

**Shin Kong Financial Holding Co., Ltd. and
Subsidiaries**

**Consolidated Financial Statements for the
Years Ended December 31, 2019 and 2018 and
Independent Auditors' Report**

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Shareholders
Shin Kong Financial Holding Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Shin Kong Financial Holding Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated balance sheets as of December 31, 2019 and 2018, the consolidated statements of comprehensive income, changes in equity and cash flows for the years ended December 31, 2019 and 2018, and the 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 Group as of December 31, 2019 and 2018, and its consolidated financial performance, and its consolidated cash flows for the years ended December 31, 2019 and 2018, in accordance with the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies, Regulations Governing the Preparation of Financial Statements by Insurance Companies, Guidelines Governing the Preparation of Financial Statements by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, Guidelines Governing the Preparation of Financial Reports by Public Banks and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

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

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, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Group's consolidated financial statements for the year ended December 31, 2019 are stated as follows:

Valuation of Reserve for Life Insurance Liability and Liability Adequacy Test

The description of the key audit matter:

As described in Note 31a(3) to the accompanying consolidated financial statements, the reserve for life insurance liability amounted to NT\$2,740,280,802 thousand, 72% of the total consolidated liabilities. Note 31a(6) also describes the exemption from a reserve for liability adequacy after testing and valuation by management.

Shin Kong Life Insurance Co., Ltd. subsidiary of Shin Kong Financial Holding Co., Ltd. which management adopts actuarial models and several significant assumptions for estimating the reserve for life insurance liability and the reserve for liability adequacy. Judging the reserve for life insurance liability involves significant assumptions, which include the mortality rate, discount rate, lapse rate, morbidity rate, etc. The setup of assumptions is based on legislation, regulations, knowledge of the Group's actual experience and industry-specific experience. The tests performed in respect of the reserve for liability adequacy on insurance contracts are in accordance with regulations enacted by the Actuarial Institute of the Republic of China, and the setup of future test discount rates accounts for the Group's best estimate scenario as well as the rate of the portfolio return under the current information.

Refer to Notes 4p(3), 4p(6), 5a and 31 to the accompanying consolidated financial statements for the details on the related information, accounting policies, accounting estimate and assumption uncertainty for the reserve for life insurance liability and the reserve for the liability adequacy test.

Since any changes in the actuarial models and important assumptions may lead to significant impacts on the results of the reserves for life insurance liability and for the liability adequacy test estimations, the reserves for life insurance liability and for liability adequacy test were identified as a key audit matter.

Corresponding audit procedures:

1. We understand the internal controls related to management's estimation of the reserves for life insurance liability and for the liability adequacy test as well as evaluate the operating effectiveness of these internal controls.
2. We obtain actuarial reports regarding management's estimations of the reserves for life insurance liability and for liability adequacy test as well as evaluate the Group's contracted actuarial specialist's professional ability and competence.
3. Our actuarial specialist performs the following procedures, and we compare the results with the actuarial report published by the Group's contracted actuary in order to evaluate the rationality of the actuarial models and significant assumptions regarding the recognition of the reserve for life insurance liability applied by management. The main audit procedures are described as follows:
 - a. Our actuarial specialist randomly samples the insurance products of Shin Kong Life Insurance Co., Ltd. to examine whether the calculations of the reserve for life insurance liability were made in accordance with the regulations.

- b. Our actuarial specialist focuses on the actuarial models and important assumptions of selected insurance policies and verifies the recognized amount of the reserve for life insurance liability.
 - c. Our actuarial specialist performs profiling tests focused on long term insurance policies to identify any abnormal situations with recognized amounts of reserve of life insurance liability on single insurance policies for the year ended December 31, 2019.
 - d. Our actuarial specialist uses the previously recognized amounts of the reserve for life insurance liability taking into consideration the business development for this year and performs a ratio analysis of the reasonableness of the reserve for life insurance liability to estimate the overall recognized amount of reserve for life insurance liability.
4. Our actuarial specialist performs the following procedures, and we compare the results with the actuarial report published by the Group's contracted actuary in order to evaluate the rationality of the actuarial models and significant assumptions regarding the recognition of the reserve for liability adequacy test applied by management. The main audit procedures are described as follows:
- a. Our actuarial specialist focuses on the tests of selected insurance policies provided by Shin Kong Life Insurance Co., Ltd. for our audit in order to examine whether the assumptions were consistent with regulations and the important built-in assumptions with the actuarial tools.
 - b. Our actuarial specialist focuses on the tests of selected insurance policies in order to evaluate the discount rates for the future years applied by Shin Kong Life Insurance Co., Ltd. for the reserve for liability adequacy test, and we perform individual recalculations.
 - c. Our actuarial specialist performs a comparative analysis of the prior year's results taking into consideration the impact of the current business development in order to evaluate the rationality of the calculation of the reserve for liability adequacy test.

Valuation of non-derivative Financial Instruments at Fair Value through Profit or Loss or Other Comprehensive Income by Valuation Models with No Quoted Price in Active Markets

The description of the key audit matter is as follows:

In 2019, Shin Kong Life Insurance Co., Ltd. held non-derivative financial instruments at fair value through profit or loss or other comprehensive income by valuation models with no quoted price in active markets. The amount of the financial instruments that were classified as Level 2 and Level 3 financial assets, amounted to NT\$36,237,025 thousand, 4% of the total financial assets at fair value through profit or loss or other comprehensive income. The financial instruments at fair value through profit or loss or other comprehensive income by valuation models with no quoted price in active markets were mainly stocks and bond investments. For the above financial instruments, the management of Shin Kong Life Insurance Co., Ltd. applied valuation models to determine the fair values.

Refer to Notes 4m, 5b, 8, 9, and 50b to the accompanying consolidated financial statements for details on the relevant information, accounting policies, accounting estimate, and assumption uncertainty for the valuation of non-derivative financial instruments at fair value through profit or loss or other comprehensive income by valuation models with no quoted price in active markets.

The valuation models of the non-derivative financial instruments at fair value through profit or loss or other comprehensive income is selected based on the rules and practical experience of IFRS 13 and Evaluation Standards 12 “Evaluation of Financial Instruments” by Accounting Research and Development Foundation, included the adjusted observable and unobservable inputs. The selection of the valuation models, as mentioned, and the inputs were involved in the critical judgments and estimations from management. Therefore, the valuation of the above-mentioned financial instruments was considered to be a key audit matter.

Corresponding audit procedures:

1. We understand the internal controls related to management’s valuation of the non-derivative financial instruments at fair value through profit or loss or other comprehensive income by valuation models with no quoted price in active markets as well as evaluate the design of the internal controls.
2. With sampling the investment targets of the Level 2 and Level 3 non-derivative financial instruments at fair value through profit or loss or other comprehensive income by valuation models, we evaluate whether the valuation model and inputs adopted by management were reasonable, and recalculate the results to evaluate whether the carrying amount are reasonable.

Expected Credit Loss Valuation of Discountings and Loans

The description of the key audit matter:

Shin Kong Commercial Bank Co., Ltd., the subsidiary company of Shin Kong Financial Holding Co., Ltd., which had discountings and loans amounted to \$597,428,365 thousand, representing 15% of the consolidated total assets at December 31, 2019. The expected credit losses of discountings and loans from January 1, 2019 to December 31, 2019 amounted to \$1,300,159 thousand. As the expected credit losses of discounting’s and loans is material to the financial statements of Shin Kong Commercial Bank Co., Ltd. as a whole, and also as described in Note 5c, the measurement of expected credit losses of loans and overdue loans involves various financial factors, such as the probability of default and loss given default; therefore, the expected credit losses of discountings and loans was deemed as a key audit matter.

Refer to Notes 4m, 5c and 15 to the accompanying consolidated financial statements for details on the related information, accounting policies, accounting estimates, and assumption uncertainty for the estimations of the expected credit losses of discounting’s and loans.

Corresponding audit procedures:

1. We understand and test the internal controls related to the expected credit losses of discountings and loans of Shin Kong Commercial Bank Co., Ltd.
2. We sample discountings and loans of Shin Kong Commercial Bank Co., Ltd. with significant expected credit losses and evaluate whether the value of collateral used for the expected credit loss estimations was reasonable for the individual expected credit loss assessment.
3. We focus on the expected credit loss of discountings and loans of Shin Kong Commercial Bank Co., Ltd. as a whole, understanding and testing the classification of loans and the important inputs of impairment models (risk of default and expected loss rate) in order to evaluate the rationality of the expected credit loss used to conform with the current experience and economic situation.

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 Statements by Financial Holding Companies, Regulations Governing the Preparation of Financial Statements by Insurance Companies, Guidelines Governing the Preparation of Financial Statements by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants, and Guidelines Governing the Preparation of Financial Reports by Public Banks and International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, 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 Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

1. Identify and assess the risks of material misstatement of the 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 (including the financial reporting process), 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 Group's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Group 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 and appropriate audit evidence regarding the financial information of entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision, and performance of the group audit. We remain solely responsible for our audit opinion.

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 for the year ended December 31, 2019 and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partners on the audit resulting in this independent auditors' report are Wang-Seng Lin and Kwan-Chung Lai.

Deloitte & Touche
Taipei, Taiwan
Republic of China

February 25, 2020

Notice to Readers

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

For the convenience of readers, the independent 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. If there is any conflict between the English version and the original Chinese version or any difference in the interpretation of the two versions, the Chinese-language independent auditors' report and consolidated financial statements shall prevail.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	2019		2018	
	Amount	%	Amount	%
ASSETS				
CASH AND CASH EQUIVALENTS (Notes 4 and 6)	\$ 201,897,933	5	\$ 51,679,250	1
DUE FROM CENTRAL BANK AND OTHER BANKS (Note 7)	51,801,518	1	38,818,698	1
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4, 8 and 50)	476,321,145	12	388,623,506	11
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Notes 4, 9 and 50)	349,069,530	9	394,108,421	11
FINANCIAL ASSETS AT AMORTIZED COST (Notes 4, 10 and 50)	1,802,686,194	45	1,714,648,273	47
BONDS PURCHASED UNDER RESALE AGREEMENTS (Notes 4, 12 and 39)	10,736,713	-	9,657,198	-
ACCOUNTS RECEIVABLE (Notes 4, 13 and 15)	72,698,862	2	76,657,778	2
CURRENT TAX ASSETS (Notes 4 and 38)	1,296,063	-	2,299,374	-
NONCURRENT ASSETS CLASSIFIED AS HELD FOR SALE (Notes 4 and 14)	-	-	37,976	-
LOANS, NET (Notes 4, 15 and 39)	754,966,218	19	725,435,818	20
INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD (Notes 4 and 17)	422,990	-	511,677	-
ASSETS ON INSURANCE PRODUCTS - SEPARATE ACCOUNTS (Notes 4 and 29)	41,833,811	1	41,300,877	1
MISCELLANEOUS FINANCIAL ASSETS	6,484,770	-	7,467,229	-
INVESTMENT PROPERTIES (Notes 4, 19 and 50)	128,028,117	3	110,484,998	3
PROPERTY AND EQUIPMENT (Notes 4, 19 and 50)	31,850,554	1	31,854,369	1
RIGHT-OF-USE ASSETS, NET (Notes 4 and 20)	5,168,346	-	-	-
INTANGIBLE ASSETS, NET (Notes 4 and 21)	3,019,275	-	2,935,570	-
DEFERRED TAX ASSETS (Notes 4 and 38)	17,203,608	1	18,954,916	1
OTHER ASSETS (Notes 4, 22, 43 and 50)	<u>25,648,172</u>	<u>1</u>	<u>32,991,324</u>	<u>1</u>
TOTAL	\$ 3,981,133,819	100	\$ 3,648,467,252	100
LIABILITIES AND EQUITY				
DUE TO CENTRAL BANK AND OTHER BANKS (Note 23)	\$ 8,493,819	-	\$ 8,705,068	-
FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS (Notes 4 and 8)	5,503,637	-	8,552,203	-
NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS (Notes 4, 24 and 39)	40,823,365	1	42,654,744	1
ACCRUED EXPENSES	7,823,258	-	7,472,618	-
BONDS PAYABLE - CURRENT PORTION (Note 26)	6,000,000	-	3,500,000	-
OTHER PAYABLES (Note 30)	28,112,050	1	38,191,793	1
CURRENT TAX LIABILITIES (Notes 4 and 38)	142,762	-	211,241	-
DEPOSITS AND REMITTANCES (Notes 25 and 39)	772,279,330	19	707,967,035	19
BONDS PAYABLE (Notes 4 and 26)	54,762,248	1	56,197,196	2
OTHER LOANS (Note 27)	1,176,770	-	592,771	-
PROVISIONS				
Insurance liability reserve (Notes 4 and 31)	2,766,723,787	70	2,544,893,193	70
Reserve for employee benefits (Notes 4 and 28)	657,265	-	1,172,923	-
Other reserves	279,068	-	274,984	-
LIABILITIES ON INSURANCE PRODUCTS - SEPARATE ACCOUNTS (Notes 4 and 29)	41,833,811	1	41,300,877	1
MISCELLANEOUS FINANCIAL LIABILITIES	16,734,605	1	19,226,324	1
LEASE LIABILITIES (Notes 4 and 20)	7,036,559	-	-	-
DEFERRED TAX LIABILITIES (Notes 4 and 38)	5,146,890	-	3,708,157	-
OTHER ADVANCE RECEIPTS	4,247,060	-	4,438,814	-
OTHER LIABILITIES	<u>18,060,675</u>	<u>1</u>	<u>14,791,591</u>	<u>1</u>
Total liabilities	<u>3,785,836,959</u>	<u>95</u>	<u>3,503,851,532</u>	<u>96</u>
EQUITY ATTRIBUTABLE TO THE OWNER OF THE COMPANY (Notes 4 and 32)				
Share capital				
Common stock	126,003,941	3	121,855,057	3
Preferred stock	750,000	-	-	-
Capital collected in advance	-	-	748,884	-
Capital surplus	13,655,226	1	13,935,322	-
Retained earnings				
Legal reserve	4,845,115	-	5,517,796	-
Special reserve	21,154,359	1	21,154,359	1
Unappropriated retained earnings	16,852,797	-	(672,681)	-
Other equity				
Exchange differences on translating foreign operations	(38,013)	-	77,887	-
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income	7,252,609	-	108,835	-
Unrealized gain on investments in debt instruments at fair value through other comprehensive income	2,070,714	-	(3,060,523)	-
Reclassified to other comprehensive income based on the overlay approach	2,750,206	-	(15,056,530)	-
Treasury shares	<u>(401,846)</u>	<u>-</u>	<u>(401,846)</u>	<u>-</u>
Total equity attributable to the owner of the Company	194,895,108	5	144,206,560	4
NON-CONTROLLING INTERESTS (Notes 16 and 32)	<u>401,752</u>	<u>-</u>	<u>409,160</u>	<u>-</u>
Total equity	<u>195,296,860</u>	<u>5</u>	<u>144,615,720</u>	<u>4</u>
TOTAL	\$ 3,981,133,819	100	\$ 3,648,467,252	100

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

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
INTEREST INCOME (Notes 36 and 39)	\$ 112,980,638	41	\$ 103,772,439	41	9
INTEREST EXPENSE (Note 39)	<u>(7,778,867)</u>	<u>(3)</u>	<u>(6,319,374)</u>	<u>(2)</u>	23
NET INTEREST INCOME	<u>105,201,771</u>	<u>38</u>	<u>97,453,065</u>	<u>39</u>	8
NET INCOME AND GAINS OTHER THAN INTEREST INCOME					
Net processing fee and commission fee (Notes 4, 29, 34 and 39)	(6,531,904)	(2)	(6,062,642)	(2)	8
Net income on life insurance operation (Notes 31 and 35)	156,621,148	57	142,910,915	56	10
Gain on financial assets and liabilities at fair value through profit or loss (Notes 8 and 36)	48,274,487	17	(71,167,140)	(28)	168
Realized gain on financial assets at fair value through other comprehensive income (Note 36)	11,670,234	4	25,677,857	10	(55)
Net loss on derecognition of financial assets at amortized cost (Note 36)	9,889,007	4	63,396	-	15,499
Share of loss of associates accounted for using the equity method (Note 17)	(127,647)	-	(331,643)	-	(62)
Gain on reclassification based on overlay approach (Note 36)	(21,438,812)	(8)	24,518,512	10	(187)
Gain on investment properties (Notes 36 and 39)	3,861,956	1	3,582,906	1	8
Foreign exchange gain or loss (Note 8)	(31,569,805)	(11)	35,989,210	14	(188)
Impairment loss recognized on assets (Note 36)	308,019	-	(2,206,352)	(1)	114
Gain on other investments, net (Notes 17 and 36)	-	-	1,688,029	1	(100)
Other miscellaneous income, net (Note 39)	<u>881,827</u>	<u>-</u>	<u>743,578</u>	<u>-</u>	19
PROFIT FROM OPERATIONS	<u>277,040,281</u>	<u>100</u>	<u>252,859,691</u>	<u>100</u>	10
NET CHANGES IN INSURANCE LIABILITY RESERVE (Note 31)	<u>(234,264,063)</u>	<u>(84)</u>	<u>(214,575,601)</u>	<u>(85)</u>	9

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SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
PROVISION FOR BAD DEBT EXPENSES (Note 15)	\$ (476,752)	-	\$ (1,552,000)	(1)	(69)
OPERATING EXPENSES (Notes 37 and 39)					
Employee benefit expenses	(15,824,929)	(6)	(15,161,889)	(6)	4
Depreciation and amortization expenses	(2,987,134)	(1)	(2,071,152)	(1)	44
Other selling and administrative expenses	(8,196,967)	(3)	(8,464,333)	(3)	(3)
Total operating expenses	(27,009,030)	(10)	(25,697,374)	(10)	5
CONSOLIDATED INCOME BEFORE INCOME TAX	15,290,436	6	11,034,716	4	39
INCOME TAX BENEFIT (Notes 4 and 38)	1,339,858	-	(556,121)	-	341
CONSOLIDATED NET INCOME	16,630,294	6	10,478,595	4	59
OTHER COMPREHENSIVE INCOME (LOSS)					
Items that will not be reclassified subsequently to profit or loss:					
Loss on remeasurement of defined benefit plans	194,414	-	(383,055)	-	151
Unrealized gain on investments in equity instruments designated as at fair value through other comprehensive income	8,245,796	3	2,155,236	1	283
Income tax relating to items that will not be reclassified subsequently to profit or loss	(1,011,377)	-	(1,398,035)	(1)	(28)
Items that may be reclassified subsequently to profit or loss:					

