-for-sale financial assets in the amount of $13,863,124. Changes in fair value of these equity investments will not be transferred to profit or loss when sold in the future.

(C) Held-to-maturity financial assets reclassified:

The Bank and its subsidiaries originally held held-to-maturity financial assets in the amount of $41,845,301; with the transition to IFRS 9, the instruments meet the requirements of the cash flow test, and the objective of the business model is achieved both by collecting contractual cash flows and selling financial assets; therefore, they are classified as financial assets at fair value through other comprehensive income in the amount of $42,601,051, and, accordingly, other equity interest is increased by $755,750.

(D) Under the impairment rules of IFRS 9, recognition of impairment of financial assets at fair value through other comprehensive income, debt instruments and measured at amortised cost:

Under the impairment rules of IFRS 9, the Bank and its subsidiaries recognised impairment of financial assets at fair value through other comprehensive income and debt instruments measured at amortised cost. The debt instruments measured at amortised cost was decreased by $22,410, retained earnings decreased by $79,012 and other equity interest increased by $56,602.

(E) Aside from reasons stated above, the following debt investments were reclassified in accordance with IFRS 9. The primary reason is that the categories stated in IAS 39 no longer exist under IFRS 9, not because of change in measurement basis.

(a) Investments previously classified as available-for-sale financial assets in the amount of $135,929,161 were reclassified as financial assets at fair value through other comprehensive income.

(b) Investments previously classified as held-to-maturity in the amount of $344,759,812 were reclassified as measured at amortised cost.

(c) Investments previously classified as other financial assets—debt instruments without active market in the amount of $2,729,400 were reclassified as measured at amortised cost.

(F) Investments in the amount of $1,033,557 were reclassified from financial assets at fair value through profit or loss to debt instruments measured at amortised cost. The fair value of these investments were $1,031,250 as of December 31, 2018. If no reclassification was made, then the loss of $38,321 in fair value would have been recognised in profit or loss for the year ended December 31, 2018.

(G) Investments in the amount of $3,332,456 were reclassified from financial assets at fair value through profit or loss to financial assets (debt instruments) measured at fair value through other comprehensive income. If no reclassification was made, then a loss of $24,558 in fair value would have been recognised in profit or loss for the year ended December 31, 2018.

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3. The reconcilation of allowance for impairment and provision from December 31, 2017 , as these are impaired under IAS 39, to January 1, 2018, as these are expected to be impaired under IFRS 9, are as follows:

	Allowance for impairment under IAS 39 at December 31, 2017, and provision under IAS 37	Reclassification	Remeasurement	Allowance for impairment under IFRS 9 at January 1, 2018	Note
Loans and receivables (IAS 39)/ Financial assets at amortised cost (IFRS 9)					
Due from the central bank and call loans to banks	$ 31,569	$ -	$ -	$ 31,569	
Receivables	744,838	-	-	744,838	
Loans and discounted	22,103,150	-	(2,141,000)	19,962,150	
Other financial assets	1,942,811	-	1,150,000	3,092,811	
Total	$ 24,822,368	$ -	($ 991,000)	$ 23,831,368	
Available-for-sale financial instruments (IAS 39)/ Financial assets at fair value through other comprehensive income (IFRS 9)					
Bond investments	$ -	$ -	$ 56,602	$ 56,602	(4)
Held to maturity(IAS 39)/ Financial assets at amortised cost (IFRS 9)					
Bond investments	$ -	$ -	$ 22,410	$ 22,410	(4)
Loan commitments and guarantee liabilities	$ 879,639	$ -	$ 991,000	$ 1,870,639	

4. The significant accounts as of December 31, 2017 and for the year 2017, are as follows:

A. Financial assets at fair value through profit or loss

	December 31, 2017
Financial assets held for trading	
Short-term bills	$ 48,722,898
Stocks	1,182,417
Bonds (government and corporate bonds)	11,926,817
Derivative financial instruments	4,726,858
Valuation adjustment for financial assets held for trading	50,683
Subtotal	66,609,673
Financial assets designated as at fair value through profit or loss upon initial recognition	
Bonds	33,285,879
Valuation adjustment for financial assets designated at fair value through profit or loss upon initial recognition	353,750
Subtotal	33,639,629
Total	$ 100,249,302

(A) Details of (losses) gains on financial assets and liabilities at fair value through profit or loss for the year ended December 31, 2017 are as follows:

	For the year ended December 31, 2017
Net gain on financial assets and liabilities held for trading	$ 5,091,478
Net gain on financial assets designated as at fair value through profit or loss	6,210
Total	$ 5,097,688

(B) The Bank's and its subsidiaries' financial assets measured at fair value through profit or loss upon initial recognition are hybrid contracts that contain one or more embedded derivative instruments, and are designed to eliminate recognition inconsistency, that are designated as fair value through profit or loss in its entirety.

B. Receivables, net

	December 31, 2017
Spot exchange receivable	$ 35,499,101
Factoring receivable	5,228,477
Interest receivable	4,728,719
Acceptances receivable	5,895,523
Credit card accounts receivable	6,703,742
Other receivables	6,070,243
Subtotal	64,125,805
Less: Allowance for bad debts	(744,838)
Net amount	$ 63,380,967

C. Loans discounted, net

	December 31, 2017
Bills and notes discounted	$ 2,984,819
Overdrafts	685,978
Short-term loans	484,130,361
Medium-term loans	458,391,121
Long-term loans	647,172,996
Import-export bills negotiations	965,690
Loans transferred to non-accrual loans	7,852,034
Subtotal	1,602,182,999
Less: allowance for bad debts	(22,103,150)
Net amount	$ 1,580,079,849

(A) For the Bank's and its subsidiaries' discounted loans and receivables as of December 31, 2017, please refer Analysis on quality and overdue impairment of financial assets of the Bank and its subsidiaries as addressed under Note12(2)C(F).

(B) Movement of allowance for bad debts

The Bank and its subsidiaries assesses loans discounted and receivables to appropriately provision allowance for bad debts. The details and movements of allowance for doubtful accounts of loans discounted and receivables for the year ended December 31, 2017 were as follows:

	For the year ended December 31, 2017
Loans discounted (including other related receivable derived from loans)	
Beginning balance	$ 19,313,189
Provision	9,203,723
Write-off	(4,222,166)
Foreign exchange and other movements	(116,676)
Ending balance	$ 24,178,070
Receivables	
Beginning balance	$ 656,270
Provision	285,636
Write-off	(277,124)
Foreign exchange and other movements	(20,484)
Ending balance	$ 644,298

As of December 31, 2017, the recoveries of write-offs, which were accounted as deductions to bad debts expense, was $2,782,049.

D. Available-for-sale financial assets

	December 31, 2017
Stocks – listed	$ 7,251,593
Bonds	133,239,738
Other marketable securities	1,483,629
Valuation adjustment for available-for-sale financial assets	7,817,325
Total	$ 149,792,285

(A) Please refer to Note 8 for details of the above available-for-sale financial assets pledged as collateral as of December 31, 2017.

(B) The par value of available-for-sale financial assets that were bonds provided as the underlying for repo trade agreements at December 31, 2017 was $11,506,480.

E. Held-to-maturity financial assets

	December 31, 2017
Purchased certificates of time deposits	$ 342,035,000
Bonds	43,786,073
Short-term bills	784,040
Total	$ 386,605,113

(A) Please refer to Note 8 for details of the above held-to-maturity financial assets pledged as collateral as of December 31, 2017.

(B) The par value of held-to-maturity financial assets that were bonds provided as the underlying for repo trade agreements at December 31, 2017 was $0.

(C) For the year ended December 31, 2017, the interest income generated from held-to-maturity financial assets amounted to $2,628,266.

F. Other financial assets – net

	December 31, 2017
Investment in time deposits without active market	$ 2,729,400
Stock investments carried at cost	3,680,893
Non-accrual loans transferred from other accounts (excluding loans)	3,646,047
Exchanged bills negotiated	2,130
Subtotal	10,058,470
Less: Allowance for bad debts - overdue receivable	(1,942,811)
Total	$ 8,115,659

A. As the Bank's and its subsidiaries' investments in unlisted stocks lack quoted marked price and their fair values cannot be measured reliably as of December 31, 2017; those financial assets are accounted for at cost.

B. For methods and assumptions used to measure fair value of debt instruments with no active market as of December 31, 2017, please refer to Note 12 (1) D.

G. Provisions

The Bank's and its subsidiaries' reconciliation of provision for guarantee liabilities was as follows:

	For the year ended December 31, 2017
Beginning balance	$ 779,251
Provisions	100,818
Foreign exchange and other movements	(430)
Ending balance	$ 879,639

H. Other equity interest

	Exchange differences on translation of foreign financial statements	Unrealised gain or loss on available-for-sale financial assets	Total
Balance, January 1, 2017	$ 1,010,883	$ 5,523,483	$ 6,534,366
Available-for-sale financial assets			
- Valuation adjustment	-	2,591,194	2,591,194
- Realised	-	(295,602)	(295,602)
Exchange difference on the financial statements of foreign entities	(3,164,578)	-	(3,164,578)
Share of the profit or loss of associates accounted for using the equity method	107,250	-	107,250
Income tax related to components of other comprehensive income that may be reclassified to profit or loss	-	(12,688)	(12,688)
Balance, December 31, 2017	($ 2,046,445)	$ 7,806,387	$ 5,759,942

I. Realized gains or losses on available-for-sale financial assets

	For the year ended December 31, 2017
Gain on disposal	
Bonds	$ 179,377
Stock	123,773
Subtotal	303,150
Loss on disposal	
Bonds	(5,858)
Stock	(1,690)
Subtotal	(7,548)
Dividends income	474,207
Total	$ 769,809

13. Supplementary disclosures

(1) Significant transaction information

A. Cumulative purchases or sales of the same investee's capital stock over the amount of NT $300 million dollars or 10% of issued capital stock as of December 31, 2018:

None.

B. Acquisition of real estate over the amount of NT $300 million dollars or 10% of issued capital stock as of December 31, 2018:

None.

C. Disposal of real estate over the amount of NT $300 million dollars or 10% of issued capital stock as of December 31, 2018:

None.

D. Handling fee discounts for transactions with related parties over the amount of NT $5 million dollars as of December 31, 2018:

None.

E. Receivables from related parties over the amount of NT $300 million dollars or 10% of issued capital stock as of December 31, 2018:

The company listed current income tax assets	Counterparty	Relationship	Accounts receivable from related party as of December 31, 2018	Turnover rate	Amount overdue		Accounts receivable from related party	Amount of allowance
					Amount	Action taken		
First Commercial Bank	First Financial Holding Co., Ltd.	Parent company of the Bank	$ 637,650	-	$ -	-	$ -	$ -

F. Information regarding non-performing loans of subsidiaries:

None.

G. Information and categories of securitized assets which are apporved by authority pursuant to Financial Asset Securitization Act or the Real Estate Securitization Act :

None.