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SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019		2018		Percentage Increase (Decrease) %
	Amount	%	Amount	%	
Exchange differences on translating foreign operations	\$ (115,900)	-	\$ 52,972	-	(319)
Unrealized loss on investments in debt instruments at fair value through other comprehensive income	6,261,295	2	(30,561,563)	(12)	120
Reclassification to other comprehensive loss based on overlay approach	21,438,812	8	(24,518,512)	(10)	187
Share of the other comprehensive loss of associates and joint ventures accounted for using the equity method	8,449	-	(12,545)	-	167
Income tax relating to items that may be reclassified subsequently to profit or loss (Note 38)	<u>(4,770,583)</u>	<u>(2)</u>	<u>8,885,548</u>	<u>4</u>	(154)
Total other comprehensive (loss) income, net of income tax	<u>30,250,906</u>	<u>11</u>	<u>(45,779,954)</u>	<u>(18)</u>	166
TOTAL COMPREHENSIVE INCOME (LOSS)	<u>\$ 46,881,200</u>	<u>17</u>	<u>\$ (35,301,359)</u>	<u>(14)</u>	233
INCOME ATTRIBUTABLE TO:					
Owner of the Company	\$ 16,562,137	6	\$ 9,753,791	4	70
Non-controlling interests	<u>68,157</u>	<u>-</u>	<u>724,804</u>	<u>-</u>	(91)
	<u>\$ 16,630,294</u>	<u>6</u>	<u>\$ 10,478,595</u>	<u>4</u>	59
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO:					
Owner of the Company	\$ 46,818,644	17	\$ (36,268,297)	(14)	229
Non-controlling interests	<u>62,556</u>	<u>-</u>	<u>966,938</u>	<u>-</u>	(94)
	<u>\$ 46,881,200</u>	<u>17</u>	<u>\$ (35,301,359)</u>	<u>(14)</u>	233
EARNINGS PER SHARE (Note 33)					
Basic	<u>\$1.34</u>		<u>\$0.89</u>		
Diluted	<u>\$1.28</u>		<u>\$0.85</u>		

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

(Concluded)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018
(In Thousands of New Taiwan Dollars)

	Equity Attributable to Owner of the Company											Treasury Shares	Total Equity Attributable to Owner of the Company	Non-controlling Interests	Total	
	Share Capital			Capital Surplus	Retained Earnings			Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available-for-sale Financial Assets	Other Equity						
	Common Stock	Preferred Stock	Capital Collected in Advance		Legal Reserve	Special Reserve	Unappropriated Earnings			Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Equity Related to Assets Classified as Held for Sale					Other Comprehensive Income on Reclassification of Overlay Approach
BALANCE, DECEMBER 31, 2017	\$ 102,281,441	\$ -	\$ 137,586	\$ 10,033,789	\$ 4,464,679	\$ 27,217,124	\$ 10,441,856	\$ 69,907	\$ (12,852,496)	\$ -	\$ -	\$ -	\$ (483,387)	\$ 141,310,499	\$ 14,660,102	\$ 155,970,601
Effect of retrospective application on IFRS 9	-	-	-	-	-	-	(4,550,099)	-	12,852,496	5,878,655	-	5,400,103	-	19,581,155	526,622	20,107,777
BALANCE, JANUARY 1, 2018 AS RESTATED	102,281,441	-	137,586	10,033,789	4,464,679	27,217,124	5,891,757	69,907	-	5,878,655	-	5,400,103	(483,387)	160,891,654	15,186,724	176,078,378
Special reserve reversed under Rule No. 1010012865 issued by the FSC	-	-	-	-	-	(6,062,765)	6,062,765	-	-	-	-	-	-	-	-	-
Buy-back of treasury shares and transferred to employees	-	-	-	(19,921)	-	-	-	-	-	-	-	-	483,387	463,466	-	463,466
Equity component of convertible bonds issued by the Company	-	-	-	221,000	-	-	-	-	-	-	-	-	-	221,000	-	221,000
Convertible bonds converted to ordinary shares	7,359,280	-	611,298	(851,658)	-	-	-	-	-	-	-	-	-	7,118,920	-	7,118,920
Appropriation of 2017 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	1,053,117	-	(1,053,117)	-	-	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	-	(3,679,429)	-	-	-	-	-	-	(3,679,429)	-	(3,679,429)
Share dividends distributed by the Company	1,576,898	-	-	-	-	-	(1,576,898)	-	-	-	-	-	-	-	-	-
Changes in non-controlling interests	-	-	-	(31,251)	-	-	-	164	-	(1,797)	-	-	-	(32,884)	(143,142)	(176,026)
Buy-back of treasury shares by the Company	-	-	-	-	-	-	-	-	-	-	-	-	(174,053)	(174,053)	-	(174,053)
Changes in percentage of ownership interests in subsidiaries	10,637,438	-	-	4,583,363	-	-	-	(43,446)	-	651,798	-	-	(227,793)	15,601,360	(15,601,360)	-
Net income for the year ended December 31, 2018	-	-	-	-	-	-	9,753,791	-	-	-	-	-	-	9,753,791	724,804	10,478,595
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	-	(82,715)	55,839	-	(25,538,579)	-	(20,456,633)	-	(46,022,088)	242,134	(45,779,954)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	-	9,671,076	55,839	-	(25,538,579)	-	(20,456,633)	-	(36,268,297)	966,938	(35,301,359)
Loss on disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	(16,059,788)	-	-	16,059,788	-	-	-	-	-	-
Gain on disposal of investments in equity instruments designated as at fair value through other comprehensive income from participating policy transfer in special reserve	-	-	-	-	-	-	70,953	-	-	-	-	-	-	70,953	-	70,953
Joint ventures accounted for using the equity method reclassified to equity related to financial assets classified as held for sale	-	-	-	-	-	-	-	(4,577)	-	(1,553)	6,130	-	-	-	-	-
Loss on disposal of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	(6,130)	-	-	(6,130)	-	(6,130)
BALANCE, DECEMBER 31, 2018	121,855,057	-	748,884	13,935,322	5,517,796	21,154,359	(672,681)	77,887	-	(2,951,688)	-	(15,056,530)	(401,846)	144,206,560	409,160	144,615,720
Appropriation of 2018 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve used to offset deficits	-	-	-	-	(672,681)	-	672,681	-	-	-	-	-	-	-	-	-
Cash dividends from capital surplus	-	-	-	(2,445,185)	-	-	-	-	-	-	-	-	-	(2,445,185)	-	(2,445,185)
Changes in non-controlling interests - cash dividends	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(69,964)	(69,964)
Issue of shares	3,400,000	750,000	-	2,126,862	-	-	-	-	-	-	-	-	-	6,276,862	-	6,276,862
Convertible bonds converted to ordinary shares	748,884	-	(748,884)	-	-	-	-	-	-	-	-	-	-	-	-	-
Share-based payments	-	-	-	38,227	-	-	-	-	-	-	-	-	-	38,227	-	38,227
Net income for the year ended December 31, 2019	-	-	-	-	-	-	16,562,137	-	-	-	-	-	-	16,562,137	68,157	16,630,294
Other comprehensive (loss) income for the year ended December 31, 2019	-	-	-	-	-	-	155,059	(115,900)	-	12,410,612	-	17,806,736	-	30,256,507	(5,601)	30,250,906
Total comprehensive (loss) income for the year ended December 31, 2019	-	-	-	-	-	-	16,717,196	(115,900)	-	12,410,612	-	17,806,736	-	46,818,644	62,556	46,881,200
Gain on disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	135,601	-	-	(135,601)	-	-	-	-	-	-
BALANCE, DECEMBER 31, 2019	\$ 126,003,941	\$ 750,000	\$ -	\$ 13,655,226	\$ 4,845,115	\$ 21,154,359	\$ 16,852,797	\$ (38,013)	\$ -	\$ 9,323,323	\$ -	\$ 2,750,206	\$ (401,846)	\$ 194,895,108	\$ 401,752	\$ 195,296,860

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

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Consolidated income before income tax	\$ 15,290,436	\$ 11,034,716
Adjustments for:		
Depreciation expenses	2,554,722	1,667,813
Amortization expenses	432,412	403,339
Provision for doubtful accounts	476,752	1,552,000
(Gain) loss on financial assets and liabilities at fair value through profit or loss	(48,274,487)	71,167,140
Interest expense	7,778,867	6,319,374
Interest income	(112,980,638)	(103,772,439)
Dividend income	(17,290,841)	(14,730,071)
Changes in insurance liability reserve	221,813,666	221,051,538
Compensation cost of share-based payments	38,227	10,272
Loss of associates and joint ventures accounted for using the equity method	127,647	331,643
Loss (gain) on reclassification based on overlay approach	21,438,812	(24,518,512)
Loss (gain) on disposal of property and equipment	1,258	(2,977)
Gain on sale of investments	(11,245,568)	(15,578,856)
Gain on disposal of investments accounted for using the equity method	-	(1,688,029)
(Reversal of) impairment loss recognized on financial assets	(308,019)	385,421
Loss on reversal of impairment on non-financial assets	-	1,820,931
Loss on lease modifications	4,799	-
Net changes in operating assets and liabilities		
Increase in due from the Central Bank and other banks	(1,173,848)	(1,261,838)
Increase in financial assets at fair value through profit or loss	(5,561,919)	(63,235,204)
Decrease in financial assets at fair value through other comprehensive income	54,888,448	226,647,613
Increase in investments in debt instruments at amortized cost	(55,802,040)	(403,945,166)
Increase in notes and bonds purchased under resale agreements	(1,079,515)	(156,923)
Decrease (increase) in receivables	2,920,835	(5,639,809)
Increase in loans	(29,499,217)	(29,180,424)
Decrease (increase) in other financial assets	525,448	(2,539,439)
Increase in other assets	(1,628,739)	(725,937)
(Decrease) increase in due to Central Bank and other banks	(211,249)	4,833,878
Decrease in financial liabilities at fair value through profit or loss	(36,909,419)	(66,926,380)
(Decrease) increase in payables	(9,476,531)	14,732,509
(Decrease) increase in other financial liabilities	(2,491,719)	2,492,801
(Decrease) increase in other liabilities	(1,800,867)	4,255,321
Increase in deposits and remittances	64,312,295	21,444,008
Decrease in reserve for employee benefits	(321,243)	(897,261)
Cash generated from (used in) operations	56,548,765	(144,648,948)
Interest received	92,504,240	84,687,972
Dividends received	16,858,767	14,549,311

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

	2019	2018
Interest paid	\$ (7,828,164)	\$ (6,165,816)
Income tax paid	<u>(319,528)</u>	<u>(570,710)</u>
Net cash generated from (used in) operating activities	<u>157,764,080</u>	<u>(52,148,191)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of investments accounted for using the equity method	(45,000)	(838,125)
Acquisition of property and equipment	(2,014,019)	(1,255,217)
Proceeds from disposal of property and equipment	7,607	9,074
Decrease (increase) in guarantee deposits paid	4,240,163	(3,487,010)
Acquisition of intangible assets	(311,792)	(205,107)
Acquisition of investment properties	(5,049,145)	(3,634,055)
Increase in other assets	<u>(350,988)</u>	<u>(1,976,029)</u>
Net cash used in investing activities	<u>(3,523,174)</u>	<u>(11,386,469)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in commercial paper payable	-	(1,499,936)
Proceeds from issue of corporate bonds	-	11,000,000
Repayments of corporate bonds	-	(3,500,000)
Proceeds from the issue of financial debentures	4,500,000	5,000,000
Repayments of bank notes payable	(3,500,000)	-
Increase in other borrowings	583,999	-
Decrease in other loans	-	(995,561)
(Decrease) increase in notes and bonds issued under repurchase agreements	(1,831,379)	6,281,705
Increase (decrease) in guarantee deposits received	4,882,043	(1,219,283)
Payments of lease liabilities	(794,206)	-
Cash dividends paid	-	-
Proceeds from issuing shares	6,276,862	-
Purchase of treasury shares by employees	-	463,466
Cost of treasury shares buyback	-	(174,053)
Dividends paid	(2,445,185)	(3,679,429)
Changes in non-controlling interests	<u>-</u>	<u>68,016</u>
Net cash generated from financing activities	<u>7,672,134</u>	<u>11,744,925</u>
EFFECT OF EXCHANGE RATE CHANGES	<u>114,615</u>	<u>(392,591)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	162,027,655	(52,182,326)
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	<u>71,625,647</u>	<u>123,807,973</u>
CASH AND CASH EQUIVALENTS, END OF THE YEAR	<u>\$ 233,653,302</u>	<u>\$ 71,625,647</u>

(Continued)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars)

Reconciliation of the amounts in the consolidated statements of cash flows with the equivalent items reported in the consolidated balance sheets at December 31, 2019 and 2018:

	<u>December 31</u>	
	2019	2018
Cash and cash equivalents reported in the consolidated balance sheets	\$ 201,897,933	\$ 51,679,250
Due from Central Bank and other banks qualified for cash and cash equivalents under the definition of IAS 7	<u>31,755,369</u>	<u>19,946,397</u>
Cash and cash equivalents at the end of the year	<u>\$ 233,653,302</u>	<u>\$ 71,625,647</u>

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

(Concluded)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018 (In Thousands of New Taiwan Dollars, Unless Stated Otherwise)

1. GENERAL INFORMATION

Shin Kong Financial Holding Co., Ltd. (the “Company” or SKFHC) is a financial holding company established by Shin Kong Life Insurance Co., Ltd. (SKLIC) and Shin Kong Securities Co., Ltd. (SKSC, originally named Li Shih Securities Co., Ltd.) through a share swap and its shares have been listed on the Taiwan Stock Exchange Corporation (TWSE) since February 19, 2002. The Company is mainly engaged in managing its subsidiaries and investing in businesses approved by the relevant authorities. The Company and its subsidiaries are collectively referred to as the “Group”.

To expand the area and scale of operations and utilize the comprehensive operational efficiency and competitiveness of financial institutions, the Company issued 208,504 thousand shares to acquire Taiwan Shin Kong Commercial Bank Co., Ltd. (TSKCB, formerly known as United-Credit Commercial Bank Co., Ltd.) as a wholly owned subsidiary.

The Company issued 661,850 thousand shares to acquire 100% equity interest of Macoto Bank Co., Ltd. (Macoto Bank) on October 3, 2005 through a share swap. On December 31, 2005, Macoto Bank merged with TSKCB and Macoto Bank was the surviving company. At the same time, Macoto Bank was renamed as TSKCB.

To expand the sales of asset management and enhance the synergy of channel integration and resource sharing, the Company purchased 100% of the shares of Shin Kong Investment Trust Co., Ltd. (SKITC) in July 2006.

To utilize the comprehensive operational efficiency and competitiveness of financial institutions, the Company issued 1,063,744 thousand shares and gave it to the shareholders of MasterLink Securities Co., Ltd., which serves as payment for the shares of MasterLink Securities Co., Ltd. that are not owned by the Company, after which MasterLink Securities Co., Ltd. became as a wholly owned subsidiary of the Company.

SKLIC was established in July 1963 and its shares were listed on TWSE in December 1993. SKLIC is mainly engaged in the business of life insurance, including individual and group life, accident, health, and so on. Its headquarters is located in Taipei City, with 23 branch offices throughout Taiwan.

TSKCB was approved as a commercial bank by the Ministry of Finance on September 23, 1996 under Letter Tai-Tsai-Rong No. 85546025. TSKCB acquired its company license from the Ministry of Economic Affairs on December 31, 1996 and operating permit from the Ministry of Finance on January 1, 1997. TSKCB is engaged in the banking business approved by the Banking Act of the Republic of China (“ROC”) and other services approved by the authorities, and it had 103 branches as of December 31, 2019, including the business department, trust departments, foreign exchange transaction department, and an offshore banking branch in Taiwan.

MasterLink Securities Corp. (MLSC) was established by the approval of the Ministry of Economic Affairs on March 23, 1989 and started operations on May 29, 1989, and its shares have been listed on the TWSE since September 16, 2002. MLSC is mainly engaged in securities brokering, underwriting, processing of share registration matters, futures brokering, futures dealing service, security transfer services and other services approved by the authorities. As of December 31, 2019, MLSC had 47 branches.

On September 24, 2009, the board of directors resolved on behalf of shareholders resolved the dissolution date of Shin Kong Securities Co., Ltd. (SKSC) as January 5, 2010. As of December 31, 2019, the liquidation process of SKSC was not yet completed.

SKITC is mainly engaged in negotiable securities investment trust, securities and investment advisory business, carte blanche investment, concurrent future trust business and other services approved by the Securities and Futures Bureau of the Financial Supervisory Commission (FSC). On October 9, 2006, SKITC merged with New Light Asset Management Co., Ltd., and SKITC was the surviving company.

Shin Kong Venture Capital International Co., Ltd. (SKVIC) was established on April 20, 2011. SKVIC is mainly engaged in the venture capital business. SKVIC established Lion Investment (Samoa) Co., Ltd. on May 11, 2011.

Shin Kong Property Insurance Agency Co., Ltd. (SKPIAC) is engaged in the business of property and casualty insurance.

Taiwan Shin Kong Insurance Brokerage Co., Ltd. (TSKIBC), formerly known as Shin Kong Insurance Brokerage Co., Ltd. (SKIBC), is engaged in property and casualty insurance and life insurance brokerage business. On August 31, 2006, SKIBC merged with TSKIBC, and SKIBC was the surviving company and was renamed into TSKIBC. On March 14, 2014, TSKIBC was resolved to dissolution by the board of directors on behalf of shareholders at March 29, 2014. On July 24, 2019, the liquidation process of TSKIBC was completed.

Shin Kong Life Real Estate Service Company (SKLRESC) was established on July 12, 1988 and obtained operating permit on August 17, 1988. SKLRESC is mainly engaged in management services, sanitary services, repair and maintenance of utilities equipment, commerce and installation of water-proof, burglarproof, and fire alarm equipment, commerce and installation of car parking equipment, operation of parking lots, housing brokerage, and real estate business management.

Shin Fu Insurance Agency Co., Ltd. (SFIAC, originally named Shin Kong Life Insurance Agency Co., Ltd.) is engaged in life insurance agency business.

Shin Kong Marketing Consultant Co., Ltd. (SKMC) is mainly engaged in consulting services for loan market, investment advisory, credit service, human resource allocation, agency service, data processing services, information software services, electronic information supply services, general advertising services and non-store retailing.

Shin Kong Leasing (Suzhou) Co., Ltd. (SKLSC) was established on September 15, 2011. SKLSC is mainly engaged in financial leasing business.

2. APPROVAL OF FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Company's board of directors on February 25, 2020.

3. APPLICATION OF NEW, AMENDED AND REVISED STANDARDS AND INTERPRETATIONS

- a. Initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) (collectively, the “IFRSs”) endorsed and issued into effect by the Financial Supervisory Commission (FSC)

Except for the following, the initial application of the amendments to the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRSs endorsed and issued into effect by the FSC did not have material impact on the Group’s accounting policies:

- IFRS 16 “Leases”

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements of both lessee and lessor. It supersedes IAS 17 “Leases”, IFRIC 4 “Determining whether an Arrangement contains a Lease”, and a number of related interpretations. Refer to Note 4 for information relating to the relevant accounting policies.

Definition of a lease

The Group elects to apply the guidance of IFRS 16 in determining whether contracts are, or contain, a lease only to contracts entered into (or changed) on or after January 1, 2019. Contracts identified as containing a lease under IAS 17 and IFRIC 4 are not reassessed and are accounted for in accordance with the transitional provisions under IFRS 16.