H. Significant transactions between parent company and subsidiaries for the year ended December 31, 2018:

(Expressed In Thousands of New Taiwan Dollars)

No. (Note 1)	Company	Counterparty	Relationship (Note 2)	Details of transactions			
				Account	Amount	Conditions	Percentage (%) of total consolidated net revenues or assets (Note 3)
0	FCB	First Commercial Bank (USA)	1	Due to overseas bank	$ 253	No significant difference from general customers	0.00%
0	FCB	First Commercial Bank (USA)	1	Deposits of overseas bank	46,311	No significant difference from general customers	0.00%
0	FCB	First Commercial Bank (USA)	1	Interest income	3	No significant difference from general customers	0.00%
1	First Commercial Bank (USA)	FCB	2	Interest expense	3	No significant difference from general customers	0.00%
1	First Commercial Bank (USA)	FCB	2	Due to overseas bank	46,311	No significant difference from general customers	0.00%
1	First Commercial Bank (USA)	FCB	2	Deposits of overseas bank	253	No significant difference from general customers	0.00%
0	FCB	FCBL	1	Deposits and remittances	$ 175,773	No significant difference from general customers	0.01%
0	FCB	FCBL	1	Payables	9	No significant difference from general customers	0.00%

(Expressed In Thousands of New Taiwan Dollars)

No. (Note 1)	Company	Counterparty	Relationship (Note 2)	Details of transactions			
				Account	Amount	Conditions	Percentage (%) of total consolidated net revenues or assets (Note 3)
0	FCB	FCBL	1	Other liabilities	1	No significant difference from general customers	0.00%
0	FCB	FCBL	1	Net other non-interest income	3,967	No significant difference from general customers	0.01%
0	FCB	FCBL	1	Interest expense	106	No significant difference from general customers	0.00%
0	FCB	FCBL	1	Business and administrative expense	3,251	No significant difference from general customers	0.01%
0	FCB	FCBL	1	Net service fee income	417	No significant difference from general customers	0.00%
2	FCBL	FCB	2	Cash and cash equivalents	175,773	No significant difference from general customers	0.01%
2	FCBL	FCB	2	Receivables	9	No significant difference from general customers	0.00%
2	FCBL	FCB	2	Other assets	1	No significant difference from general customers	0.00%
2	FCBL	FCB	2	Business and administrative expense	4,369	No significant difference from general customers	0.01%
2	FCBL	FCB	2	Interest income	106	No significant difference from general customers	0.00%
2	FCBL	FCB	2	Net other non-interest income	3,251	No significant difference from general customers	0.01%
2	FCBL	FCB	2	Net service fee income	15	No significant difference from general customers	0.00%

Note 1: The numbers filled in for the transaction company in respect of inter-company transactions are as follows:

(1)Parent company is ‘0’.

(2)The subsidiaries are numbered in order starting from ‘1’.

Note 2: Relationship between transaction company and counterparty is classified into the following three categories:

(1)Parent company to subsidiary.

(2)Subsidiary to parent company.

Note 3: Regarding percentage of transaction amount to consolidated total operating revenues or total assets, it is computed based on period-end balance of transaction to consolidated total assets for balance sheet accounts and based on accumulated transaction amount for the period to consolidated total operating revenues for income statement accounts.

I. Other significant transactions that may affect the decisions made by financial statement users as of December 31, 2018:

None.

(2) Information on investees

A. Loans to others:

The Bank’s subsidiary, First Commercial Bank (USA), engages in banking operations that are banking businesses as regulated under the Banking Act of The Republic of China and is thus a financial institution. Thus, not applicable; in addition, aside from those of the following table, other subsidiaries of the Bank have not provided loan to others.

(Expressed In Thousands Of New Taiwan Dollars)

Number	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest Rate (%)	Nature of Loan (Note)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted
													Item	Value		
1	FCB Leasing Co. Ltd.	HANKY Co., Ltd.	Other receivables-direct financing	N	$ 375,305	$ 187,139	$ 187,139	3.58~4.58	Short-term financing	$ -	Operation turnover	$ -	Real estate	$ 240,000	$ 940,660	$ 1,254,213
2	FCB Leasing Co. Ltd.	Che Cheng Industrial Co., Ltd.	Other receivables-direct financing	N	18,858	17,274	17,274	4.08~5.08	Short-term financing	-	Operation turnover	-	Real estate	72,000	940,660	1,254,213
3	FCB Leasing Co. Ltd.	Hlsc Logistics Co., Ltd.	Other receivables-direct financing	N	4,111	779	779	5.54~6.54	Short-term financing	-	Operation turnover	-	Deposit	3,000	940,660	1,254,213
4	FCB Leasing Co. Ltd.	Yuan Gji Medicines Co. Ltd.	Other receivables-direct financing	N	2,680	691	691	7.80~8.80	Short-term financing	-	Operation turnover	-	Deposit	600	940,660	1,254,213
5	FCB Leasing Co. Ltd.	Tendril Co. Ltd.	Other receivables-direct financing	N	35,250	-	-	5.23~6.23	Short-term financing	-	Operation turnover	-	Real estate	39,687	940,660	1,254,213
6	FCB Leasing Co. Ltd.	Chuangjian health cause Co., Ltd.	Other receivables-direct financing	N	3,870	568	568	5.80~6.80	Short-term financing	-	Operation turnover	-	Real estate	9,600	940,660	1,254,213
7	FCB Leasing Co. Ltd.	Jinhe Yu Le Industrial Co., Ltd.	Other receivables-direct financing	N	49,500	48,900	48,900	3.62~4.62	Short-term financing	-	Operation turnover	-	Real estate	74,513	940,660	1,254,213
8	FCB Leasing Co. Ltd.	100 Mountain Enterprises Ltd.	Other receivables-direct financing	N	19,300	11,620	11,620	3.95~4.95	Short-term financing	-	Operation turnover	-	Real estate	24,194	940,660	1,254,213
9	FCB Leasing Co. Ltd.	Emerald Bay Biotechnology Co., Ltd.	Other receivables-direct financing	N	48,500	38,595	38,595	3.86~4.86	Short-term financing	-	Operation turnover	-	Real estate	34,619	940,660	1,254,213
10	FCB Leasing Co. Ltd.	Xinyue Construction Co., Ltd.	Other receivables-direct financing	N	34,650	30,450	30,450	4.25~5.25	Short-term financing	-	Operation turnover	-	Real estate	50,406	940,660	1,254,213
11	FCB Leasing Co. Ltd.	Chong Yu International Co., Ltd.	Other receivables-direct financing	N	20,000	15,200	15,200	4.34~5.34	Short-term financing	-	Operation turnover	-	Real estate	24,000	940,660	1,254,213
12	FCB Leasing Co. Ltd.	Guang Cheng Co. Ltd.	Other receivables-direct financing	N	20,000	18,000	18,000	3.93~4.93	Short-term financing	-	Operation turnover	-	Real estate	34,306	940,660	1,254,213
13	FCB Leasing Co. Ltd.	Guang Zhan Cheng Co. Ltd.	Other receivables-direct financing	N	6,000	3,580	3,580	5.49~6.49	Short-term financing	-	Operation turnover	-	Real estate	4,734	940,660	1,254,213
14	FCB Leasing Co. Ltd.	Billion Best Co. Ltd.	Other receivables-direct financing	N	45,000	41,120	41,120	4.16~5.16	Short-term financing	-	Operation turnover	-	Real estate	69,371	940,660	1,254,213

(Expressed In Thousands Of New Taiwan Dollars)

Number	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest Rate	Nature of Loan (Note)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted
													Item	Value		
15	FCB Leasing Co. Ltd.	Chi an Development Co. Ltd.	Other receivables-direct financing	N	$ 20,000	$ 19,000	$ 19,000	3.36~4.36	Short-term financing	$ -	Operation turnover	$ -	Real estate	$ 34,273	$ 940,660	$ 1,254,213
16	FCB Leasing Co. Ltd.	Fengxin Development Co. Ltd.	Other receivables-direct financing	N	20,000	18,800	18,800	4.26~5.26	Short-term financing	-	Operation turnover	-	Stock	21,978	940,660	1,254,213
17	FCB Leasing Co. Ltd.	Yi Fang Co., Ltd.	Other receivables-direct financing	N	10,000	9,000	9,000	4.59~5.59	Short-term financing	-	Operation turnover	-	Real estate	12,184	940,660	1,254,213
18	FCB Leasing Co. Ltd.	An Chien Technologies Co., Ltd.	Other receivables-direct financing	N	3,000	2,685	2,685	4.42~5.42	Short-term financing	-	Operation turnover	-	Real estate	3,600	940,660	1,254,213
19	FCB Leasing Co. Ltd.	Wei Xiang Security Co., Ltd.	Other receivables-direct financing	N	8,000	6,266	6,266	5.04~6.04	Short-term financing	-	Operation turnover	-	Real estate	9,600	940,660	1,254,213
20	FCB Leasing Co. Ltd.	Yuans of biological Science Technologies Co., Ltd.	Other receivables-direct financing	N	9,103	2,255	2,255	7.61~8.61	Short-term financing	-	Operation turnover	-	Real estate	14,400	940,660	1,254,213
21	FCB Leasing Co. Ltd.	Ever Spring Marine Aquaculture Co., Ltd.	Other receivables-direct financing	N	16,992	9,445	9,445	6.56~7.56	Short-term financing	-	Operation turnover	-	Personal Property	6,900	940,660	1,254,213
22	FCB Leasing Co. Ltd.	Xiang Wei Trading Co., Ltd.	Other receivables-direct financing	N	24,179	10,530	10,530	6.71~7.71	Short-term financing	-	Operation turnover	-	Real estate	28,664	940,660	1,254,213
23	FCB Leasing Co. Ltd.	Songyuan Co., Ltd.	Other receivables-direct financing	N	2,312	1,783	1,783	4.02~5.02	Short-term financing	-	Operation turnover	-	Real estate	5,347	940,660	1,254,213
24	FCB Leasing Co. Ltd.	Long Life Tien Trading Co., Ltd.	Other receivables-direct financing	N	5,164	-	-	6.08~7.08	Short-term financing	-	Operation turnover	-	Real estate	18,886	940,660	1,254,213
25	FCB Leasing Co. Ltd.	Yu Chiun International Development Co. Ltd.	Other receivables-direct financing	N	10,231	3,603	3,603	7.67~8.67	Short-term financing	-	Operation turnover	-	Real estate	5,729	940,660	1,254,213
26	FCB Leasing Co. Ltd.	Zhenwang Store	Other receivables-direct financing	N	15,000	5,538	5,538	5.26~6.26	Short-term financing	-	Operation turnover	-	Deposit	1,600	940,660	1,254,213
27	FCB Leasing Co. Ltd.	Xingdeli Co. Ltd.	Other receivables-direct financing	N	20,000	7,518	7,518	5.57~6.57	Short-term financing	-	Operation turnover	-	Real estate	2,400	940,660	1,254,213

(Expressed In Thousands Of New Taiwan Dollars)