The Group as lessee

The Group recognizes right-of-use assets or investment properties if the right-of-use assets meet the definition of investment properties, and lease liabilities for all leases on the consolidated balance sheets except for those whose payments under low-value asset and short-term leases are recognized as expenses on a straight-line basis. On the consolidated statements of comprehensive income, the Group presents the depreciation expense charged on right-of-use assets separately from the interest expense accrued on lease liabilities; interest is computed using the effective interest method. On the consolidated statements of cash flows, cash payments for the principal portion of lease liabilities are classified within financing activities; cash payments for the interest portion are classified within operating activities. Prior to the application of IFRS 16, payments under operating lease contracts were recognized as expenses on a straight-line basis. Prepaid lease payments for land use rights were recognized as prepayments for leases. Cash flows for operating leases were classified within operating activities on the consolidated statements of cash flows. Leased assets and finance lease payables were recognized on the consolidated balance sheets for contracts classified as finance leases.

The Group elected to apply IFRS 16 retrospectively with the cumulative effect of the initial application of this standard recognized in retained earnings on January 1, 2019. Comparative information was not restated.

Lease liabilities were recognized on January 1, 2019 for leases previously classified as operating leases under IAS 17. Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate on January 1, 2019. Except for the following practical expedient (b) which is applied, the Group applies IAS 36 to all right-of-use assets.

The Group also applies the following practical expedients:

- a) The Group applies a single discount rate to a portfolio of leases with reasonably similar characteristics to measure lease liabilities.
- b) The Group adjusts the right-of-use assets on January 1, 2019 by the amount of any provisions for onerous leases recognized on December 31, 2018, instead of assessing the impairment under IAS 36.
- c) The Group accounts for those leases for which the lease term ends on or before December 31, 2019 as short-term leases.
- d) The Group excludes initial direct costs from the measurement of right-of-use assets on January 1, 2019.
- e) The Group uses hindsight, such as in determining lease terms, to measure lease liabilities.

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

The lessee's weighted average incremental borrowing rate applied to lease liabilities recognized on January 1, 2019 was 1.02%-5.66%. The difference between the (i) lease liabilities recognized and (ii) operating lease commitments disclosed under IAS 17 on December 31, 2018 is explained as follows:

The future minimum lease payments of non-cancellable operating lease commitments on December 31, 2018	\$ 9,723,897
Less: Recognition exemption for short-term leases	(188,885)
Less: Recognition exemption for leases of low-value assets	<u>(55)</u>
Undiscounted amounts on January 1, 2019	<u>\$ 9,534,957</u>
Discounted amounts using the incremental borrowing rate on January 1, 2019	\$ 5,528,450
Add: Adjustments as a result of a different treatment of extension and termination options	<u>1,402,106</u>
Lease liabilities recognized on January 1, 2019	<u>\$ 6,930,556</u>

The Group as lessor

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

The impact on assets, liabilities and equity as of January 1, 2019 from the initial application of IFRS 16 is set out as follows:

	As Originally Stated on January 1, 2019	Adjustments Arising from Initial Application	Restated on January 1, 2019
Right-of-use assets	\$ -	\$ 5,190,933	\$ 5,190,933
Investment properties	110,484,998	12,338,149	122,823,147
Other assets	<u>32,991,324</u>	<u>(10,598,526)</u>	<u>22,392,798</u>
Total effect on assets	<u>\$ 143,476,322</u>	<u>\$ 6,930,556</u>	<u>\$ 150,406,878</u>
Lease liabilities - current	<u>\$ -</u>	<u>\$ 6,930,556</u>	<u>\$ 6,930,556</u>
Total effect on liabilities	<u>\$ -</u>	<u>\$ 6,930,556</u>	<u>\$ 6,930,556</u>

- b. The IFRSs endorsed by the Financial Supervisory Commission (FSC) for application starting from 2020

New IFRSs	Effective Date Announced by IASB
Amendments to IFRS 3 “Definition of a Business”	January 1, 2020 (Note 1)
Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”	January 1, 2020 (Note 2)
Amendments to IAS 1 and IAS 8 “Definition of Material”	January 1, 2020 (Note 3)

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

Note 2: The Group shall apply these amendments retrospectively for annual reporting periods beginning on or after January 1, 2020.

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

- 1) Amendments to IFRS 9, IAS 39 and IFRS 7 “Interest Rate Benchmark Reform”

The amendments deal with issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark (such as the London Interbank Offered Rate or LIBOR) with an alternative interest rate, and provide temporary exceptions to all hedging relationships that are directly affected by the interest rate benchmark reform. The Group would apply those hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The amendments also require additional disclosures about the extent to which the entity’s hedging relationships are affected by the amendments.

- 2) Amendments to IAS 1 and IAS 8 “Definition of material”

The amendments are intended to make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRSs. The concept of “obscuring” material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from “could influence” to “could reasonably be expected to influence”.

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

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

New IFRSs	Effective Date Announced by IASB (Note 1)
Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"	To be determined by IASB
IFRS 17 "Insurance Contracts"	January 1, 2021
Amendments to IAS 1 "Classification of Liabilities as Current or Non-current"	January 1, 2022

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

- 1) Amendments to IFRS 10 and IAS 28 "Sale or Contribution of Assets between an Investor and its Associate or Joint Venture"

The amendments stipulate that, when the Group sells or contributes assets that constitute a business (as defined in IFRS 3) to an associate or joint venture, the gain or loss resulting from the transaction is recognized in full. Also, when the Group loses control of a subsidiary that contains a business but retains significant influence or joint control, the gain or loss resulting from the transaction is recognized in full.

Conversely, when the Group sells or contributes assets that do not constitute a business to an associate or joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group's interest as an unrelated investor in the associate or joint venture, i.e., the Group's share of the gain or loss is eliminated. Also, when the Group loses control of a subsidiary that does not contain a business but retains significant influence or joint control over an associate or a joint venture, the gain or loss resulting from the transaction is recognized only to the extent of the Group's interest as an unrelated investor in the associate or joint venture, i.e., the Group's share of the gain or loss is eliminated.

- 2) IFRS 17 "Insurance Contracts"

IFRS 17 sets out the accounting standards for insurance contracts that will supersede IFRS 4. The main standards of IFRS 17 are as follows:

Level of aggregation

IFRS 17 requires the Group to identify portfolios of insurance contracts, which comprise contracts that are subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Each portfolio of insurance contracts issued shall be divided into a minimum of:

- a) A group of contracts that are onerous at initial recognition;
- b) A group of contracts that at initial recognition that has no significant possibility of becoming onerous;
- c) A group of the remaining contracts in the portfolio.

The Group is not permitted to include contracts issued more than one year apart in the same group.

Recognition

The Group shall recognize a group of insurance contracts arising from the earliest of the following:

- a) The beginning of the coverage period of the group of contracts;
- b) The date when the first payment from a policyholder in the group becomes due; and
- c) For a group of onerous contracts, when the group becomes onerous.

Measurement

The Group shall include all the future cash flows within the boundary of each contract in the Group. The fulfilment cash flows comprises the estimates of future cash flows, an adjustment to reflect the time value of money, and a risk adjustment for non-financial risk. The contractual service margin represents the unearned profit of a group of insurance contracts that the Group will recognize as it provides services in the future. This is measured on initial recognition of a group of insurance contracts at an amount that, unless the group of contracts is onerous, results in no income or expenses arising from:

- a) The initial recognition of an amount for the fulfilment cash flows;
- b) The derecognition at that date of any assets or liabilities recognized for acquisition of cash flows from insurance; and
- c) Any cash flows arising from the contracts in the group at that date.

Subsequent measurement

On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of the liability for remaining coverage and the liability for incurred claims. The liability for remaining coverage comprises the fulfilment cash flows related to future services and the contractual service margin of the group at that date. On subsequent measurement, if a group of insurance contracts becomes onerous or more onerous, that excess shall be recognized in profit or loss.

Onerous contracts

An insurance contract is onerous at initial recognition if the total of the fulfilment cash flows, any previously recognized acquisition cash flows and any cash flows arising from the contract at that date are a net outflow. The Group shall recognize a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the fulfilment cash flows and the contractual service margin of the group being zero. The contractual service margin cannot increase and no revenue can be recognized, until the onerous amount previously recognized has been reversed in profit or loss as part of a service expense.

Premium allocation approach

The Group may simplify the measurement of the liability for remaining coverage of a group of insurance contracts using the Premium Allocation Approach (PAA) on the condition that, at the inception of the group:

- a) The Group reasonably expects that this will be a reasonable approximation of the general model, or
- b) The coverage period of each contract in the group is one year or less.

At the inception of the group, if the Group expects significant variances in the fulfilment cash flows during the period before a claim is incurred, such contracts are not eligible to apply the PAA.

When using the PAA, the liability for remaining coverage shall be initially recognized as the premiums, if any, received at initial recognition, minus any insurance acquisition cash flows. Subsequently the carrying amount of the liability is the carrying amount at the start of the reporting period plus the premiums received in the period, minus insurance acquisition cash flows, plus amortization of acquisition cash flows, minus the amount recognized as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

Investment contracts with discretionary participation features

An investment contract with discretionary participation features is a financial instrument and it does not include a transfer of significant insurance risk. It is in the scope of the standard only if the issuer also issues insurance contracts. The requirements of the standard are modified for such investment contracts.

Modification and derecognition

If the terms of an insurance contract are modified, the Group shall derecognize the original contract and recognize the modified contract as a new contract if there is a substantive modification, based on meeting any of the specified criteria.

The Group shall derecognize an insurance contract when it is extinguished, or if any of the conditions of a substantive modification of an insurance contract are met.

Transition

The Group shall apply the standard retrospectively unless impracticable, in which case entities have the option of using either the modified retrospective approach or the fair value approach.

Under the modified retrospective approach, an entity shall utilize reasonable and supportable information and maximize the use of information that would have been used to apply a full retrospective approach, but only needs to use available information without undue cost or effort. The Group shall apply fair value approach if reasonable and supportable information is unavailable.

Under the fair value approach, the Group determines the contractual service margin at the transition date as the difference between the fair value of a group of insurance contracts at that date and the fulfilment cash flows measured at that date.

3) Amendments to IAS 1 “Classification of Liabilities as Current or Non-current”

The amendments clarify that for a liability to be classified as non-current, the Group shall assess whether it has the right at the end of the reporting period to defer settlement of the liability for at least twelve months after the reporting period. If such rights are in existence at the end of the reporting period, the liability is classified as non-current regardless of whether the Group will exercise that right. The amendments also clarify that, if the right to defer settlement is subject to compliance with specified conditions, the Group must comply with those conditions at the end of the reporting period even if the lender does not test compliance until a later date.

The amendments stipulate that, for the purpose of liability classification, the aforementioned settlement refers to a transfer of cash, other economic resources or the Group’s own equity instruments to the counterparty that results in the extinguishment of the liability. However, if the terms of a liability that could, at the option of the counterparty, result in its settlement by a transfer of the Group’s own equity instruments, and if such option is recognized separately as equity in accordance with IAS 32: Financial Instruments: Presentation, the aforementioned terms would not affect the classification of the liability.

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

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

The consolidated financial statements have been prepared in accordance with the Regulations Governing the Preparation of Financial Reports by Financial Holding Companies, Regulations Governing the Preparation of Financial Statements by Insurance Companies, Guidelines Governing the Preparation of Financial Reports by Public Banks, Guidelines Governing the Preparation of Financial Statements by Securities Firms, Regulations Governing the Preparation of Financial Reports by Futures Commission Merchants and IFRSs as endorsed and issued into effect by the FSC.

Basis of Preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that are measured at fair values.

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

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

Classification of Current and Non-current Assets and Liabilities

The assets and liabilities in the consolidated financial statements are classified according to the nature of each account and stated in the order of their liquidity rather than divided into current or noncurrent accounts.

Basis of Consolidation

- Principles for preparing consolidated financial statements

The consolidated financial statements incorporate the financial statements of the Company and the entities controlled by the Company. Income and expenses of subsidiaries acquired or disposed of during the period are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition up to the effective date of disposal, as appropriate. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Company. All intra-group transactions, balances, income and expenses are eliminated in full upon consolidation. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Company.

See Note 16 and Table 2 following these notes to consolidated financial statements for the detailed information of subsidiaries, including the percentage of ownership and main business.

Foreign Currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions.

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

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

Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the foreign operations (including of the subsidiaries, associates, joint ventures or branches operations in other countries or currencies used different with the Company) are translated into New Taiwan dollars using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are recognized in other comprehensive income (attributed to the owners of the Company and non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. a disposal of the Company's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In relation to a partial disposal of a subsidiary that does not result in the Company losing control over the subsidiary, the proportionate share of accumulated exchange differences is re-attributed to non-controlling interests of the subsidiary and is not recognized in profit or loss. For all other partial disposals, the proportionate share of the accumulated exchange differences recognized in other comprehensive income is reclassified to profit or loss.

Investment in Associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. The Group uses the equity method to account for its investments in associate

Under the equity method, an investment in an associate and joint venture is initially recognized at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate and joint venture. The Group also recognizes the changes in the Group's share of equity of associates.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets and liabilities of an associate or a joint venture at the date of acquisition is recognized as goodwill, which is included within the carrying amount of the investment and is not amortized. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition, after reassessment, is recognized immediately in profit or loss.

When the Group subscribes for additional new shares of the associate and joint venture at a percentage different from its existing ownership percentage, the resulting carrying amount of the investment differs from the amount of the Group's proportionate interest in the associate and joint venture. The Group records such a difference as an adjustment to investments with the corresponding amount charged or credited to capital surplus - changes in the Group's share of equity of associates and joint ventures. If the Group's ownership interest is reduced due to the additional subscription of the new shares of associate and joint venture, the proportionate amount of the gains or losses previously recognized in other comprehensive income in relation to that associate and joint venture is reclassified to profit or loss on the same basis as would be required if the investee had directly disposed of the related assets or liabilities. When the adjustment should be debited to capital surplus, but the capital surplus recognized from investments accounted for by the equity method is insufficient, the shortage is debited to retained earnings.

When the Group's share of losses of an associate and a joint venture equals or exceeds its interest in that associate and joint venture (which includes any carrying amount of the investment accounted for by the equity method and long-term interests that, in substance, form part of the Group's net investment in the associate and joint venture), the Group discontinues recognizing its share of further losses. Additional losses and liabilities are recognized only to the extent that the Group has incurred legal obligations, or constructive obligations, or made payments on behalf of that associate and joint venture.

The entire carrying amount of the investment (including goodwill) is tested for impairment as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognized is deducted from the carrying amount of the investment. Any reversal of that impairment loss is recognized to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date on which its investment ceases to be an associate and a joint venture. Any retained investment is measured at fair value at that date and the fair value is regarded as its fair value on initial recognition as a financial asset. The difference between the previous carrying amount of the associate and the joint venture attributable to the retained interest and its fair value is included in the determination of the gain or loss on disposal of the associate and the joint venture. The Group accounts for all amounts previously recognized in other comprehensive income in relation to that associate and the joint venture on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. If an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate, the Group continues to apply the equity method and does not remeasure the retained interest.

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognized in the Group's consolidated financial statements only to the extent of interests in the associate are not related to the Group.

Property and Equipment

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

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognized impairment loss. Cost includes professional fees. Such properties are depreciated and classified to the appropriate categories of property, plant and equipment when completed and ready for intended use.

Except for freehold land which is not depreciated, the depreciation of property, plant and equipment is recognized using the straight-line method. Each significant part is depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

On derecognition of an item of property, plant and equipment, the difference between the sales proceeds and the carrying amount of the asset is recognized in profit or loss.

Investment Properties

Investment properties are properties held to earn rental and/or for capital appreciation. From January 1, 2019 onwards, investment properties include right-of-use assets and properties under construction if the definition of investment properties is met. Before January 1, 2019, investment properties included properties under construction and properties held under finance leases if the definition of investment properties was met. Investment properties also include land held for a currently undetermined future use.

Investment properties are initially measured at cost, including transaction costs. Subsequent to initial recognition, investment properties are measured at cost less accumulated depreciation and accumulated impairment loss.

From January 1, 2019 onwards, investment properties acquired through leases are initially measured at cost, which comprise the initial measurement of lease liabilities adjusted for lease payments made on or before the commencement date, plus initial direct costs incurred and an estimate of costs needed to restore the underlying assets, less any lease incentives received. These investment properties are subsequently measured at cost less accumulated depreciation and accumulated impairment loss and adjusted for any remeasurement of the lease liabilities.

Depreciation is recognized using the straight-line method.

Investment properties under construction are measured at cost less accumulated impairment loss. Cost includes professional fees and borrowing costs eligible for capitalization. Depreciation of these assets commences when the assets are ready for their intended use.

For a transfer of classification from investment properties to property, plant and equipment before January 1, 2019 and to right-of-use assets from January 1, 2019 onwards, the deemed cost of the property for subsequent accounting is its carrying amount at the commencement of owner-occupation.

For a transfer of classification from property, plant and equipment and right-of-use assets to investment properties, the deemed cost of an item of property for subsequent accounting is its carrying amount at the end of owner-occupation.

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

Goodwill

Goodwill arising from the acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired, by comparing its carrying amount, including the attributable goodwill, with its recoverable amount. However, if the goodwill allocated to a cash-generating unit was acquired in a business combination during the current annual period, that unit shall be tested for impairment before the end of the current annual period. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

If goodwill has been allocated to a cash-generating unit and the entity disposes of an operation within that unit, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal, and is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Intangible Assets

Intangible assets with finite useful lives that are acquired separately are initially measured at cost and subsequently measured at cost less accumulated amortization and accumulated impairment loss. Amortization is recognized on a straight-line basis. The estimated useful life, residual value, and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless the Group expects to dispose of the intangible asset before the end of its economic life. Any changes in estimates are accounted for on a prospective basis.

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

Impairment of Tangible and Intangible Assets Other Than Goodwill

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

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

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

Assets Held for Sale

Assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. To meet the criteria for the sale being highly probable, the appropriate level of management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell. Recognition of depreciation of those assets would cease.

Financial Instruments

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

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

a. Financial assets

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis.

1) Measurement categories

Financial assets are classified into the following categories: Financial assets at FVTPL, financial assets at amortized cost, investments in debt instruments measured at fair value through other comprehensive income, and investments in equity instruments measured at fair value through other comprehensive income.

a) Financial assets at FVTPL

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

A financial asset may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise.

Financial assets at FVTPL are subsequently measured at fair value, and any dividends, interest earned and remeasurement gains or losses on such financial assets are recognized in other gains or losses. Fair value is determined in the manner described in Note 54.

Overlay approach

IFRS 4 and related amendments allow companies that issue contracts belonging to IFRS 4 and companies that already applied IFRS 9 to adopt the overlay approach.

The financial assets that are allowed to adopt the overlay approach are limited to financial assets measured at fair value through profit or loss under IFRS 9, but not under IAS 39 and not subject to the requirements of IFRS 4 “Insurance Contracts”.

The company that chooses to use the overlay approach should designate the qualified financial assets upon initial application of IFRS 9 and designate the new assets acquired after that during initial recognition.

The changes in fair value of qualified financial assets should be divided into two parts, recorded as profit or loss under IAS 39 and the difference between application of IFRS 9 and IAS 39 recorded as other comprehensive income.

b) Financial assets at amortized cost

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

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

Subsequent to initial recognition, financial assets at amortized cost, including cash and cash equivalents, trade receivables at amortized cost and loans, net, are measured at amortized cost, which equals the gross carrying amount determined using the effective interest method less any impairment loss. Exchange differences are recognized in profit or loss.