Number	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest Rate	Nature of Loan (Note)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted
													Item	Value		
28	FCB Leasing Co. Ltd.	Ba li Food Co. Ltd.	Other receivables-direct financing	N	$ 16,000	$ 14,014	$ 14,014	8.05~ 9.05	Business contact	$ 16,000	Operation turnover	$ 1,401	Real estate	$ 12,324	$ 313,553	$ 1,254,213
29	FCB Leasing Co. Ltd.	Hongshunshin Marine Transport Co. Ltd.	Other receivables-direct financing	N	60,000	51,311	51,311	6.57~ 7.57	Short-term financing	-	Operation turnover	-	Vessel	75,530	940,660	1,254,213
30	FCB Leasing Co. Ltd.	Farm Eat Life Co. Ltd.	Other receivables-direct financing	N	15,000	10,000	10,000	6.98~ 7.98	Short-term financing	-	Operation turnover	-	Deposit	3,000	940,660	1,254,213
31	FCB Leasing Co. Ltd.	An Li Marine Transport Co. Ltd.	Other receivables-direct financing	N	15,000	12,569	12,569	4.27~ 5.27	Short-term financing	-	Operation turnover	-	Pledged stock	12,380	940,660	1,254,213
32	FCB Leasing Co. Ltd.	Xiang Hao Fishery Co., Ltd.	Other receivables-direct financing	N	120,000	110,000	110,000	3.48~ 4.48	Short-term financing	-	Operation turnover	-	Vessel	144,000	940,660	1,254,213
33	FCB Leasing Co. Ltd.	AI SHENG Medical Clinic	Other receivables-direct financing	N	8,000	8,000	8,000	5.24~ 6.24	Short-term financing	-	Operation turnover	-	Real estate	8,550	940,660	1,254,213
34	FCB Leasing Co. Ltd.	World Way Marine Transportation & Logistic Co., Ltd.	Other receivables-direct financing	N	289	289	289	5.21~ 6.21	Short-term financing	-	Operation turnover	-	Real estate	18,848	940,660	1,254,213
35	FCB Leasing Co. Ltd.	Holmes Chez International Co., Ltd.	Other receivables-direct financing	N	17,846	4,566	4,566	5.45~ 6.45	Short-term financing	-	Operation turnover	-	Deposit	3,000	940,660	1,254,213
36	FCB Leasing Co. Ltd.	Zongsheng Industrial Co., Ltd.	Other receivables-direct financing	N	19,596	17,090	17,090	5.47~ 6.47	Short-term financing	-	Operation turnover	-	Real estate	25,910	940,660	1,254,213
37	FCB Leasing Co. Ltd.	Tair Feng Yu Construction Co., Ltd.	Other receivables-direct financing	N	90,000	27,653	27,653	3.31~ 4.31	Business contact	330,000	Operation turnover	-	Real estate	90,204	313,553	1,254,213
38	FCB Leasing Co. Ltd.	Yijia Security Co.Ltd.	Other receivables-direct financing	N	3,000	1,550	1,550	7.68~ 8.68	Short-term financing	-	Operation turnover	-	Real estate	1,387	940,660	1,254,213
39	FCB Leasing Co. Ltd.	Guarantee Changhua Beidou Farm	Other receivables-direct financing	N	10,000	6,835	6,835	7.52~ 8.52	Short-term financing	-	Operation turnover	-	Mortgage Personal Property	12,000	940,660	1,254,213

(Expressed In Thousands Of New Taiwan Dollars)

Number	Creditor	Borrower	General ledger account	Is a related party	Maximum outstanding balance during the year ended December 31, 2018	Balance at December 31, 2018	Actual amount drawn down	Interest Rate	Nature of Loan (Note)	Amount of transactions with the borrower	Reason for short-term financing	Allowance for doubtful accounts	Collateral		Limit on loans granted to a single party	Ceiling on total loans granted
													Item	Value		
40	FCB Leasing Co. Ltd.	Hai Gong Co. Ltd.	Other receivables-direct financing	N	$ 20,000	$ 12,665	$ 12,665	4.50~ 5.50	Short-term financing	$ -	Operation turnover	$ -	Pledged stock	$ 40,017	$ 940,660	$1,254,213
41	FCB Leasing Co. Ltd.	Toptrue Construction Co., Ltd.	Other receivables-direct financing	N	20,000	13,576	13,576	5.50~ 6.50	Short-term financing	-	Operation turnover	-	Personal Property	11,503	940,660	1,254,213
42	FCB Leasing Co. Ltd.	Yu De Construction Co., Ltd.	Other receivables-direct financing	N	20,000	18,373	18,373	5.19~ 6.19	Short-term financing	-	Operation turnover	-	Real estate	28,026	940,660	1,254,213
43	FCB Leasing Co. Ltd.	Leo Construction Co., Ltd.	Other receivables-direct financing	N	48,000	44,640	44,640	3.95~ 4.95	Short-term financing	-	Operation turnover	-	Real estate	60,264	940,660	1,254,213
44	FCB Leasing Co. Ltd.	Chi Ren Dental Clinic	Other receivables-direct financing	N	3,000	2,283	2,283	5.99~ 6.99	Short-term financing	-	Operation turnover	-	Personal Property	3,060	940,660	1,254,213

Note: 1. The amount of loans granted to individual companies or firms due to business transactions shall not exceed 10% of the Bank's subsidiaries' net asset value of its latest financial statements. The total amount of loans granted due to business transactions shall not exceed 40% of the Bank's subsidiaries' net value of its latest financial statements.

2. The amount of necessary short-term facilitations to individual companies or firms which do not have business transactions with the Bank's subsidiaries shall not exceed 30% of the Bank's subsidiaries' net asset value of its latest financial statements. The amount of necessary short-term facilitations to individual companies or firms with business transactions with the Bank's subsidiaries shall not exceed 40% of the Bank's subsidiaries' net asset value of its latest financial statements. If the borrower of the loan is a subsidiary, the amount of loans shall not exceed 40% of the Bank's subsidiaries' net asset value of its latest financial statements.

3. The total amount of loans of the above two shall not exceed 40% of the Bank's subsidiaries' net asset value of its latest financial statements.

B. Endorsements and guarantees provided for others:

Indirect investees belong to financial industry and securities industry and no disclosure is required except for First Commercial Bank (USA).

No.	Endorsing and guarantee company	Endorsed and guaranteed company		Limit for endorsement and guarantee for single enterprise	Maximum balance accumulated as of the month	Ending balance of endorsement and guarantee	Actually used amount	Property-backed endorsement and guarantee	The ratio of accumulated endorsement and guarantee amount and the net value of the latest financial statements	Maximum limit	Provision of endorsements/ guarantees by parent company to subsidiary	Provision of endorsements/ guarantees by subsidiary to parent company	Provision of endorsements/ guarantees to the party in Mainland China
		Name of company	Relationship										
1	FCB Leasing Co., Ltd.	FCBL Capital International (B.V.I) Ltd.	Subsidiary	$ 9,406,596	$ 2,357,355	$ 1,536,750	$ 1,060,358	None	49.01%	$ 31,355,320	N	N	N
2	FCB Leasing Co., Ltd.	FCB International Leasing Ltd.	Sub-Subsidiary	9,406,596	2,531,274	2,296,480	600,544	None	73.24%	31,355,320	N	N	Y
3	FCB Leasing Co., Ltd.	First Financial Leasing (Xiamen) Ltd.	Sub-Subsidiary	9,406,596	1,036,775	1,036,515	156,415	None	33.06%	31,355,320	N	N	Y

Note: Subsidiaries of the Bank, for business needs, may resolve through its Board of Directors to provided guarantees for external parties.

C. Securities held at the end of period:

Indirect investees belong to financial industry and securities industry and no disclosure is required except for First Commercial Bank (USA).

(Expressed In Thousands of New Taiwan Dollars, Unless Otherwise Indicated)

December 31,2018

Investor	Name Of Investee And Type Of Securities		Relationship	Account	Shares / Units (in thousands)	Book value	Ownership Percentage (%)	Market Value (Note 1)	Note
FCBL	FCBL Capital International (B.V.I) Ltd.	Stocks	An investee of FCBL under the equity method	Equity investments accounted for under the equity method	60,050	$ 1,858,600	100%	$ 1,858,600	Note 2
FCBL Capital International (B.V.I) Ltd	FCB International Leasing Ltd.	Stocks	An investee of FCBL Capital International (B.V.I) Ltd under the equity method	Equity investments accounted for under the equity method	USD 30,000 thousands	648,628	100%	648,628	Note 2
FCBL Capital International (B.V.I) Ltd	FCB Leasing (Xiamen) Ltd.	Stocks	An investee of FCBL Capital International (B.V.I) Ltd under the equity method	Equity investments accounted for under the equity method	USD 30,000 thousands	928,446	100%	928,446	Note 2

Note 1：No transactions in active market, no clear market price.

Note 2：Long-term investments in the above table remain free of pledge or guarantee..

D. Cumulative purchases or sales of the marketable securities up to NT$300 million or over 10% of the issued capital stock:

Indirect investees belong to financial industry and securities industry and no disclosure is required except for First Commercial Bank (USA).

E. Information of derivative instrument transactions:

None.

F. Information regarding reinvested business and consolidated stock holdings:

Name of investee company (Note1)	Address	Major operating activities	Percentage of ownership (%) at the end of current period	Carrying value of investment	Investment income (loss) recognized by the Company for current period	The combined ownership of the investee company's common shares held by the Bank and its related parties (Note 1): Number of owned shares (in thousands)	Number of pro forma shares (Note 2)	Total: Number of shares (in thousands)	Total: Percentage of ownership (%)
FIRST COMMERCIAL BANK(USA)	200 East Main Street, Alhambra, CA91801, USA	Note 3	100	$ 3,867,994	$ 257,125	7,000	-	7,000	100
FCBL	6F, 94, ChungHsiaoE.Road., Sec. 2, Taipei, Taiwan	Note 4	100	3,150,295	127,265	300,000	-	300,000	100
EAREM	9F, 94, ChungHsiaoE.Road., Sec.2, Taipei, Taiwan	Note 5	30	15,489	1,380	1,500	-	1,500	30
FCBL Capital International (B.V.I) Ltd.	Citco Building, Wickhams Cay, P. O. Box 662, Road Town, Tortola, British Virgin Islands	Note 4	100	1,858,600	-	60,050	-	60,050	100
FCB International Leasing Ltd.	Rm. 1008, Jianwu Building, No. 188, Wangdun Rd., Suzhou, China	Note 4	100	648,628	-	USD 30,000 thousands	-	USD 30,000 thousands	100
FCB Leasing (Xiamen) Ltd.	20-21F., Huli Building, Wuyuanwan Business Operations Center, Huli District, Xiamen City	Note 4	100	928,446	-	USD 30,000 thousands	-	USD 30,000 thousands	100

Note 1:All the owned shares and pro forma shares of investee company held by the Bank, directors, supervisors, president, executive vice presidents, and its related parties defined under the R.O.C. Company Law shall be included.

Note 2:

(1) Pro forma shares are those shares obtained through a transfer, on the assumption of share transfer, from equity securities purchased or derivative instrument contracts signed linked to Investee Company's equity based on agreed transaction terms and undertaking intention, and for the purpose of investing in company under the provisions of Article 74 of the R.O.C. Company Law.

(2) The equity securities mentioned above are referred to as those securities under the provision of Article 11, Item 1 of the bylaws to the R.O.C. Securities and Exchange Law, for example, convertible bond and warrant.

(3) The derivative instrument contracts mentioned above are specified as those derivative instruments defined by the IAS39, for example, stock option.

Note 3: Banking industry.

Note 4: Leasing, investment consulting, and business consulting.

Note 5: Examination and advisory on construction plans and certification of contracts.