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

- i. Purchased or originated credit-impaired financial assets, for which interest income is calculated by applying the credit adjusted effective interest rate to the amortized cost of such financial assets; and

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

A financial asset is credit impaired when one or more of the following events have occurred:

- i. Significant financial difficulty of the issuer or the borrower;
- ii. Breach of contract, such as a default;
- iii. It is becoming probable that the borrower will enter bankruptcy or undergo a financial reorganization; or
- iv. The disappearance of an active market for that financial asset because of financial difficulties.

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

c) Investments in debt instruments at FVTOCI

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

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

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

d) Investments in equity instruments at FVTOCI

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

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

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

2) Impairment of financial assets

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

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

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

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

SKLIC and TSKCB evaluate the collectability of credit assets based on the financial conditions of the borrowers and the payments of principal or interests as well as the values of specific loan collateral assessed by the companies according to the conditions of the collaterals and the length of time overdue, in accordance with Regulation Governing the Procedures for Insurance Companies to Evaluate Assets and Deal with Nonperforming/Non-accrual Loans and Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrual Loans issued by the FSC.

Unsound credit assets are classified into four categories as those require special mention, substandard, doubtful, and losses, with the minimum loan loss provision and guarantee reserve as the sum of 2%, 10%, 50% and 100% of above four categories of unsound credit assets, respectively. Besides, additional allowance for doubtful accounts should be provided as 0.5% of normal credit assets excluding policy loans, premium loans and loans to government institutions. TSKCB provides allowance of doubtful accounts at least 1% of total loans according to the Rule No. 10010006830 issued by the Bank Bureau. The allowance of doubtful accounts for property loan should be reserved at least 1.5% according to Rule No. 10300329440 issued by the Bank Bureau. Credit assets deemed uncollectible are written off after the approval of the board of directors.

3) Derecognition of financial assets

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

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

b. Equity instruments

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

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

Repurchase of the Company's own equity instruments is recognized in and deducted directly from equity. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

c. Financial liabilities

1) Subsequent measurement

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

a) Financial liabilities at FVTPL

Financial liabilities are classified as at fair value through profit or loss when the financial liability is either held for trading or it is designated as at fair value through profit or loss.

Financial liabilities at fair value through profit or loss are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss. The net gain or loss recognized in profit or loss does not incorporate any interest or dividend paid on the financial liability.

A financial liability may be designated as at fair value through profit or loss upon initial recognition when doing so results in more relevant information and if:

- i. Such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- ii. The financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and has performance evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- iii. The contract contains one or more embedded derivatives so that the entire combined contract (asset or liability) can be designated as at fair value through profit or loss.

For a financial liability designated as at fair value through profit or loss, the amount of changes in fair value attributable to changes in the credit risk of the liability is presented in other comprehensive income and will not be subsequently reclassified to profit or loss. The remaining amount of changes in the fair value of that liability which does not incorporate any interest or dividends paid on the financial liability is presented in profit or loss. The gain or loss accumulated in other comprehensive income will be transferred to retained earnings when the financial liability is derecognized. If this accounting treatment related to credit risk would create or enlarge an accounting mismatch, all changes in fair value of the liability are presented in profit or loss. Fair value is determined in the manner described in Note 50.

b) Financial guarantee contracts

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

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

2) Derecognition of financial liabilities

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

d. Derivative financial instruments

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

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

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

e. Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Group are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

On initial recognition, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortized cost basis using the effective interest method until extinguished upon conversion or the instrument's maturity date. Any embedded derivative liability is measured at fair value.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognized and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognized in equity will be transferred to capital surplus - share premium. When the conversion option remains unexercised at maturity, the balance recognized in equity will be transferred to capital surplus - share premium.

Transaction costs that relate to the issuance of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognized directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component.

Margin Trading, Short Sale and Re-financing for Security Business

The Group recognizes margin loans receivable while providing financing to investors. Margin loans made by the Group are collateralized by securities purchased using the margin loans. These collateralized securities are only recorded in memorandum instead of statutory accounts. After the security investors settle the margin loan, these pledged securities are returned to investors.

If there is a need for funds while the Group providing financing to investors, it will transfer the borrowing money from the other securities lenders, and recognize refinancing collateral payable. Refinancing collateral payable made by the Group are collateralized by securities purchased using the refinancing collateral payable.

Margin loans receivable will be reclassified to overdue receivables when the investors' margin ratio is lower than the prescribed rate and the balance of margin loans has not been repaid within the time limit. If the securities purchased using the margin loans cannot be sold, the margin loans will be reclassified to other receivables or overdue receivables.

The Group receives deposits from security investors for providing short sale services to investors. The deposits are recorded as deposits on short sale transactions. The lending of securities to clients as short sale are recorded in memorandum. The amounts collected from short selling of securities (net of brokerage fee, handling fee and securities transaction tax) are kept by the Group as collateral and recorded as payable for short sale transactions. The deposits and payable for short sale are returned to security investors after investors settle the short sale transactions.

The Group borrows securities from other securities lenders when the Group does not have sufficient securities to conduct securities trading, for which the deposits paid are recorded as refinancing margins, and the related amounts for sales of borrowed securities collected from clients are collateralized to the securities lenders and recorded as refinancing deposits receivable.

The Group recorded the receivables from security investors in the security business as accounts receivable, and recorded receivables from money lending - any use as receivable of money lending - any use with allowance for doubtful accounts based on their collectability on the balance sheet date. The collaterals received in the security business are recorded in the memorandum. The fee income collected from customers is recorded as handling fee revenue.

The securities collateral received in the security business are only recorded in memorandum instead of statutory accounts; cash collaterals are recorded as securities lending refundable deposits. The security deposit pay to TWSE for borrows securities are recorded as security borrowing margin. The deposits for securities financing paid for securities borrowing due to the need to issue warrants and the need to hedge the trading of options are recorded as security borrowing collateral price. And the security deposit are recorded as security borrowing margin.

Securities lending refundable deposits and borrowing margin are paid or returned when the securities were returned. The proceeds from security lending and processing fee are recorded as security lending income.

Separate Accounts

The Group sells investment type insurance policies. The insurance premiums paid by policyholders, net of several expenses of the insurance companies, according to agreed terms are invested in separate accounts at allocation agreed with or directed by the policyholders. The value of the separate-account assets on the valuation date is measured in accordance with the related regulations and generally accepted accounting principles.

The assets and liabilities of separate accounts, which are generated either from insurance contracts or from insurance contracts with features of financial instrument, are recorded in assets on insurance products - separate accounts and liabilities on insurance products - separate accounts. The revenues and expenses of separate accounts, which represent income and expenses, pursuant to IFRS 4 “Insurance Contracts”, are recorded in income on insurance products - separate accounts and disbursements on insurance products - separate accounts.

Insurance Liability Reserves

SKLIC provides reserve for insurance products and financial instruments with discretionary participation features pursuant to the Regulations Governing Calculation of Various Reserves for Operations, which are attested by actuaries accredited by the FSC. Except that the provision for short-term group insurance should be based on premium income received according to Tai-Tsai-Bao No. 852367814, other provision methodology is stated as follows:

a. Reserve for unearned premiums

Reserve for unearned premiums of effective policies with a term less than one year and of accident insurance with a term exceeding one year is provided by policy type according to the risk for the remaining policy period.

b. Reserve for claim payments

Reserve for claim payments is for claims which are reported but not yet paid and incurred but not yet reported. Reserve for claim payments reported but not yet paid is provided by case based on actual data. Reserve for claim payments incurred but not yet reported is provided as follows:

- 1) Health insurance and life insurance with a term less than one year is provided by insurance based on past claims experience and expenses in accordance with actuarial principle, such as loss triangle; and
- 2) Accident insurance is provided by insurance based on past claims experience and expenses in accordance with actuarial principle, such as loss triangle.

c. Reserve for life insurance liability

Reserve for life insurance liability is provided according to modified standards stated by Article 12 of the Regulations Governing Calculation of Various Reserves for Operations and other calculation descriptions of insurance product reported to and approved by authorities, based on the mortality table and projected interest rate in effect at the time when each insurance product is reported to and approved by the authorities.

For the effective policies whose policy dividends are applicable to the dividends formula of Tai-Tsai-Bao No. 800484251, the amount of decrease in dividends due to the netting-off of gain and loss from mortality margin and from interest margin in the current period should be provided in the reserve for life insurance liability of long-term effective policies.

d. Special reserve for life insurance

The Group sells participating life insurance. According to related regulations, at annual closing, special reserve for participating policy dividends should be provided according to income before tax of participating life insurance business each year, which is calculated based on Expenses and Revenues Allocation Principles of Participating and Nonparticipating Life Insurance reported to authorities, and should be reversed on declaration date. If the balance of special reserve for participating policy dividends is negative, special reserve for dividend risks should be provided in equal amount.

SKLIC measured investment properties at fair value according to Article 32 of Regulations Governing the Preparation of Financial Statements by Insurance Companies, and the surplus should be first offset by the negative effect of other accounts due to first-time adoption of IFRSs and then provided as a special reserve for insurance liabilities as of the date of transition to IFRSs. Please refer to Note 32.

e. Reserve for insufficient premiums

New life insurance, health insurance and annuity policies written since 2001, with terms exceeding one year and with premiums lower than the corresponding liability reserve required by regulations, are subject to reserve for insufficient premiums, and the amount by which the premium falls short of the liability reserve is provided as reserve for insufficient premiums.

f. Liability adequacy reserve

Liability adequacy reserve is based on the result of liability adequacy test according to IFRS 4.

g. Reserve for Changes in Foreign Exchange Valuation

The reserve for changes in foreign exchange valuation is provided for by life insurance companies to manage the foreign exchange risk, lower cost and strengthen solvency. SKLIC provides this reserve according to Article 23-1 of Regulations Governing Calculation of Various Reserves for Operations for its foreign investment assets.

Liability Adequacy Test

Liability adequacy test is performed in accordance with IFRS 4. The adequacy test of insurance liabilities is applied to recognize insurance liabilities based on current estimates of future cash flows from insurance policies. If the insurance liabilities are insufficient, the deficiency should be recognized as liability adequacy reserve.

Customers' Margin Accounts and Futures Customers' Equity

Customers' margin accounts

Receiving margin deposits from customers for futures transactions as requirements is in accordance with the regulations. Customers' margin account balances are calculated daily by marking to market the open positions of each customer and determining the required margin levels, recognized as current assets in the balance sheet.

Futures customers' equity

Margin deposits received from customers for futures transactions and futures customers' equity are calculated daily by marking to market, and recognized as current liabilities in the balance sheet. Futures customers' equity cannot be offset unless these accounts pertain to the same customers. The debit balance of "futures customers' equity", which results from losses on futures transactions in excess of the margin deposits, is recorded as "futures commission merchant receivable".

Revenue Recognition

The Group identifies contracts with customers, allocates the transaction price to the performance obligations and recognizes revenue when performance obligations are satisfied.

a. Service fee and commission income

The transaction price of service fee revenue and expense which are generated from loans and other services will be allocated to performance obligations when the performance obligations are identified from customer contracts by the Group, and revenue will be recognized when all the performance obligations have been fulfilled. For contracts where the difference in timing between the service rendered and receipt of payment is within a year, the transaction price will not be adjusted.

b. Brokerage, underwriting, registrar and consulting revenue

These kinds of services belong to stand-alone pricing or negotiation services. The Group provide services based on number of times services are provided and recognizes revenue when performance obligations are satisfied at some point in time.

Classification of Insurance Products

An insurance contract is a contract under which one party (the insurer) accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder. The Group identifies significant insurance risk as significant extra payments incurred only if there is an insured event, and excluding the circumstances without commercial substance (that is, the economic effect is small).

Insurance contract with the nature of financial instruments is a contract that makes the contract issuer exposed to financial risk and without significant insurance risk. Financial risk is the risk that one or multiple interest rates, the price of financial instruments, commodity price, exchange rate, price index, insurance premium index, credit ratings, credit index or other variables (if it is a non-financial variable, it has to be non-specific to both parties) will change in the future.

The policy that initially met the definition of insurance contract remains an insurance contract until all of the rights and obligations expire, even though the insurance risk has been significantly reduced through the duration of insurance. However, if significant insurance risk of the insurance contract with the nature of financial instruments is transferred to the Group afterwards, it shall be reclassified into insurance contract.

Insurance contracts whether or not with the nature of financial instruments can also be classified as whether or not with discretionary participation feature. Discretionary participation feature is a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- a. That is likely to be a significant portion of the total contractual benefits;
- b. Whose amount or timing is contractually at the discretion of the issuer; and
- c. That is contractually based on:
 - 1) The performance of a specified pool of contracts or a specified type of contract;
 - 2) Realized and/or unrealized investment returns on a specified pool of assets held by the Group; or
 - 3) The profit or loss of the Group, fund or other entity that issues the contract.

An embedded derivative shall be separated from its host contract and accounted for as a derivative when (1) the economic risks and characteristics of the embedded derivative are not closely related to those of the host contract; (2) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (3) the entire instrument is not measured at fair value with changes in fair value recognized in the income statement.

Reinsurance

In order to limit potential losses from certain risk events, the Group enters into reinsurance agreements with the reinsurers according to its business needs and related insurance regulations. The Group cannot refuse to perform the obligations to the insured on the ground the reinsurers has failed to fulfill their obligations.

The Group's rights to the reinsurers, including reinsurance assets, claims recovered from reinsurers, and net due from reinsurers and ceding companies, are required to be tested for impairment testing on a regular basis. An impairment loss is recognized when there is objective evidence that an event happens after initial recognition causing the Group to be unable to collect receivables as stated in contract and the irrecoverable amount can be reliably measured. The difference between the recoverable amount and the book value of the underlying right is recognized as an impairment loss.

The reinsurance contract is classified by whether or not the Group transfers significant insurance risk to the reinsurers. If significant insurance risk is not transferred, the contract should apply deposit accounting.

For the reinsurance contract with significant insurance risk transferred, if the Group can evaluate the deposit component individually, the insurance component and the deposit component are unbundled separately. That is, the difference between the contract consideration the Group receives or pays and the amount of the insurance component is recognized as financial liabilities or assets instead of revenues or expenses. The financial assets or liabilities are recognized and measured at fair value, which is based on the discounted value of future cash flows.

Leases

2019

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

- a. The Group as lessor

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

When the Group subleases a right-of-use asset, the sublease is classified by reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. However, if the head lease is a short-term lease that the Group, as a lessee, has accounted for applying recognition exemption, the sublease is classified as an operating lease.

Under finance leases, the lease payments comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives payable. The net investment in a lease is measured at (a) the present value of the sum of the lease payments receivable by a lessor and any unguaranteed residual value accrued to the lessor plus (b) initial direct costs and is presented as a finance lease receivable. Finance lease income is allocated to the relevant accounting periods so as to reflect a constant, periodic rate of return on the Group's net investment outstanding in respect of leases.

Lease payments (less any lease incentives payable) from operating leases are recognized as income on a straight-line basis over the terms of the relevant leases. Initial direct costs incurred in obtaining operating leases are added to the carrying amounts of the underlying assets and recognized as expenses on a straight-line basis over the lease terms.

Variable lease payments that do not depend on an index or a rate are recognized as income in the periods in which they are incurred.

When a lease includes both land and building elements, the Group assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the lessee. The lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of a contract. If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

b. The Group as lessee

The Group recognizes right-of-use assets and lease liabilities for all leases at the commencement date of a lease, except for short-term leases and low-value asset leases accounted for applying a recognition exemption where lease payments are recognized as expenses on a straight-line basis over the lease terms.

Right-of-use assets are initially measured at cost, which comprises the initial measurement of lease liabilities adjusted for lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs needed to restore the underlying assets, and less any lease incentives received. Right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses and adjusted for any remeasurement of the lease liabilities. Right-of-use assets are presented on a separate line in the consolidated balance sheets, except for those that meet the definition of investment properties. With respect to the recognition and measurement of right-of-use assets that meet the definition of investment properties, refer to Note 4 (investment properties) for the accounting policies for investment properties.

Right-of-use assets are depreciated using the straight-line method from the commencement dates to the earlier of the end of the useful lives of the right-of-use assets or the end of the lease terms. However, if leases transfer ownership of the underlying assets to the Group by the end of the lease terms or if the costs of right-of-use assets reflect that the Group will exercise a purchase option, the Group depreciates the right-of-use assets from the commencement dates to the end of the useful lives of the underlying assets.

Lease liabilities are initially measured at the present value of the lease payments, which comprise fixed payments, in-substance fixed payments, variable lease payments which depend on an index or a rate, residual value guarantees, the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and payments of penalties for terminating a lease if the lease term reflects such termination, less any lease incentives receivable. The lease payments are discounted using the interest rate implicit in a lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses the lessee's incremental borrowing rate.

Subsequently, lease liabilities are measured at amortized cost using the effective interest method, with interest expense recognized over the lease terms. When there are a change in a lease term, a change in the amounts expected to be payable under a residual value guarantee, a change in the assessment of an option to purchase an underlying asset, or a change in future lease payments resulting from a change in an index or a rate used to determine those payments, the Group remeasures the lease liabilities with a corresponding adjustment to the right-of-use-assets. However, if the carrying amount of the right-of-use assets is reduced to zero, any remaining amount of the remeasurement is recognized in profit or loss. Lease liabilities are presented on a separate line in the consolidated balance sheets.

Variable lease payments that do not depend on an index or a rate are recognized as expenses in the periods in which they are incurred.

2018

Leases are classified as finance leases whenever the terms of a lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

a. The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and amortized on a straight-line basis over the lease term.

b. The Group as lessee

Assets held under finance leases are initially recognized as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated balance sheets as a finance lease obligation.

Finance expenses implicit in lease payments for each period are recognized immediately in profit or loss, unless they are directly attributable to qualifying assets; in which case, they are capitalized.

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

c. Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element separately as a finance or an operating lease based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Lessee. The minimum lease payments are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

If the allocation of the lease payments can be made reliably, each element is accounted for separately in accordance with its lease classification. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases; in which case, the entire lease is classified as an operating lease.

Employee Benefits

a. Short-term employee benefits

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

b. Retirement benefits

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

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

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

c. Other long-term employee benefits

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

d. Termination benefits

A liability for a termination benefit is recognized at the earlier of when the Group can no longer withdraw the offer of the termination benefit and when the Group recognizes any related restructuring costs.

Share-based Payment Arrangements

- Equity-settled share-based payment arrangements granted to employees and others providing similar services

The fair value at the grant date of the equity-settled share-based payment is expensed on a straight-line basis over the vesting period, based on the Group's best estimates of the number of shares or options that are expected to ultimately vest, with a corresponding increase in capital surplus - employee share options. It is recognized as an expense in full at the grant date if vested immediately.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments that are expected to vest. The impact of the revision of the original estimates is recognized in profit or loss such that the cumulative expenses reflect the revised estimate, with a corresponding adjustment to capital surplus - employee share options.

The grant by the Company of its equity instruments to the employees of a subsidiary under equity-settled share-based payment arrangements is treated as a capital contribution. The fair value of employee services received under the arrangement is measured by reference to the grant-date fair value and is recognized over the vesting period as an addition to the investment in the subsidiary, with a corresponding credit to capital surplus - employee share options.