(3) Information on investments in Mainland China

A. The Bank's investments in Shanghai branch for the year ended December 31, 2018 were as follows:

(Expressed In Thousands Of New Taiwan Dollars/ Thousands Of US Dollars/ Thousands Of CNY)

Investee Company	Major Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net income of investee	Percentage of Ownership	Equity in the Earnings (Losses) (Note 2)
					Outflow	Inflow				
First Commercial Bank Shanghai Branch	Banking businesses approved by local government	$ 4,676,508 (CNY 1,000,000)	(1)	$ 4,676,508 (USD 157,440)	$ -	$ -	$ 4,676,508 (USD 157,440)	$ 304,175	N/A	$ 304,175 (2)A

Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018	Accumulated Investments in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$ 5,594,790	$ -	$ 4,676,508 (USD 157,440)	$ 4,676,508 (USD 157,440)	$ 123,096,002

B. The Bank's investments in Chengdu branch for the year ended December 31, 2018 were as follows:

(Expressed In Thousands Of New Taiwan Dollars/ Thousands Of US Dollars/ Thousands Of CNY)

Investee Company	Major Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net income of investee	Percentage of Ownership	Equity in the Earnings (Losses) (Note 2)
					Outflow	Inflow				
First Commercial Bank Chengdu Branch	Banking businesses approved by local government	$ 4,896,697 (CNY1,000,000)	(1)	$ 4,896,697 (USD 162,269)	$ -	$ -	$ 4,896,697 (USD 162,269)	$ 244,377	N/A	$ 244,377 (2)A

Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018	Accumulated Investments in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$ 5,193,072	$ -	$ 4,896,697 (USD 162,269)	$ 4,896,697 (USD 162,269)	$ 123,096,002

C. The Bank's investments in Xiamen branch for the year ended December 31, 2018 were as follows:

(Expressed In Thousands Of New Taiwan Dollars/ Thousands Of US Dollars/ Thousands Of CNY)

Investee Company	Major Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net income of investee	Percentage of Ownership	Equity in the Earnings (Losses) (Note 2)
					Outflow	Inflow				
First Commercial Bank Xiamen branch	Banking businesses approved by local government	$ 5,132,801 (CNY 1,000,000)	(1)	$ 5,132,801 (USD 162,946)	$ -	$ -	$ 5,132,801 (USD 162,946)	$ 230,028	N/A	$ 230,028 (2)A

Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018	Accumulated Investments in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$ 5,111,952	$ -	$ 5,132,801 (USD 162,946)	$ 5,132,801 (USD 162,946)	$ 123,096,002

D. Information on FCB's investment in FCB International Leasing Ltd. through the indirect subsidiary-FCBL Capital International (B.V.I.) Ltd., are as follows:

(Expressed In Thousands Of New Taiwan Dollars/ Thousands Of US Dollars)

Investee Company	Major Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net income of investee	Percentage of Ownership	Equity in the Earnings (Losses) (Note 2)
					Outflow	Inflow				
FCB International Leasing Ltd.	Financial Leasing	$ 886,103 (USD 30,000)	(2)	$ 886,103 (USD 30,000)	$ -	$ -	$ 886,103 (USD 30,000)	$ 40,901	100%	$ 40,901 (2)A

Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018	Accumulated Investments in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$ 648,628	$ -	$ 886,103 (USD 30,000)	$ 886,103 (USD 30,000)	$ 1,881,319

E. Information on FCB's investment in FCB Leasing (Xiamen) Ltd. through the indirect subsidiary-FCBL Capital International (B.V.I) Ltd. as follows:

(Expressed In Thousands Of New Taiwan Dollars/ Thousands Of US Dollars)

Investee Company	Major Businesses and Products	Total Amount of Paid-in Capital	Method of Investment (Note 1)	Accumulated Outflow of Investment from Taiwan as of January 1, 2018	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2018	Net income of investee	Percentage of Ownership	Equity in the Earnings (Losses) (Note 2)
					Outflow	Inflow				
FCB Leasing (Xiamen) Ltd	Financial Leasing	$ 903,495 (USD 30,000)	(2)	$ 903,495 (USD30,000)	$ -	$ -	$ 903,495 (USD30,000)	$ 39,979	100%	$39,979 (2)A

Carrying Value as of December 31, 2018	Accumulated Inward Remittance of Earnings as of December 31, 2018	Accumulated Investments in Mainland China as of December 31, 2018	Investment Amounts Authorized by Investment Commission, MOEA	Upper Limit on Investment
$ 928,446	$ -	$ 903,495 (USD30,000)	$ 903,495 (USD30,000)	$ 1,881,319

Note 1: Investment methods are classified into the following three categories; fill in the number of category each case belongs to:

(1) Directly invest in a company in Mainland China.

(2) Through investing in an existing company in the third area (FCBL Capital International (B.V.I.) Ltd.), which then invested in the investee in Mainland China.

(3) Others

Note 2: In the 'Investment income (loss) recognised by the Bank for the year ended December 31, 2018' column:

(1)It should be indicated if the investee was still in the incorporation arrangements and had not yet any profit during this period.

(2)Indicate the basis for investment income (loss) recognition in the number of one of the following three categories:

A.The financial statements that are audited and attested by international accounting firm which has cooperative relationship with accounting firm in R.O.C.(For interim and annual financial reports. For quarterly financial reports, they are financial statements that are reviewed by international accounting firm which has cooperative relationship with accounting firm in R.O.C..)

B.The financial statements that are audited and attested by R.O.C. parent company's CPA.(For interim and annual financial reports. For quarterly financial reports, they are financial statements that are reviewed by R.O.C. parent company's CPA.)

C.Others.

Note 3: The numbers in this table are expressed in New Taiwan Dollars.

14. Disclosure of financial information by segments

(1) General information

The Bank's and its subsidiaries' operation segment reports are consistent with the internal reports provided to the chief operating decision-maker ("CODM"). The CODM is a team that allocates resources to operating segments and evaluates their performance.

Inter-segmental transactions are arm's length transactions, and gains or losses arising from such transactions are eliminated by the parent company upon the preparation of the consolidated financial statements. Profit or loss directly attributable to various segments have been considered when segment performance is being evaluated.

The operating segments of the Bank comprise of loan businesses, deposit businesses, wealth management businesses, treasury businesses, overseas business (excluding OBU), and other businesses. The operating results are reviewed by the Bank's Board of Directors (CODM) regularly and are referenced when allocating resources and evaluating operational performances.

The Bank and its subsidiaries have a global market, comprising six major business segments; there was no change in the reporting segments during the period.

The operating results of the Bank's operating segments are from interest income and the Bank's Board of Directors evaluates segment performance based on the net interest income. The operating results have different income items due to different nature of the operating segments, and the Bank and its subsidiaries evaluates segment performance based on the net profit before tax of various segments. Therefore, performance of all reporting segments is presented by the net value of operating net profit less various operating expenses. Income from external clients provided for the CODM to review is measured on the same basis of the statement of comprehensive income.

Adjustments of internal pricing and transfer pricing are reflected in segment performance evaluation. Income from external clients has been allocated based on the regulated allocation standard between segments.

The internal management's operating reports are prepared based on net operating profit, including net interest income, net service fee income, recovered bad debts (provision), and loan impairment loss, net gain (loss) on financial instruments and other operating gain (loss). Measurement basis does not include non-recurring items, e.g. litigation expenses.

Segment information is mainly based on the internal management reports provided by various operating segments to the CODM, including segmental gain (loss), segmental assets, segmental liabilities and other related information.

(2)Information about segment gain (loss), assets and liabilities:

Financial information of the Bank and its subsidiaries by business for the years ended December 31, 2018 and 2017 were as follows:

	For the year ended December 31, 2018						
	Loan business	Deposit business	Wealth management business	Treasury business	Overseas business (excluding OBU)	Other businesses	Consolidated
Net interest income	$ 17,421,051	$ 4,268,363	$ -	($ 1,378,151)	$ 6,639,557	$ 2,538,736	$ 29,489,556
Net service fee income	1,707,358	2,342	4,346,081	(39,496)	680,646	887,531	7,584,462
Net gain and loss on financial instruments	32,410	472,498	41,249	7,457,682	308,187	706,273	9,018,299
Other net income	(661)	6,856	2,741	5,238	21,625	423,679	459,478
Bad debt expense, commitment and guarantee liability provisions	(4,346,952)	-	-	(611)	(606,795)	(575,905)	(5,530,263)
Operating gross margin after provision	$ 14,813,206	$ 4,750,059	$ 4,390,071	$ 6,044,662	$ 7,043,220	$ 3,980,314	41,021,532
Operating expenses							(20,233,051)
Net profit before tax after provision							$ 20,788,481

	For the year ended December 31, 2017						
	Loan business	Deposit business	Wealth management business	Treasury business	Overseas business (excluding OBU)	Other businesses	Consolidated
Net interest income	$ 17,380,582	$ 3,310,583	$ -	$ 820,791	$ 5,697,498	$ 2,337,930	$ 29,547,384
Net service fee income	1,712,813	3,735	4,263,287	(29,839)	657,556	871,372	7,478,924
Net gain and loss on financial instruments	32,339	420,975	50,426	5,209,682	(180,577)	665,772	6,198,617
Other net income	679	6,977	2,700	10,719	2,811	231,480	255,366
Bad debt expense, commitment and guarantee liability provisions	(3,399,537)	-	-	(4,307)	(340,116)	(3,064,168)	(6,808,128)
Operating gross margin after provision	$ 15,726,876	$ 3,742,270	$ 4,316,413	$ 6,007,046	$ 5,837,172	$ 1,042,386	36,672,163
Operating expenses							(18,817,603)
Net profit before tax after provision							$ 17,854,560

	December 31, 2018						
	Loan business	Deposit business	Treasury business	Overseas business (excluding OBU)	Other businesses	Reconciliation and elimination	Consolidated
Segment assets	$ 1,472,703,506	$ -	$ 1,033,697,083	$ 350,613,159	$ 181,353,586	($ 176,831,194)	$ 2,861,536,140
Segment liabilities	7,590,643	2,054,406,553	335,818,278	302,259,444	126,114,069	(169,812,850)	2,656,376,137

	December 31, 2017						
	Loan business	Deposit business	Treasury business	Overseas business (excluding OBU)	Other businesses	Reconciliation and elimination	Consolidated
Segment assets	$ 1,387,390,088	$ -	$ 906,297,698	$ 313,691,535	$ 160,829,802	($ 198,293,616)	$ 2,569,915,507
Segment liabilities	4,228,321	1,899,519,954	276,670,805	270,196,899	118,699,483	(191,659,121)	2,377,656,341

(3) Geographical information

The Bank and its subsidiaries' geographical information for the years ended December 31, 2018 and 2017 are as follows:

	For the year ended 2018	For the year ended 2017
Taiwan	$ 38,628,120	$ 37,572,555
Asia	5,238,977	3,349,153
North America	1,959,812	2,029,250
Others	724,886	529,333
Total	$ 46,551,795	$ 43,480,291

(4) Information on products

The Bank and its subsidiaries' information on products is consistent with their segment, please refer to Note 14(2).

(5) Major customer information

No single external customer is deemed significant by its transactions with the Bank generating revenues which accounted for more than 10% of the net profit of the Bank and its subsidiaries.