Taxation

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

a. Current tax

According to the Income Tax Law, an additional tax on unappropriated earnings is provided for in the year the shareholders approve to retain earnings.

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

b. Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, unused loss carry-forwards and unused tax credits for purchases of machinery, equipment and technology, research and development expenditures, and personnel training expenditures to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized.

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

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

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

c. Current and deferred tax for the year

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

The Company and its subsidiaries which the Company holds more than 90% of the outstanding shares adopted the accounting treatment of the consolidated income tax return. The difference in current income tax and deferred income tax between the consolidated income tax return and the sum of income tax of the subsidiaries included in the consolidated tax returns is considered as the Company's income tax adjustment. Any distribution of cash payments and receipts among the consolidated group members is recorded as a receivable or payable.

Securities Purchased/Sold Under Resale/Repurchase Agreements

Securities purchased under resale agreements and securities sold under repurchase agreements are generally treated as collateralized financing transactions. Interest earned on resale agreements or interest incurred on repurchase agreements is recognized as interest revenue or interest expense over the life of each agreement.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key Sources of Estimation Uncertainty

a. Valuation of reserve for life insurance liability and liability adequacy test

Management adopts actuarial models and several significant assumptions for estimating the reserve for life insurance liability and the reserve for liability adequacy. Judging the reserve for life insurance liability involves significant assumptions, which include the mortality rate, discount rate, lapse rate, morbidity rate, etc. The setup of assumptions are based on legislation, regulations, knowledge of the Group's actual experience and industry-specific experience. The tests performed in respect of the reserve for liability adequacy on insurance contracts are in accordance with regulations enacted by the Actuarial Institute of the Republic of China, and the setup of future test discount rates accounts for the Group's best estimate scenario as well as the rate of portfolio return under the current information.

The management examines these estimates continuously and made adjustments when necessary, but actual results may differ from these estimates.

- b. Valuation of financial instruments at fair value through profit or loss or other comprehensive income by valuation models with no quoted price in active markets

Where some of the Group's assets and liabilities measured at fair value have no quoted prices in active markets, the Group determines the appropriate valuation techniques for the fair value measurements and whether to engage third-party qualified valuers according to relevant regulations or judgements.

Where Level 1 inputs are not available, the Group will engage valuers to determine the appropriate inputs by referring to the analyses of the financial position and the operation results of the investees, recent transaction prices, prices of the same equity instruments not quoted in active markets, quoted prices of similar instruments in active markets, and valuation multiples of comparable market prices or rates. If the actual changes of inputs in the future differ from expectation, the fair value might vary accordingly. The Group updates inputs every quarter to confirm the appropriateness of the fair value measurement.

Information about the valuation techniques and inputs used in determining the fair value of various assets and liabilities is disclosed in Note 50

- c. Estimated impairment of financial assets

The provision for impairment of notes discounted and loans, trade receivables, investments in debt instruments, and financial guarantee contracts is based on assumptions about risk of default and expected loss rates. The Group uses judgment in making these assumptions and in selecting the inputs to the impairment calculation, based on the Group's historical experience, existing market conditions as well as forward looking estimates as of the end of each reporting period. For details of the key assumptions and inputs used, see Note 50. Where the actual future cash inflows are less than expected, a material impairment loss may arise.

6. CASH AND CASH EQUIVALENTS

	December 31	
	2019	2018
Cash on hand	\$ 5,563,487	\$ 4,902,017
Checking accounts and demand deposits	62,994,803	30,308,851
Time deposits with original maturities not exceeding three months	131,154,635	10,008,548
Checks for clearing	1,024,574	2,934,597
Cash equivalents	1,554,297	3,919,100
Less: Guarantee deposits paid	<u>(393,863)</u>	<u>(393,863)</u>
	<u>\$ 201,897,933</u>	<u>\$ 51,679,250</u>

The interest rate intervals of time deposits with original maturities not exceeding three months at the end of the reporting period were as follows:

	December 31	
	2019	2018
Time deposits (domestic and foreign)	0.07%-2.70%	0.14%-4.25%

7. DUE FROM CENTRAL BANK AND OTHER BANKS

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Checking account reserve	\$ 20,774,768	\$ 12,344,444
Demand account reserve	20,046,149	18,872,301
Inter-bank clearing account	1,206,406	1,200,357
Foreign currency deposit reserve	112,897	106,029
Due from banks	<u>9,661,298</u>	<u>6,295,567</u>
	<u>\$ 51,801,518</u>	<u>\$ 38,818,698</u>

The deposit reserves, which are calculated by multiplying the average monthly balances of all deposit accounts by the legally required ratio, are kept in the Central Bank of China. Among the above reserves, the demand account reserve can be used only for the monthly adjustment of the deposit reserve, and other reserves can be used any time.

8. FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	<u>December 31</u>	
	<u>2019</u>	<u>2018 (Note)</u>
<u>Financial assets mandatorily measured at FVTPL</u>		
Domestic investments		
Listed shares and emerging market shares	\$ 50,853,278	\$ 55,586,694
Unlisted shares	324,418	288,899
Beneficiary certificates	180,806,952	55,320,121
Corporate bonds and bank debentures	54,706,749	49,091,511
Government bonds	4,449,369	6,415,336
Commercial paper	11,602,387	15,962,941
Negotiable time deposits	77,056,297	76,154,981
Currency options	294,435	422,517
Currency swap contracts	10,272,103	988,571
Asset swap options	987,863	583,609
Equity swap contracts	88,619	117,941
Short-term notes	1,097,735	798,487
Others	<u>169,296</u>	<u>231,274</u>
	<u>392,709,501</u>	<u>261,962,882</u>
Foreign investments		
Listed shares	23,126,887	19,240,316
Beneficiary certificates	30,655,498	67,534,719
Bonds	24,597,787	36,841,034
Structured deposits	23,516	-
Foreign exchange forward contracts	4,078,291	1,434,829
Interest rate swap contracts	226,267	248,098
Asset swaps - linked corporate bonds	<u>903,398</u>	<u>1,361,628</u>
	<u>83,611,644</u>	<u>126,660,624</u>
	<u>\$ 476,321,145</u>	<u>\$ 388,623,506</u>

(Continued)

	December 31	
	2019	2018 (Note)
<u>Financial liabilities measured at FVTPL</u>		
Domestic investments		
Currency swap contracts	\$ 325,988	\$ 931,156
Currency options	294,435	422,517
Asset swap options	1,329,423	705,248
Borrowed securities payable - non-hedge	287,792	761,008
Borrowed securities payable - hedge	284,328	385,945
Interest rate swap contracts	228,469	248,273
Equity swap contracts	88,620	117,941
Share warrants liabilities, net	321,477	222,984
Short options liabilities - futures	35,332	30,969
Asset swap IRS contract value	155,527	209,279
Others	<u>535,222</u>	<u>495,115</u>
	<u>3,886,613</u>	<u>4,530,435</u>
Foreign investments		
Foreign exchange forward contracts	<u>113,603</u>	<u>2,981,661</u>
	<u>\$ 4,000,216</u>	<u>\$ 7,512,096</u>

Financial liabilities designated as at FVTPL

Structured instrument notes - credit-linked	<u>\$ 1,503,421</u>	<u>\$ 1,040,107</u> (Concluded)
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- a. As of December 31, 2019, SKLIC had committed amounts of private equity fund and infrastructure fund of \$11,819,425 thousand and \$3,507,198 thousand, respectively. The amounts transferred out were \$4,391,474 thousand and \$1,039,734 thousand, respectively, and were recorded as domestic beneficiary certificates and foreign beneficiary certificates, respectively.
- b. SKLIC entered into trust agreements with Mega International Commercial Bank to invest in foreign securities in a prescribed manner. Furthermore, SKLIC reached a discretionary investment agreement with Asset Management One Hong Kong Ltd. (“AMO”), JP Morgan Asset Management Co., Ltd., Goldman Sachs Assets Management Co., Ltd., BlackRock Assets Management Co., Ltd., GAM Holding Ltd., Shin Kong Investment Trust Co., Ltd., Fuh Hwa Securities Investment Trust Co., Ltd., and MasterLink Securities Investment Advisory Co., Ltd. consigning these companies to invest in foreign securities.

As of December 31, 2019, the summary of the above-mentioned transactions was as follows:

	Consigning Amount	Advanced to Consignee (Note 1)
Mega International Commercial Bank	US\$2 billion	NT\$ 695,349 thousand
AMO	US\$10 million	NT\$ 5,901,955 thousand
JP Morgan Asset Management Co., Ltd.		NT\$ 8,067 thousand (Note 2)
BlackRock Assets Management Co., Ltd.	US\$10 million	NT\$ 2,692,549 thousand
GAM	US\$14 million	NT\$ 5,086,062 thousand
Shin Kong Investment Trust Co., Ltd.	US\$1.5 billion	NT\$ 1,584,369 thousand
Fuh Hwa Securities Investment Trust Co., Ltd.	US\$1 billion	NT\$ 1,127,238 thousand
MasterLink Securities Investment Advisory Co., Ltd.	US\$1 billion	NT\$ 1,141,483 thousand

Note 1: The entrusted transactions include financial assets designated at FVTPL, financial assets designated at FVOCI, and financial assets measured at amortized cost.

Note 2: The Group terminated the discretionary investment agreement with JP Morgan Asset Management Co., Ltd. on March 16, 2016. As of December 31, 2019, the discretionary assets had not been settled.

- c. SKLIC entered into derivative instruments during the years ended December 31, 2019 and 2018 to manage exposure to exchange rate and interest rate fluctuations. The financial risk management objective of SKLIC is to minimize risks due to changes in fair value or cash flows. SKLIC did not adopt hedge accounting for derivative instruments. SKLIC's settled gain (loss), revaluation gain (loss), foreign currency assets exchange (loss) gain, and net changes of reserve for changes in foreign exchange valuation in relation to currency derivatives were as follows:

	December 31	
	2019	2018
Currency derivatives		
Settled loss	\$ (18,464,306)	\$ (52,276,917)
Revaluation gain (loss)	15,442,246	(9,759,691)
Foreign currency assets exchange (loss) gain	(32,073,952)	35,028,262
Net changes of reserve for changes in foreign exchange valuation	<u>2,655,944</u>	<u>(2,183,033)</u>
	<u>\$ (32,440,068)</u>	<u>\$ (29,191,379)</u>

- d. Since application of IFRS 9 since January 1, 2019, SKLIC adopted at the same time the overlay approach of IFRS 4 "Insurance Contracts" for the presentation of profit or loss of designated financial assets.

The financial assets related to investment activities of issued insurance contracts that adopted the overlay approach were as follows:

	December 31	
	2019	2018
<u>Financial assets at fair value through profit or loss</u>		
Domestic listed shares and emerging market shares	\$ 47,487,351	\$ 51,906,723
Foreign shares	15,662,603	13,619,526
Domestic beneficiary certificates	151,612,316	47,057,558
Foreign beneficiary certificates	27,254,550	63,710,232
Domestic bank debentures	21,594,878	21,963,152
Foreign bank debentures	8,279,150	8,451,575

In 2019 and 2018, the amounts due to reclassification of profit or loss of financial assets (that adopted the overlay approach) - to other comprehensive income were as follows:

	December 31	
	2019	2018
Gain under IAS 39	\$ 26,870,576	\$ 18,938,118
Loss under IFRS 9	<u>(48,309,388)</u>	<u>5,580,394</u>
Gain on reclassification based on overlay approach	<u>\$ (21,438,812)</u>	<u>\$ 24,518,512</u>

In 2019 and 2018, under adjustments based on the overlay approach, the gain (loss) of assets at FVTPL was reduced from \$48,274,487 thousand and \$(71,167,140) thousand to \$26,835,675 thousand and \$(46,648,628) thousand, respectively.

- e. TSKCB entered into derivative instruments for the customer needs and for managing its foreign currency demand and risk control.
- f. MLSC entered into derivative instruments from exchange market, which did not result in material liquidity risk.
- g. As of December 31, 2019 and 2018, the Group's outstanding derivative contracts were summarized as follows:

	(In Thousands)
December 31, 2019	Contract Amount
Foreign exchange forward contracts	US\$ 12,795,000 NT\$ 1,465,322
Currency swap contracts	US\$ 22,012,000 NT\$ 71,437,090
Foreign exchange swap contracts	US\$ 10,000
Interest rate swap contracts value	NT\$ 28,000,000
Equity swap contracts	NT\$ 1,657,619
Currency options	NT\$ 2,445,250
Asset swap options	NT\$ 9,651,700
Interest rate swap contracts	NT\$ 16,963,852
Short options liabilities - futures	NT\$ 45,770
Structured instrument notes - credit linked	NT\$ 1,501,900
Call options - futures	NT\$ 16,872
Stock index futures contracts	NT\$ 108,260

	(In Thousands)
December 31, 2018	Contract Amount
Foreign exchange forward contracts	US\$ 17,185,000 NT\$ 6,606,083
Currency swap contracts	US\$ 24,512,000 NT\$ 98,862,869
Foreign exchange swap contracts	US\$ 3,000
Interest rate swap contracts value	NT\$ 25,500,000
Equity swap contracts	NT\$ 1,170,970
Currency options	NT\$ 2,661,443
Asset swap options	NT\$ 10,720,800
Interest rate swap contracts	NT\$ 18,217,755
Short options liabilities - futures	NT\$ 36,539
Structured instrument notes - credit linked	NT\$ 1,045,600
Call options - futures	NT\$ 13,929
Stock index futures contracts	NT\$ 9,763

9. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>December 31</u>	
	2019	2018
Investments in equity instruments at FVTOCI	\$ 213,103,195	\$ 220,487,308
Investments in debt instruments at FVTOCI	141,648,935	173,621,113
Less: Securities for deposits paid (Note 22)	<u>(5,682,600)</u>	<u>(3,578,700)</u>
	<u>\$ 349,069,530</u>	<u>\$ 390,529,721</u>

a. Investments in equity instruments at FVTOCI

	<u>December 31</u>	
	2019	2018
Domestic investments		
Listed shares and emerging market shares	\$ 172,675,402	\$ 175,489,075
Unlisted shares	5,493,602	4,830,747
Preference shares	<u>32,430,547</u>	<u>29,979,323</u>
	<u>210,599,551</u>	<u>210,299,145</u>
Foreign investments		
Ordinary shares	218,255	2,065,922
Preference shares	<u>2,285,389</u>	<u>8,122,241</u>
	<u>2,503,644</u>	<u>10,188,163</u>
	<u>\$ 213,103,195</u>	<u>\$ 220,487,308</u>

These investments in equity instruments are not held for trading. Instead, they are held for medium to long-term strategic purposes. Accordingly, the management elected to designate these investments in equity instruments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair value in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes.

In 2019 and 2018, the Group sold its shares in order to manage credit concentration risk. The sold shares had a fair value of \$43,170,932 thousand and \$97,787,035 thousand and the Group transferred a gain (loss) of \$135,601 thousand and \$(16,059,788) thousand from other equity to retained earnings, respectively.

Dividends of \$10,313,673 thousand and \$10,162,397 thousand were recognized during 2019 and 2018, respectively. Those related to investments derecognized during 2019 and 2018 amounted to \$1,221,026 thousand and \$1,495,680 thousand, respectively, and those related to investments held at December 31, 2019 and 2018 amounted to \$9,092,647 thousand and \$8,666,717 thousand, respectively.

b. Investments in debt instruments at FVTOCI

	<u>December 31</u>	
	2019	2018
Domestic investments		
Government bonds	\$ 47,454,477	\$ 31,853,714
Corporate bonds	37,388,552	31,581,081
Less: Securities for deposits paid (Note 22)	<u>(5,682,600)</u>	<u>(3,578,700)</u>
	<u>79,160,429</u>	<u>59,856,095</u>

(Continued)

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Foreign investments		
Government bonds	\$ 26,004,254	\$ 53,977,319
Corporate bonds	<u>30,801,652</u>	<u>56,208,999</u>
	<u>56,805,906</u>	<u>110,186,318</u>
	<u>\$ 135,966,335</u>	<u>\$ 170,042,413</u>
		(Concluded)

- 1) Refer to Note 11 for information relating to their credit risk management and impairment.
- 2) Refer to Note 40 for information relating to investments in debt instruments at FVTOCI pledged as security.

10. FINANCIAL ASSETS AT AMORTIZED COST

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Domestic investments		
Government bonds	\$ 38,936,657	\$ 63,182,729
Corporate bonds	19,927,503	21,843,879
Time deposits with original maturity of more than 3 months	4,040,833	1,433,548
Less: Security deposits paid	<u>(9,184,553)</u>	<u>(9,384,548)</u>
	<u>53,720,440</u>	<u>77,075,608</u>
Foreign investments		
Overseas bonds	1,039,293,750	967,410,750
Overseas mortgage-backed bonds	12,701,303	13,227,729
Overseas callable bonds	<u>697,632,293</u>	<u>657,890,628</u>
	<u>1,749,627,346</u>	<u>1,638,529,107</u>
Less: Allowance for impairment loss	<u>(661,592)</u>	<u>(956,442)</u>
	<u>\$ 1,802,686,194</u>	<u>\$ 1,714,648,273</u>

- a. In 2019 and 2018, the Group sold part of its debt instruments which were not significant individually or as a whole. The bonds sold had a fair value of \$56,486,730 thousand and \$527,649 thousand and the Group recognized gain on disposal of \$6,573,177 thousand and \$10,730 thousand, respectively. The callable debt instruments in 2019 and 2018 had a fair value of \$99,489,424 thousand and \$22,161,571 thousand, respectively, and the Group recognized a gain of \$3,032,251 thousand and \$52,666 thousand, respectively. The foreign bonds exchange in 2019 had a fair value of \$12,103,639 thousand, and the Group recognized a gain of \$283,579 thousand.
- b. The interest rates for time deposits with original maturities of more than 3 months were ranging from approximately 0.14% to 1.04% per annum as of December 31, 2019 and 2018.
- c. Refer to Note 11 for information relating to their credit risk management and impairment.
- d. Refer to Note 40 for information relating to investments in financial assets at amortized cost pledged as security.

11. CREDIT RISK MANAGEMENT FOR INVESTMENTS IN DEBT INSTRUMENTS

December 31, 2019

	At FVTOCI	At Amortized Cost	Total
Gross carrying amount	\$ 139,772,669	\$ 1,808,491,506 Note	\$ 1,948,264,175
Less: Allowance for impairment loss	<u>(48,498)</u>	<u>(661,592)</u>	<u>(710,090)</u>
Amortized cost	139,724,171	<u>\$ 1,807,829,914</u>	1,947,554,085
Adjustment to fair value	<u>1,924,764</u>		<u>1,924,764</u>
	<u>\$ 141,648,935</u>		<u>\$ 1,949,478,849</u>

Note: The amount of debt instruments designated at FVTOCI included security deposits paid of \$5,682,600 thousand. The amount of debt instruments at amortized cost included security deposits paid of \$9,184,553 thousand, excluding time deposits with original maturities of more than 3 months of \$4,040,832 thousand.

December 31, 2018

	At FVTOCI	At Amortized Cost	Total
Gross carrying amount	\$ 178,017,671	\$ 1,723,555,715 Note	\$ 1,901,573,386
Less: Allowance for impairment loss	<u>(60,023)</u>	<u>(956,442)</u>	<u>(1,016,465)</u>
Amortized cost	177,957,648	<u>\$ 1,722,599,273</u>	1,900,556,921
Adjustment to fair value	<u>(4,336,535)</u>		<u>(4,336,535)</u>
	<u>\$ 173,621,113</u>		<u>\$ 1,896,220,386</u>

Note: The amount of debt instruments designated at FVTOCI included security deposits paid of \$3,578,700 thousand. The amount of debt instruments at amortized cost included security deposits paid of \$9,384,548 thousand, excluding time deposits with original maturities of more than 3 months of \$1,433,548 thousand.

The Group only invests in debt instruments that are rated the equivalent of investment grade or higher and have low credit risk for the purpose of impairment assessment. The credit rating information is supplied by independent rating agencies. The Group's exposure and the external credit ratings are continuously monitored. The Group reviews changes in bond yields and other public information and makes an assessment whether there has been a significant increase in credit risk since the last period to the reporting date.

The Group considers the historical default rates of each credit rating supplied by external rating agencies, the current financial condition of debtors, and industry forecast to estimate 12-month or lifetime expected credit losses. The Group's current credit risk grading framework comprises the following categories:

December 31, 2019

Category	Gross Carrying Amount at December 31, 2019 Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12m ECLs	0.00%-0.44%	\$ 1,948,264,176
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECLs - not credit-impaired	-	-
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECLs - credit-impaired	-	-
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	-	-

December 31, 2018

Category	Gross Carrying Amount at December 31, 2018 Description	Basis for Recognizing Expected Credit Losses	Expected Loss Rate	Gross Carrying Amount
Performing	The counterparty has a low risk of default and a strong capacity to meet contractual cash flows	12m ECLs	0.00%-0.44%	\$ 1,897,644,579
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECLs - not credit-impaired	2.82%-8.53%	3,928,807
In default	There is evidence indicating the asset is credit-impaired	Lifetime ECLs - credit-impaired	-	-
Write-off	There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery.	Amount is written off	-	-

The movements of the allowance for impairment loss of investments in debt instruments at amortized cost were as follows:

Allowance for Impairment Loss	Credit Rating		
	Performing (12-month ECLs)	Doubtful (Lifetime ECLs - Not Credit- impaired)	In Default (Lifetime ECLs - Credit- impaired)
Balance at January 1, 2019	\$ 735,297	\$ 297,032	\$ -
Transfers			
From performing to doubtful	-	-	-
From doubtful to in default	11,591	(284,066)	-
From in default to write-off	-	-	-
New financial assets purchased	169,281	-	-
Derecognition	(166,911)	(12,966)	-
Change in model or risk parameters	(32,082)	-	-
Change in exchange rates or others	<u>1,758</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2019	<u>\$ 718,934</u>	<u>\$ -</u>	<u>\$ -</u>

Allowance for Impairment Loss	Credit Rating		
	Performing (12-month ECLs)	Doubtful (Lifetime ECLs - Not Credit- impaired)	In Default (Lifetime ECLs - Credit- impaired)
Balance at January 1, 2018 per IAS 39	\$ -	\$ -	\$ -
Adjustment on initial application of IFRS 9	<u>616,869</u>	<u>-</u>	<u>-</u>
Balance at January 1, 2018 per IFRS 9	616,869	-	-
Transfers			
From performing to doubtful	(13,933)	297,032	-
From doubtful to in default	-	-	-
From in default to write-off	-	-	-
New financial assets purchased	186,831	-	-
Derecognition	(52,348)	-	-
Change in model or risk parameters	3,380	-	-
Change in exchange rates or others	<u>(5,502)</u>	<u>-</u>	<u>-</u>
Balance at December 31, 2018	<u>\$ 735,297</u>	<u>\$ 297,032</u>	<u>\$ -</u>

The balance of allowance for impairment loss at December 31, 2019 and 2018 included allowance for impairment of interest receivables of \$8,844 thousand and \$15,864 thousand, respectively.

12. NOTES AND BONDS PURCHASED UNDER RESALE AGREEMENTS

	December 31	
	2019	2018
Investment amount	<u>\$ 10,736,713</u>	<u>\$ 9,657,198</u>
Interest rate	0.50%-0.60%	0.40%-0.60%

13. ACCOUNTS RECEIVABLE, NET

	December 31	
	2019	2018
Notes receivable	\$ 283,187	\$ 619,849
Accounts receivable	11,116,697	10,548,234
Interest receivable	25,505,535	26,881,643
Forward contracts receivable	4,319,952	13,246,926
Bank acceptance receivables	248,839	597,397
Receivables of transactions on securities	418,886	288,665
Receivables of margin trading	12,530,302	10,565,808
Trade receivables	11,461,133	7,315,411
Earned revenue receivable	3,604,920	1,911,148
Others	<u>5,553,577</u>	<u>7,093,401</u>
	75,043,028	79,068,482
Less: Allowance for impairment loss (Note 15)	<u>(2,344,166)</u>	<u>(2,410,704)</u>
	<u>\$ 72,698,862</u>	<u>\$ 76,657,778</u>

The Group recorded part of the allowance for impairment loss of accounts receivable by the simplified approach under IFRS 9, which considering the historical experience of credit loss in the past three years, current financial position and industrial economic situation. The Group evaluated the past information and concluded that there was no significant difference between the economic situation of the past, the current and the future. As result of the evaluation, the Group used the historical average rate of expected credit loss to calculate the expected credit loss.

If there is evidence showing that a counter party suffered a huge financial crisis and the Group is not able to predict the recoverable amount, the Group should write-off the related accounts receivable, take recourse and record the related recoverable amount as profit or loss.

Movements of the allowance for receivables, net and other financial assets

2019

Allowance for Receivables	12-month ECLs	Lifetime ECLs	Lifetime ECLs (Individual)	Lifetime ECLs (Credit-impaired Financial Assets)	Lifetime ECLs (Credit-impaired Financial Assets Purchased)	Accumulated Amount under IFRS 9	Difference Between IFRS 9 and Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans	Total
Balance at January 1, 2019 under IAS 39	\$ 48,279	\$ 48,927	\$ -	\$ 2,255,426	\$ -	\$ 2,352,632	\$ -	\$ 2,352,632
Adjustment on initial application of IFRS 9								
Transfers								
To lifetime ECLs	(308)	8,056	-	(18,160)	-	(10,412)	-	(10,412)
To credit-impaired financial assets	(47)	(794)	-	34,519	-	33,678	-	33,678
To 12-month ECLs	116	(1,693)	-	(422)	-	(1,999)	-	(1,999)
Derecognition of financial assets	(10,179)	(8,897)	-	(95,643)	-	(114,719)	-	(114,719)
New financial assets purchased	8,314	682	-	5,562	-	14,558	-	14,558
Difference between IFRS 9 and Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans	-	-	-	-	-	-	120,837	120,837
Write-offs	-	-	-	(41,417)	-	(41,417)	(95,399)	(136,816)
Withdrawal after write-offs	-	-	-	88,292	-	88,292	-	88,292
Exchange rate or other changes	11,777	(7,012)	-	(77,906)	-	(73,141)	-	(73,141)
Balance at December 31, 2019	<u>\$ 57,952</u>	<u>\$ 39,269</u>	<u>\$ -</u>	<u>\$ 2,150,251</u>	<u>\$ -</u>	<u>\$ 2,247,472</u>	<u>\$ 25,438</u>	<u>\$ 2,272,910</u>

2018

Allowance for Receivables	12-month ECLs	Lifetime ECLs	Lifetime ECLs (Individual)	Lifetime ECLs (Credit-impaired Financial Assets)	Lifetime ECLs (Credit-impaired Financial Assets Purchased)	Accumulated Amount under IFRS 9	Difference Between IFRS 9 and Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans	Total
Balance at January 1, 2018 under IAS 39	\$ 68,824	\$ 45,239	\$ -	\$ 2,870,828	\$ -	\$ 2,984,891	\$ 28,252	\$ 3,013,143
Adjustment on initial application of IFRS 9								
Transfers								
To lifetime ECLs	(170)	6,018	-	(11,960)	-	(6,112)	-	(6,112)
To credit-impaired financial assets	(53)	(753)	-	39,165	-	38,359	-	38,359
To 12-month ECLs	39	(608)	-	(95)	-	(664)	-	(664)
Derecognition of financial assets	(12,662)	(5,226)	-	(17,076)	-	(34,964)	-	(34,964)
New financial assets purchased	10,958	5,870	-	6,526	-	23,354	-	23,354
Difference between IFRS 9 and Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans	-	-	-	-	-	-	46,816	46,816
Write-offs	-	-	-	(792,652)	-	(792,652)	(75,068)	(867,720)
Withdrawal after write-offs	-	-	-	96,216	-	96,216	-	96,216
Exchange rate or other changes	(18,657)	(1,613)	-	64,474	-	44,204	-	44,204
Balance at December 31, 2018	<u>\$ 48,279</u>	<u>\$ 48,927</u>	<u>\$ -</u>	<u>\$ 2,255,426</u>	<u>\$ -</u>	<u>\$ 2,352,632</u>	<u>\$ -</u>	<u>\$ 2,352,632</u>

The allowance at December 31, 2019 and 2018 listed above excluded the allowance for receivables of margin trading of \$123,350 thousand and \$120,858 thousand, allowance for interest receivables of \$8,844 thousand and \$15,864 thousand and allowance for accounts receivable upon the application of the simplified approach under IFRS 9 of \$1,388 thousand and \$11,297 thousand, but included the allowance for other assets - non-accrual loans of \$62,326 thousand and \$79,947 thousand, respectively.

14. ASSETS CLASSIFIED AS HELD FOR SALE

	December 31		
	2019	2018	Investments in Joint Ventures Accounted for Using the Equity Method
	Land and Buildings	Land and Buildings	
Cost	\$ -	\$ 63,875	\$ -
Less: Allowance for impairment loss	-	(25,899)	-
	<u>\$ -</u>	<u>\$ 37,976</u>	<u>\$ -</u>

For the year ended December 31, 2017, the board of directors of SKLIC approved the sale of land in the Rui'an Section in Taipei, with a carrying amount of \$37,976 thousand. The contract with the buyer was completed in 2017 and the sale contract was accompanied by a two-year integration period. The integration work was performed by the buyer. The period for completing the sale of the aforementioned land was extended to more than one year and was classified as assets for sale in accordance with IFRS 5. Because the buyer failed to complete the integration within two years, the aforementioned contract was terminated on December 4, 2019 due to the expiration of the integration period, and the related assets were reclassified to investment properties.

For information related to investments in joint ventures accounted for using the equity method classified as held for sale, refer to Note 17.

15. LOANS, NET

	December 31	
	2019	2018
Policy loans	\$ 103,720,045	\$ 103,078,992
Premium loans	10,019,433	9,521,284
Loans	648,272,896	616,194,819
Overdue loans	<u>1,203,897</u>	<u>5,461,835</u>
	763,216,271	734,256,930
Allowance for impairment loss	<u>(8,250,053)</u>	<u>(8,821,112)</u>
	<u>\$ 754,966,218</u>	<u>\$ 725,435,818</u>

In 2019, TSKCB's loans and allowances for impairment loss were \$597,428,365 thousand and \$1,300,159 thousand, respectively.

Movements in the allowance for impairment loss recognized on loans and overdue loans, and accounts receivable and other financial assets were as follows:

	2019		
	Loans and Overdue Loans	Accounts Receivable and Other Assets	Total
Balance, January 1, 2019	\$ 8,821,112	\$ 2,490,651	\$ 11,311,763
Impairment losses recognized	458,136	13,910	472,046
Written off as uncollectible	(1,831,151)	(146,218)	(1,977,369)
Amounts recovered from prior years' write-off	833,139	88,292	921,431
Net exchange differences	<u>(31,183)</u>	<u>(40,143)</u>	<u>(71,326)</u>
Balance, December 31, 2019	<u>\$ 8,250,053</u>	<u>\$ 2,406,492</u>	<u>\$ 10,656,545</u>
	2018		
	Loans and Overdue Loans	Accounts Receivable and Other Assets	Total
Balance, January 1, 2018	\$ 7,362,282	\$ 2,495,948	\$ 9,858,230
Effect of retrospective application under IFRS 9	<u>992,941</u>	<u>529,941</u>	<u>1,522,882</u>
Balance, January 1, 2018 as restated	8,355,223	3,025,889	11,381,112
Impairment losses recognized	1,603,059	120,341	1,723,400
Written off as uncollectible	(1,708,646)	(867,720)	(2,576,366)
Amounts recovered from prior years' write-off	550,681	96,216	646,897
Net exchange differences	<u>20,795</u>	<u>115,925</u>	<u>136,720</u>
Balance, December 31, 2018	<u>\$ 8,821,112</u>	<u>\$ 2,490,651</u>	<u>\$ 11,311,763</u>

Movements of the allowance for loans, net

2019

Allowance for Discounts and Loans, Net	12-month ECLs	Lifetime ECLs	Lifetime ECLs (Individual)	Lifetime ECLs (Credit-impaired Financial Assets)	Lifetime ECLs (Credit-impaired Financial Assets Purchased)	Accumulated Amount under IFRS 9	Difference Between IFRS 9 and Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans	Total
Balance at January 1, 2018 under IAS 39	\$ 1,492,709	\$ 936,878	\$ -	\$ 3,629,524	\$ -	\$ 6,059,111	\$ 2,762,001	\$ 8,821,112
Adjustment on initial application of IFRS 9								
Transfers								
To lifetime ECLs	(13,647)	291,480	-	(25,462)	-	252,371	-	252,371
To credit-impaired financial assets	(5,985)	(85,575)	-	1,213,071	-	1,121,511	-	1,121,511
To 12-month ECLs	11,420	(242,660)	-	(15,499)	-	(246,739)	-	(246,739)
Derecognition of financial assets	(912,778)	(355,252)	-	(1,800,045)	-	(3,068,075)	-	(3,068,075)
New financial assets purchased	1,020,463	527,889	-	143,903	-	1,692,255	-	1,692,255
Difference between IFRS 9 and Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans	-	-	-	-	-	-	1,712,456	1,712,456
Write-offs	(2,795)	(11,383)	-	(330,810)	-	(344,988)	(1,486,162)	(1,831,151)
Withdrawal after write-offs	-	-	-	833,139	-	833,139	-	833,139
Other changes	(76,952)	(34,742)	-	(925,133)	-	(1,036,827)	-	(1,036,826)
Balance at December 31, 2018	<u>\$ 1,512,435</u>	<u>\$ 1,026,635</u>	<u>\$ -</u>	<u>\$ 2,722,688</u>	<u>\$ -</u>	<u>\$ 5,261,758</u>	<u>\$ 2,988,295</u>	<u>\$ 8,250,053</u>

2018

Allowance for Discounts and Loans, Net	12-month ECLs	Lifetime ECLs	Lifetime ECLs (Individual)	Lifetime ECLs (Credit-impaired Financial Assets)	Lifetime ECLs (Credit-impaired Financial Assets Purchased)	Accumulated Amount under IFRS 9	Difference Between IFRS 9 and Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/ Non-accrual Loans	Total
Balance at January 1, 2018 under IAS 39	\$ 1,499,845	\$ 1,039,493	\$ -	\$ 3,604,773	\$ -	\$ 6,144,111	\$ 2,211,112	\$ 8,355,223
Adjustment on initial application of IFRS 9								
Transfers								
To lifetime ECLs	(20,877)	436,562	-	(231,716)	-	183,969	-	183,969
To credit-impaired financial assets	(3,828)	(112,689)	-	1,201,631	-	1,085,114	-	1,085,114
To 12-month ECLs	12,623	(181,650)	-	(112,556)	-	(281,583)	-	(281,583)
Derecognition of financial assets	(939,693)	(479,058)	-	(220,177)	-	(1,638,928)	-	(1,638,928)
New financial assets purchased	1,017,196	316,102	-	220,050	-	1,553,348	-	1,553,348
Difference between IFRS 9 and Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Non-performing/Non-accrual Loans	-	-	-	-	-	-	1,518,623	1,518,623
Write-offs	(687)	(20,228)	-	(719,997)	-	(740,912)	(967,734)	(1,708,646)
Withdrawal after write-offs	-	-	-	550,681	-	550,681	-	550,681
Other changes	(2,936)	(3,206)	-	4,952	-	(1,190)	-	(1,190)
Exchange rate	(68,934)	(58,448)	-	(668,117)	-	(795,499)	-	(795,499)
Balance at December 31, 2018	<u>\$ 1,492,709</u>	<u>\$ 936,878</u>	<u>\$ -</u>	<u>\$ 3,629,524</u>	<u>\$ -</u>	<u>\$ 6,059,111</u>	<u>\$ 2,762,001</u>	<u>\$ 8,821,112</u>

16. SUBSIDIARIES

a. Subsidiaries and joint ventures included in the consolidated financial statements

Investor	Investee	Main Business	% of Ownership	
			2019	2018
SKFHC	SKLIC	Insurance	100.00	100.00
	SKSC	Securities	100.00	100.00
			(Note 1)	(Note 1)
	TSKCB	Banking	100.00	100.00
	TSKIBC	Insurance brokerage	-	100.00
			(Note 5)	(Note 5)
	SKITC	Entrusted investments	100.00	100.00
	SKVIC	Venture capital	100.00	100.00
	SKPIAC	Property insurance agency	100.00	100.00
	MLSC	Securities	100.00	100.00
SKLIC	SKLRESC	Building management	72.01	72.01
TSKCB	SFIAC (Note 4)	Life insurance agency	100.00	100.00
	SKMC	Promotion marketing	100.00	100.00
			(Note 2)	(Note 2)
MLSC	MasterLink Futures Co., Ltd.	Futures brokerage and trading	100.00	100.00
	MasterLink Venture Management Corp., Ltd.	Management consulting	100.00	100.00
	MasterLink Venture Capital Corp., Ltd.	Venture capital, operations such as investing, transferring, reinvesting and management entrusted to professional venture investment management institutes	100.00	100.00
	MasterLink Securities Investment Advisory Corp.	Research and analysis about securities investment, publication of investment research reports, securities investment consulting services and discretionary investment services	100.00	100.00
	MasterLink Securities (B.V.I) Corporation (MLSBC)	1. Southeast Asia investment transfer service of securities 2. Other approved securities investment	100.00	100.00
	MasterLink Insurance Agency Co., Ltd.	Life insurance agency	100.00	100.00
	MasterLink Venture Management Corporation (Tianjin)	Management consulting	100.00	100.00
	MasterLink Venture Capital Corporation (Tianjin)	Venture capital	100.00	100.00
	MasterLink (Hong Kong)	Consulting services, industry report and research	99.99	99.99
	Shanghai MasterLink Investment Advisory Corp.	Securities investment consulting and training services	100.00	100.00
MLSBC	MasterLink Agency (Hong Kong)	Agency of securities	99.99	99.99
SKVIC	Lion Investment (Samoa) Co., Ltd.	Reinvestment	100.00	100.00
Lion Investment (Samoa) Co., Ltd.	SKLSC	Financial lease	100.00	100.00

On April 24, 2018, the board of directors of MLSC approved the share swap agreement with the Company, and the contract was signed on April 26, 2018. In compliance with the contract, the Company acquired MLSC's ordinary shares by exchanging 0.989 ordinary shares of the Company for each share of MLSC. The completion date of the share swap was on October 1, 2018. After the share swap, the Company owned 100% of the issued and outstanding ordinary shares of MLSC, MLSC became a wholly-owned subsidiary of the Company, and was subsequently delisted from TWSE in 2018

Note 1: As of December 31, 2019, the liquidation process of SKSC had not been completed.

Note 2: The ownership percentage includes the indirect equity interest owned by SKLIAC, a subsidiary of TSKCB.

Note 3: The ownership percentage includes the indirect equity interest owned by MasterLink Venture Capital Corp. Ltd. and a subsidiary of MLSC.

Note 4: Shin Kong Life Insurance Agency Co., Ltd. was renamed as Shin Fu Insurance Agency Co., Ltd. on May 19, 2017.

Note 5: On July 24, 2019, the liquidation process of TSKIBC was completed.

- b. All of the subsidiaries are included in the consolidated financial statements.

17. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	December 31		December 31	
	2019	% of Ownership and Voting Rights	2018	% of Ownership and Voting Rights
	Carrying Value		Carrying Value	
<u>Associates that are not individually material</u>				
Kaixin Energy Co.	\$ 44,969	45.00	\$ -	-
DingCheng Life Insurance Co. (formerly known as Shin-Kong Hainan Life Insurance Co.)	<u>378,021</u>	25.00	<u>511,677</u>	25.00
	<u>\$ 422,990</u>		<u>\$ 511,677</u>	

Refer to Table 5 “Information on Investments in Mainland China” following the notes to consolidated financial statements for information on nature of activities, principal place of business and country of incorporation of the associates.

On November 8, 2019, SKLIC bought 4,500 ordinary shares of Kaixin Energy Co. with \$45,000 thousand. The shareholding ratio after the subscription was 45%, which had a significant influence on the company.

On September 6, 2016, the board of the directors of SKLIC approved the sale of the joint venture, Shin-Kong Hainan Life Insurance Co. (“SKHLIC”), to Shenzhen Po-lin Asset Management Co., Ltd. at the total amount of CNY375,000 thousand based on an agreed upon CNY3 per share for 125 million shares, representing 25% of the total shares of SKHLIC. On September 13, 2016, the parties signed the share transfer agreement which was approved by the board of the directors of SKHLIC on November 4, 2016. Also, the Group collected a deposit in the amount of CNY50,000 thousand which was recorded as deposits received. To ensure the obligation of both parties, SKLIC signed the deposit payment agreement for the share transfer with Shenzhen Po-lin Asset Management Co., Ltd. on March 31, 2017 and received a share transfer deposit of CNY250,000 thousand. The above deposit payment agreement was due on March 31, 2018. On March 31, 2018, SKHLIC received Notice No.2018040 about the rejection for administration application. The notice contained the related rules of new “Administrative Measures for Equity of Insurance Companies” released by China. In compliance with the rule, Po-lin Asset Management Co., Ltd. cannot be a shareholder of the insurance company. After discussion, the notice was not equal to a denial of the acquisition; the original acquisition agreement was still binding. The board of directors of SKLIC approved to sign the extra deposit payment agreement to extend the initial agreement by one year, so as to keep the share transfer agreement valid.

On July 20, 2018, the board of the directors of SKLIC approved the share transfer and capital increase of SKHLIC:

- a. According to the structure and terms of the share transfer agreement, SKLIC signed an extra agreement with Po-Lin Asset Management Co., Ltd. and other companies.

- b. SKLIC will increase the capital of SKHLIC by CNY187,500 (the amount of capital increased by 25% of the shareholding after the equity transfer). At the same time, other strategic investors will also be attracted to increase capital. After the capital increase, SKHLIC's capital will amount to CNY1,250,000 thousand.

The above transaction was approved by the Bank of China Insurance Regulatory Commission on September 29, 2007. SKLIC has remitted the capital increase to the SKHLIC Capital Verification Account for an amount of \$838,125 thousand (CNY 187,500 thousand), SKHLIC recognized the capital in 2018 in accordance with the Chinese enterprise accounting system.

SKLIC reclassified the 25% equity interest to be disposed of financial assets held for sale on September 30, 2007, and the related other interests were reclassified to equity directly related to financial assets held for sale under other equity, which amounted to \$6,130 thousand, and on December 31, 2018, after the completion of the equity transfer, the assets to be sold and the interests directly related to the assets to be sold were excluded. Since SKLIC has lost joint control of SKHLIC after the equity transfer, it was reclassified from a joint venture to an affiliate.

On April 3, 2019, SKHLIC obtained an approval from the Bank of China Insurance Regulatory Commission to change its name to DingCheng Life Insurance Company.

The summarized financial information below represents amounts shown in the associates' financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

DingCheng Life Insurance Co. (formerly known as Shin-Kong Hainan Life Insurance Co.)

	<u>For the Year Ended December 31</u>	
	2019	2018
The Group's share of:		
Profit from continuing operations	\$ (127,616)	\$ (331,643)
Other comprehensive loss	<u>(6,040)</u>	<u>5,195</u>
Total comprehensive income for the year	<u>\$ (133,656)</u>	<u>\$ (326,448)</u>

Kaixin Energy Co.

	<u>For the Year Ended December 31</u>	
	2019	2018
The Group's share of:		
Profit from continuing operations	\$ (31)	\$ -
Other comprehensive loss	<u>-</u>	<u>-</u>
Total comprehensive income for the year	<u>\$ (31)</u>	<u>\$ -</u>

Except for Kaixin Energy Co., investments were accounted for using the equity method and the share of profit or loss and other comprehensive income of those investments were calculated based on financial statements which have been audited. Management believes there is no material impact on the equity method of accounting or the calculation of the share of profit or loss and other comprehensive income from the unaudited financial statements of Kaixin Energy Co.

18. INVESTMENT PROPERTIES

	Land	Buildings	Building Facilities	Prepayment for Buildings and Constructions in Progress	Right-of-use Assets	Total
Cost						
Balance, January 1, 2019	\$ 78,307,175	\$ 37,729,395	\$ 3,253,131	\$ 3,456,310	\$ -	\$ 122,746,011
Adjustment on initial application of IFRS 16	-	-	-	-	12,897,175	12,897,175
Balance at January 1, 2019 (restated)	78,307,175	37,729,395	3,253,131	3,456,310	12,897,175	135,643,186
Additions	1,258,875	1,829,616	-	2,006,262	-	5,094,753
Disposals	-	-	-	-	-	-
Transferred from property and equipment	819,174	430,440	174,872	38	-	1,424,524
Transferred to property and equipment	(198,334)	(60,469)	(6,290)	-	-	(265,093)
Transfer from right-of-use assets	-	-	-	-	82,129	82,129
Transfer from held-for-sale assets	63,875	-	-	-	-	63,875
Other reclassifications	421,979	1,991,993	324,211	(2,738,183)	-	-
Balance, December 31, 2019	<u>80,672,744</u>	<u>41,920,975</u>	<u>3,745,924</u>	<u>2,724,427</u>	<u>12,979,304</u>	<u>142,043,374</u>
Accumulated depreciation						
Balance, January 1, 2019	-	8,521,620	2,414,364	-	-	10,935,984
Adjustment on initial application of IFRS 16	-	-	-	-	-	-
Balance at January 1, 2019 (restated)	-	8,521,620	2,414,364	-	-	10,935,984
Depreciation expense	-	791,926	158,985	-	271,967	1,222,878
Disposals	-	-	-	-	-	-
Transferred from property and equipment	-	10,845	577	-	-	11,422
Transferred to property and equipment	-	(37,689)	(3,012)	-	-	(40,701)
Transfer from right-of-use assets	-	-	-	-	(24,280)	(24,280)
Balance, December 31, 2019	-	<u>9,286,702</u>	<u>2,570,914</u>	-	<u>247,687</u>	<u>12,105,303</u>
Accumulated impairment						
Balance, January 1, 2019	34,933	1,290,096	-	-	-	1,325,029
Adjustment on initial application of IFRS 16	-	-	-	-	559,026	559,026
Balance at January 1, 2019 (restated)	34,933	1,290,096	-	-	559,026	1,884,055
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Transfer from held-for-sale assets	25,899	-	-	-	-	25,899
Balance, December 31, 2019	<u>60,832</u>	<u>1,290,096</u>	-	-	<u>559,026</u>	<u>1,909,954</u>
Carrying amounts at December 31, 2019	<u>\$ 80,611,912</u>	<u>\$ 31,344,177</u>	<u>\$ 1,175,010</u>	<u>\$ 2,724,427</u>	<u>\$ 12,172,591</u>	<u>\$ 128,028,117</u>
Cost						
Balance, January 1, 2018	\$ 78,212,681	\$ 35,298,461	\$ 3,107,316	\$ 2,549,962	\$ -	\$ 119,168,420
Additions	253,529	709,186	229	2,671,111	-	3,634,055
Disposals	-	-	-	-	-	-
Transferred from property and equipment	258,936	315,428	14,877	-	-	589,241
Transferred to property and equipment	(417,971)	(108,807)	(118,927)	-	-	(645,705)
Other reclassifications	-	1,515,127	249,636	(1,764,763)	-	-
Balance, December 31, 2018	<u>78,307,175</u>	<u>37,729,395</u>	<u>3,253,131</u>	<u>3,456,310</u>	-	<u>122,746,011</u>
Accumulated depreciation						
Balance, January 1, 2018	-	7,843,267	2,262,133	-	-	10,105,400
Depreciation expense	-	754,954	152,564	-	-	907,518
Disposals	-	-	-	-	-	-
Transferred from property and equipment	-	44,891	784	-	-	45,675
Transferred to property and equipment	-	(121,492)	(1,117)	-	-	(122,609)
Balance, December 31, 2018	-	<u>8,521,620</u>	<u>2,414,364</u>	-	-	<u>10,935,984</u>
Accumulated impairment						
Balance, January 1, 2018	34,933	28,191	-	-	-	63,124
Additions	-	1,261,905	-	-	-	1,261,905
Disposals	-	-	-	-	-	-
Transferred from property and equipment	-	-	-	-	-	-
Balance, December 31, 2018	<u>34,933</u>	<u>1,290,096</u>	-	-	-	<u>1,325,029</u>
Carrying amounts at December 31, 2018	<u>\$ 78,272,242</u>	<u>\$ 27,917,679</u>	<u>\$ 838,767</u>	<u>\$ 3,456,310</u>	<u>\$ -</u>	<u>\$ 110,484,998</u>

- The right-of-use assets in investment properties refer to part of the superficies rights and buildings obtained by the Group for sublease of operating lease. The relevant right-of-use assets are listed in investment properties. Refer to Note 20(c) for related items.
- The depreciation expense of the investment properties - right-of-use assets in 2019 was \$271,967 thousand, of which \$45,608 thousand was capitalized into investment properties - prepaid building and construction costs.

- c. The maturity analysis of lease payments receivable under operating leases of investment properties at December 31, 2019 was as follows:

	December 31, 2019
Year 1	\$ 3,433,314
Year 2	2,661,378
Year 3	2,113,676
Year 4	1,809,914
Year 5	1,446,624
Year 6 onwards	<u>5,039,650</u>
	<u>\$ 16,504,556</u>

The future minimum lease payments of non-cancellable operating lease commitments at December 31, 2018 are as follows:

	December 31, 2018
Not later than 1 year	\$ 3,176,034
Later than 1 year and not later than 5 years	7,801,826
Later than 5 years	<u>4,371,608</u>
	<u>\$ 15,349,468</u>

- d. All of the Group's investment properties were held under freehold interests. The investment properties held by the Group are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	40-62 years
Building facilities	
Elevators	20-25 years
Exterior walls	25-30 years
Air conditioning units	18-25 years
Extinguishing equipment	20-25 years
Others	2-25 years
Right-of-use assets	35-139 years

- e. The fair values were based on level 3 inputs and valuations carried out at December 31, 2019 and 2018, respectively, by an independent qualified professional valuer. The valuation was arrived at by the sales comparison approach, income approach and cost approach. The most significant unobservable input adopted is the capitalization rate and profit margin. The fair values of investment properties were as follows:

	December 31	
	2019	2018
Fair values	<u>\$ 182,234,703</u>	<u>\$ 147,673,844</u>

- f. In 2018, the Group recognized an impairment loss on assets of \$1,261,905 thousand on the investment properties in England. The Group determined the recoverable amount of investment properties on the basis of their fair value less cost of disposal, and at the same time taking into consideration foreign exchange rate fluctuations. The fair value was determined using the straight-line method by independent appraisal firm, Knight Frank LLP, and the discount rate adopted was 4.50%. The main assumption of fair value included future rent revenue and tax expenses, and the fair value was categorized as a Level 3 fair value measurement.
- g. Refer to Note 40 for information of investments properties pledged as security.
- h. As of December 31, 2019, the ownership of the foreign investment properties, held in name of the Group, was unrestricted.

19. PROPERTY AND EQUIPMENT

	Land	Buildings and Facilities	Transportation Equipment	Other Equipment	Construction in Progress	Total
<u>Cost</u>						
Balance, January 1, 2019	\$ 20,231,325	\$ 14,893,358	\$ 66,015	\$ 6,451,142	\$ 1,195,395	\$ 42,837,235
Additions	-	825,901	9,378	461,818	717,610	2,014,707
Disposals	-	(4,340)	(12,855)	(528,536)	-	(545,731)
Transferred from investment properties	198,334	66,759	-	-	-	265,093
Transferred to investment properties	(819,174)	(605,312)	-	-	(38)	(1,424,524)
Other reclassifications	-	1,336,421	-	38,351	(1,432,192)	(57,420)
Net exchange differences	-	-	-	(1,097)	(85)	(1,182)
Balance, December 31, 2019	<u>19,610,485</u>	<u>16,512,787</u>	<u>62,538</u>	<u>6,421,678</u>	<u>480,690</u>	<u>43,088,178</u>
<u>Accumulated depreciation</u>						
Balance, January 1, 2019	-	5,677,459	38,173	4,853,416	-	10,569,048
Depreciation expense	-	301,744	7,070	454,406	-	763,220
Disposals	-	(4,340)	(9,505)	(523,021)	-	(536,866)
Transferred from investment properties	-	40,701	-	-	-	40,701
Transferred to investment properties	-	(11,422)	-	-	-	(11,422)
Net exchange differences	-	-	-	(875)	-	(875)
Balance, December 31, 2019	<u>-</u>	<u>6,004,142</u>	<u>35,738</u>	<u>4,783,926</u>	<u>-</u>	<u>10,823,806</u>
<u>Accumulated impairment</u>						
Balance, January 1, 2019	396,431	17,387	-	-	-	413,818
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Balance, December 31, 2019	<u>396,431</u>	<u>17,387</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>413,818</u>
Carrying amount, January 1, 2019	<u>\$ 19,834,894</u>	<u>\$ 9,198,512</u>	<u>\$ 27,842</u>	<u>\$ 1,597,726</u>	<u>\$ 1,195,395</u>	<u>\$ 31,854,369</u>
Carrying amount, December 31, 2019	<u>\$ 19,214,054</u>	<u>\$ 10,491,258</u>	<u>\$ 26,800</u>	<u>\$ 1,637,752</u>	<u>\$ 480,690</u>	<u>\$ 31,850,554</u>
<u>Cost</u>						
Balance, January 1, 2018	\$ 20,059,952	\$ 14,983,189	\$ 81,230	\$ 6,490,495	\$ 662,096	\$ 42,276,962
Additions	12,338	15,346	5,960	563,082	658,491	1,255,217
Disposals	-	(2,606)	(21,175)	(659,305)	-	(683,086)
Transferred from investment properties	417,971	227,734	-	-	-	645,705
Transferred to investment properties	(258,936)	(330,305)	-	-	-	(589,241)
Other reclassifications	-	-	-	56,183	(125,240)	(69,057)
Net exchange differences	-	-	-	687	48	735
Balance, December 31, 2018	<u>20,231,325</u>	<u>14,893,358</u>	<u>66,015</u>	<u>6,451,142</u>	<u>1,195,395</u>	<u>42,837,235</u>

(Continued)

	Land	Buildings and Facilities	Transportation Equipment	Other Equipment	Construction in Progress	Total
<u>Accumulated depreciation</u>						
Balance, January 1, 2018	\$ -	\$ 5,312,393	\$ 47,475	\$ 5,048,351	\$ -	\$ 10,408,219
Depreciation expense	-	290,739	8,350	461,206	-	760,295
Disposals	-	(2,607)	(17,652)	(656,730)	-	(676,989)
Transferred from investment properties	-	122,609	-	-	-	122,609
Transferred to investment properties	-	(45,675)	-	-	-	(45,675)
Net exchange differences	-	-	-	589	-	589
Balance, December 31, 2018	<u>-</u>	<u>5,677,459</u>	<u>38,173</u>	<u>4,853,416</u>	<u>-</u>	<u>10,569,048</u>
<u>Accumulated impairment</u>						
Balance, January 1, 2018	396,431	17,387	-	-	-	413,818
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
Transfer to investment properties	-	-	-	-	-	-
Balance, December 31, 2018	<u>396,431</u>	<u>17,387</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>413,818</u>
Carrying amount, January 1, 2018	<u>\$ 19,663,521</u>	<u>\$ 9,653,409</u>	<u>\$ 33,755</u>	<u>\$ 1,442,144</u>	<u>\$ 662,096</u>	<u>\$ 31,454,925</u>
Carrying amount, December 31, 2018	<u>\$ 19,834,894</u>	<u>\$ 9,198,512</u>	<u>\$ 27,842</u>	<u>\$ 1,597,726</u>	<u>\$ 1,195,395</u>	<u>\$ 31,854,369</u>

(Concluded)

- a. Property and equipment are depreciated on a straight-line basis over their estimated useful lives as follows:

Buildings	5-62 years
Building facilities	
Elevators	20-25 years
Exterior walls	25-30 years
Air conditioning units	18-25 years
Extinguishing equipment	20-25 years
Others	2-25 years
Transportation equipment	2-7 years
Other equipment	
Dynamos	18-20 years
Air conditioning units	10-20 years
Others	2-10 years

- b. Refer to Note 40 for information of property and equipment pledged as security.

20. LEASE ARRANGEMENTS

- a. Right-of-use assets - 2019

	December 31, 2019
<u>Carrying amounts</u>	
Land and buildings	\$ 5,080,153
Others	<u>88,193</u>
	<u>\$ 5,168,346</u>

	For the Year Ended December 31, 2019
Additions to right-of-use assets	<u>\$ 711,392</u>
Right-of-use assets reclassified to investment properties	<u>\$ (106,409)</u>
Depreciation charge for right-of-use assets	
Land and buildings	\$ (601,268)
Others	<u>(39,393)</u>
	<u>\$ (640,661)</u>
Income from the subleasing of right-of-use assets (presented in other income)	<u>\$ 1,151,482</u>

The depreciation expense of the right-of-use assets for land and buildings in 2019 was \$601,268 thousand, of which \$688 thousand was capitalized into property and equipment - construction-in-progress.

The Group subleased part of its leasehold superficies and buildings under operating leases. The related right-of-use assets are presented as investment properties (as set out in Note 18). The amounts disclosed above with respect to the right-of-use assets do not include right-of-use assets that meet the definition of investment properties.

b. Lease liabilities - 2019

	December 31, 2019
Carrying amounts	<u>\$ 7,036,559</u>

Movements of lease liabilities:

2019

	January 1, 2019	Cash Flows (Note)	Non-cash Movements Addition	December 31, 2019
Lease liabilities (Note 3)	<u>\$ 6,930,556</u>	<u>\$ (599,101)</u>	<u>\$ 705,104</u>	<u>\$ 7,036,559</u>

Note: Include payments of lease liabilities of \$794,206 thousand and interest expense of \$195,105 thousand. Range of discount rate for lease liabilities was as follows:

	December 31, 2019
Superficies	2.30%-4.51%
Land and buildings	1.02%-5.66%
Others	1.02%-5.66%

c. Material lease-in activities and terms

The superficieses leased by the Group include the following items:

- 1) The Group purchased the superficieses right of A12 in Xinyi Dist. by tender from Taipei City Government in November 2003, whose duration was 50 years up to December 2053.
- 2) The Group purchased the superficieses right of Xinban Section in Banqiao Dist. from Taiwan Tobacco & Liquor Corporation in June 2013, whose duration was 50 years up to June 2163.
- 3) The Group purchased the superficieses right of Dalong Section in Datong Dist. from CPC Corporation, Taiwan in October 2013, whose duration was 50 years up to October 2163.
- 4) The Group purchased the superficieses right of Nangang Business Section by tender from Taipei City Government in March 2014, whose duration was 60 years up to March 2074.
- 5) The Group purchased the superficieses right of Wenhua Section in Banqiao Dist from CPC Corporation, Taiwan in October 2014, whose duration was 50 years up to October 2064.
- 6) The Group purchased the superficieses right of London City in United Kingdom from Gracechurch Street No. 1 Limited, whose remaining duration was 141 years and ten months up to October 2157.
- 7) The Group purchased the superficieses right of Chenggong Section in Zongzheng Dist from Northern Region Branch, National Property Administration, MOF in June 2018, whose duration was 70 years up to June 2088.

d. Subleases

Refer to Note 18 for the details on subleases.

e. Other lease information

2019

	For the Year Ended December 31, 2019
Expenses relating to short-term leases	<u>\$ 205,937</u>
Expenses relating to low-value asset leases	<u>\$ 511</u>
Expenses relating to variable lease payments not included in the measurement of lease liabilities	<u>\$ 9,509</u>
Total cash outflow for leases	<u>\$ 1,010,163</u>

The Group leases certain assets which qualify as short-term leases and certain assets which qualify as low-value asset leases. The Group has elected to apply the recognition exemption and thus, did not recognize right-of-use assets and lease liabilities for these leases.

2018

The future minimum lease payments of non-cancellable operating lease commitments are as follows:

	December 31, 2018
Not later than 1 year	\$ 725,779
Later than 1 year and not later than 5 years	1,551,913
Later than 5 years	<u>7,446,205</u>
	<u>\$ 9,723,897</u>

21. INTANGIBLE ASSETS, NET

	December 31	
	2019	2018
Goodwill	\$ 2,884,640	\$ 2,884,640
Accumulated impairment	<u>(549,594)</u>	<u>(549,594)</u>
	2,335,046	2,335,046
Computer software	<u>684,229</u>	<u>600,524</u>
	<u>\$ 3,019,275</u>	<u>\$ 2,935,570</u>

- a. The acquisitions and variations of goodwill were summarized as follows:
- 1) TSKCB recognized as goodwill the excess of purchase price over net asset from acquisition of other financial institutions. As of December 31, 2019, the carrying amount of the goodwill was \$1,243,923 thousand.
 - 2) The Group acquired 100% equity interest of SKITC in 2006. The excess of purchase price over net asset, amounting to \$1,478,750 thousand, was recognized as goodwill.
 - 3) The Group acquired 25.32% equity interest of MLSC in batches since 2007. The excess of purchase price over net asset, amounting to \$161,967 thousand, was recognized as goodwill.
 - 4) As of December 31, 2019, accumulated impairment loss was \$549,594 thousand.
 - 5) After evaluating, the Group did not have any indication that the goodwill had suffered an impairment loss for the years ended December 31, 2019 and 2018.

b. Movements in computer software were as follows:

	2019		
	Computer Software	Prepaid Computer Software	Total
Balance, January 1	\$ 433,877	\$ 166,647	\$ 600,524
Additions	180,145	131,647	311,792
Amortization	(292,393)	-	(292,393)
Net exchange differences	(144)	-	(144)
Reclassification	<u>90,166</u>	<u>(25,716)</u>	<u>64,450</u>
Balance, December 31	<u>\$ 411,651</u>	<u>\$ 272,578</u>	<u>\$ 684,229</u>

	2018		
	Computer Software	Prepaid Computer Software	Total
Balance, January 1	\$ 483,574	\$ 134,492	\$ 618,066
Additions	128,795	76,312	205,107
Amortization	(291,731)	-	(291,731)
Net exchange differences	25	-	25
Reclassification	<u>113,214</u>	<u>(44,157)</u>	<u>69,057</u>
Balance, December 31	<u>\$ 433,877</u>	<u>\$ 166,647</u>	<u>\$ 600,524</u>

Intangible assets are amortized on a straight-line basis over 3 to 10 years.

22. OTHER ASSETS

	December 31	
	2019	2018
Prepaid expenses	\$ 423,920	\$ 334,926
Insurance Industry Stability Fund	5,350,893	4,637,910
Less: Reserve for Insurance Industry Stability Fund	(5,350,893)	(4,637,910)
Guarantee deposits paid (Note 41)	18,993,464	17,551,027
Restricted assets - time deposit and compensation deposit (Note 41)	1,337,749	1,350,917
Deferred expenses	669,830	452,923
Overdue receivable	62,326	99,688
Less: Allowance for impairment loss (Note 15)	(62,326)	(79,947)
Reinsurance assets	866,525	1,096,943
Lease prepayments for superficies	-	10,584,442
Receivable for underwriting of securities	1,655	24,529
Prepayment for investments using equity method	1,260,000	2,131
Net defined benefit assets (Note 28)	1,102,674	-
Others	<u>992,355</u>	<u>1,573,745</u>
	<u>\$ 25,648,172</u>	<u>\$ 32,991,324</u>

- a. Under Tai-Tsai-Bao No. 811769212 issued by the Ministry of Finance on December 31, 1992, one thousandth (1/1000) of premiums should be contributed to the Insurance Industry Stability Fund starting from January 1, 1993. According to “the standard of Life and Property Insurance Stabilization Fund”, starting from July 1, 2014, the contribution to the Insurance Industry Stability Fund of Life Insurance Enterprises should be based on the premium income and contribution rate calculated using the difference between capital adequacy ratio and management performance rating indicator. The credit account, reserve for Insurance Industry Stability Fund, is a contra account of the Insurance Industry Stability Fund.
- b. Guarantee deposits paid comprised:

	December 31	
	2019	2018
Insurance operation guarantee deposit	\$ 9,182,000	\$ 9,182,000
Deposit for foreign currencies	422,380	903,236
Bank operation guarantee deposit	5,635,352	438,290
Deposit for futures and options trading	289,017	465,430
Deposit for derivatives trading	-	2,963,891
Securities operation guarantee deposit	971,500	870,000
Clearing and settlement fund	267,984	280,099
Security lending guarantee deposits	803,958	1,601,963
Other guarantee deposits	<u>1,421,273</u>	<u>846,118</u>
	<u>\$ 18,993,464</u>	<u>\$ 17,551,027</u>

- 1) Based on Article 141 of the Insurance Law, insurance operation guarantee deposit should be deposited in the Central Bank equal to 15% of an insurance company’ paid-in capital. Article 142 of the same law further stipulates that this deposit can only be refunded if the insurance company ceases its business operations and completes the required liquidation process. As of December 31, 2019 and 2018, SKLIC deposited government bonds to the special treasury account as operating guarantee deposit.
 - 2) TSKCB provided bank operation guarantee deposit and deposit for foreign currencies according to related laws and agreed percentage of fair values of contracts as performance bonds when engaged in derivative transactions.
 - 3) When engaged in futures transactions, both of buyer and seller should provide guarantee deposits based on the value of the contract for performance in the future or for principal loss in liquidation. For the years ended December 31, 2019 and 2018, the government bond with carrying amount of \$200,000 thousand should be included into guarantee deposits of futures transactions.
 - 4) Based on the Securities and Exchange Act, MLSC provided operating guarantee deposit and settlement fund. Based on the Securities and Exchange Act and Rules Governing Securities Firms, SKITC provided operating guarantee deposit.
 - 5) To meet the requirement of deposit for non-central liquidation derivatives issued by Basel Committee on Banking Supervision and International Organization of Securities Commissions, SKLIC provided bank deposits in the amount of \$2,963,891 thousand as of December 31, 2018, as the deposit for currency derivatives trading.
- c. The superficies premium was classified into lease prepayments when IFRS 16 had not yet been adopted before January 1, 2019. Refer to Notes 18 and 20 for the disclosures after adopting IFRS 16 since January 1, 2019.

23. DUE TO CENTRAL BANK AND OTHER BANKS

	December 31	
	2019	2018
Call loans from banks	\$ 8,168,550	\$ 8,389,566
Due to Chunghwa Post Co., Ltd.	313,602	313,602
Due to banks	<u>11,667</u>	<u>1,900</u>
	<u>\$ 8,493,819</u>	<u>\$ 8,705,068</u>

24. NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS

	December 31	
	2019	2018
Notes and bonds issued under repurchase agreements	<u>\$ 40,823,365</u>	<u>\$ 42,654,744</u>
Interest rate	0.35%-3.30%	(0.46%)-4.10%

25. DEPOSITS AND REMITTANCES

	December 31	
	2019	2018
Savings account deposits	\$ 366,390,027	\$ 340,594,510
Time deposits	276,788,452	247,845,828
Demand deposits	121,587,366	108,125,376
Checking account deposits	7,111,083	7,855,516
Negotiable time deposits	132,900	3,328,300
Remittances outstanding	<u>269,502</u>	<u>217,505</u>
	<u>\$ 772,279,330</u>	<u>\$ 707,967,035</u>

26. BONDS PAYABLE

	December 31	
	2019	2018
Debentures payable	\$ 22,500,000	\$ 21,500,000
Bonds payable	<u>38,262,248</u>	<u>38,197,196</u>
	60,762,248	59,697,196
Less: Portion due within a year	<u>(6,000,000)</u>	<u>(3,500,000)</u>
	<u>\$ 54,762,248</u>	<u>\$ 56,197,196</u>

a. Debentures payable

	December 31	
	2019	2018
Secondary financial debentures		
First subordinated debenture of 2010	\$ 3,000,000	\$ 3,000,000
Second subordinated debenture of 2011	1,500,000	1,500,000
First subordinated debenture of 2012	3,000,000	4,000,000
First subordinated debenture of 2014	2,500,000	2,500,000
Second subordinated debenture of 2014	800,000	2,500,000
First subordinated debenture of 2016	2,200,000	3,000,000
First subordinated debenture of 2018	2,500,000	2,500,000
Second subordinated debenture of 2018	2,500,000	2,500,000
First subordinated debenture of 2019	<u>4,500,000</u>	<u>-</u>
	22,500,000	21,500,000
Less: Portion due within a year	<u>(3,000,000)</u>	<u>(3,500,000)</u>
	<u>\$ 19,500,000</u>	<u>\$ 18,000,000</u>

1) TSKCB issued the first non-cumulative secondary financial debenture without maturity date on June 30, 2010, which was approved under Rule No. 09900171020 issued by the Banking Bureau of the FSC on May 14, 2010. Details of the financial debenture issuance were summarized as follows:

- a) Total approved principal: \$3,000,000 thousand.
- b) Principal issued: \$3,000,000 thousand.
- c) Denomination: \$10,000 thousand, issued at par.
- d) Period: Without maturity date.
- e) Nominal interest rate: Fixed interest rate of 3.50% from the day issued to tenth year; if the Company does not redeem, the fixed interest rate will be adjusted to 4.50% on the next day the bond is issued to tenth year.
- f) Early redemption right: When expiring within 10 years from the issuance date, if TSKCB's Capital Adequacy Ratio after redemption conforms to the relevant authorities' minimum regulation, TSKCB can early redeem each bond at par value plus accrued interest after approval by the relevant authorities.
- g) The interest is paid annually from the issue date.

2) TSKCB issued the second secondary financial debenture on September 26, 2011, which was approved by Rule No. 10000301920 issued by the Banking Bureau of the FSC on September 2, 2011. Details of the financial debenture issuance were summarized as follows:

- a) Total approved principal: \$2,000,000 thousand.
- b) Principal issued: \$2,000,000 thousand.
- c) Denomination: \$10,000 thousand, issued at par.
- d) Period: Debenture I - 10 years with maturity on September 26, 2021. Debenture II - 7 years with maturity on September 26, 2018.

- e) Nominal interest rate: Fixed interest rate of 1.95%.
 - f) Repayment: The financial debenture will be fully paid on the maturity date.
 - g) The interest is paid annually from the issue date.
- 3) TSKCB issued the first secondary financial debenture on December 28, 2012, which was approved under Rule No. 10100401120 issued by the Banking Bureau of the FSC on December 21, 2012. Details of the financial debenture issuance were summarized as follows:
- a) Total approved principal: \$4,000,000 thousand.
 - b) Principal issued: \$4,000,000 thousand.
 - c) Denomination: \$10,000 thousand, issued at par.
 - d) Period: Debenture I - 7 years with maturity on December 28, 2019. Debenture II - 10 years with maturity on December 28, 2022.
 - e) Nominal interest rate: Debenture I - \$1,000,000 thousand at fixed interest rate of 1.51%. Debenture II - \$3,000,000 thousand at fixed interest rate of 1.63%.
 - f) Repayment: The financial debenture will be fully paid on the maturity date.
 - g) The interest is paid annually from the issue date.
- 4) TSKCB issued the second subordinated financial debenture on December 15, 2014, which was approved on April 30, 2014 under Rule No. 10300114440 issued by the Banking Bureau of the FSC. Details of the financial debenture issuance are summarized as follows:
- a) Total approved principal: \$5,000,000 thousand.
 - b) Principal issued: \$2,500,000 thousand.
 - c) Denomination: \$10,000 thousand, issued at par.
 - d) Period: 10 years, with maturity on December 15, 2024.
 - e) Nominal interest rate: Fixed interest rate of 2.10%.
 - f) Repayment: Full repayment is due on the maturity date.
 - g) The interest is payable annually from the issue date.
- 5) TSKCB issued its first subordinated financial debenture on January 29, 2016, which was approved on December 22, 2015 under Rule No. 10400308600 issued by the Banking Bureau of the FSC. Details of the financial debenture issuance are summarized as follows:
- a) Total approved principal: \$3,000,000 thousand.
 - b) Principal issued: \$3,000,000 thousand.
 - c) Denomination: \$10,000 thousand, issued at par.
 - d) Period: Debenture I - 7 years, with maturity on January 29, 2023. Debenture II - 10 years, with maturity on January 29, 2026.

- e) Nominal interest rate: Debenture I - \$800,000 thousand at fixed interest rate of 1.60%. Debenture II - \$2,200,000 thousand at fixed interest rate of 1.80%.
 - f) Repayment: Full repayment is due on the maturity date.
 - g) The interest is payable annually from the issue date.
- 6) TSKCB issued its first non-cumulative subordinated financial debenture on March 30, 2018, which was approved under Rule No. 10600186530 issued by the Banking Bureau of the FSC on August 7, 2017. Details of the financial debenture issuance are summarized as follows:
- a) Approved principal for issue: \$2,500,000 thousand.
 - b) Principal issued: \$2,500,000 thousand.
 - c) Denomination: \$10,000 thousand, issued at par.
 - d) Period: No due date.
 - e) Nominal interest rate: Fixed interest rate of 3.40%.
 - f) Early redemption rights: After 5 years and 3 months from the issue date, if the Bank's capital adequacy ratio after redemption meets the minimum requirement of the authorities and the authorities approve the application of the Bank, the Bank may redeem the debentures in advance.
 - g) The interest is payable annually from the issue date.
- 7) TSKCB issued its second subordinated financial debenture on June 28, 2018, which was approved under Rule No. 10600186530 issued by the Banking Bureau of the FSC on August 7, 2017. Details of the financial debenture issuance are summarized as follows:
- a) Approved principal for issue: \$2,500,000 thousand.
 - b) Principal issued: \$2,500,000 thousand.
 - c) Denomination: \$10,000 thousand, issued at par.
 - d) Period: 10 years, maturity on June 28, 2028.
 - e) Nominal interest rate: Fixed interest rate of 1.62%.
 - f) Repayment: The financial debenture will be repaid in full on the maturity date.
 - g) The interest is payable annually from the issue date.
- 8) TSKCB issued its first non-cumulative subordinated financial debenture on June 21, 2019, which was approved under Rule No. 10802068560 issued by the Banking Bureau of the FSC on May 1, 2019. Details of the financial debenture issuance are summarized as follows:
- a) Approved principal for issue: \$6,500,000 thousand.
 - b) Principal issued: \$4,500,000 thousand.
 - c) Denomination: \$10,000 thousand, issued at par.

- d) Period: No due date.
- e) Nominal interest rate: Fixed interest rate of 2.20%.
- f) Early redemption rights: After 5 years and 3 months from the issue date, if the Bank's capital adequacy ratio after redemption meets the minimum requirement of the authorities and the authorities approve the application of the Bank, the Bank may redeem the debentures in advance.
- g) The interest is payable annually from the issue date.

b. Bonds payable

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Domestic cumulative subordinate corporate bond of 2012 without maturity date - first issue	\$ 5,000,000	\$ 5,000,000
Domestic cumulative subordinate corporate bond of 2016 without maturity date - first issue	13,000,000	13,000,000
Domestic cumulative subordinate corporate bond of 2018 without maturity date - first issue	6,000,000	6,000,000
Domestic unsecured convertible bond - fourth issue	1,503,900	1,503,900
Domestic unsecured convertible bond - fifth issue	5,000,000	5,000,000
Domestic unsecured corporate bond of 2015 - first issue	3,000,000	3,000,000
Domestic unsecured corporate bond of 2017 - first issue	<u>5,000,000</u>	<u>5,000,000</u>
	38,503,900	38,503,900
Less: Unamortized discount on domestic unsecured convertible bond - fourth issue	(44,150)	(60,560)
Less: Unamortized discount on domestic unsecured convertible bond - fifth issue	(197,502)	(246,144)
Less: Due in one year	<u>(3,000,000)</u>	<u>-</u>
	<u>\$ 35,262,248</u>	<u>\$ 38,197,196</u>

1) SKLIC issued its first domestic cumulative subordinate corporate bond without maturity on December 10, 2012 which was approved under Rule No. 10102908010 issued by the Insurance Bureau of the FSC and Rule No. 1010051395 issued by the FSC. Details of the bond payable issuance are summarized as follows:

- a) Principal issued: \$5,000,000 thousand.
- b) Denomination and issue price: \$1,000 thousand each, issued at par.
- c) Period: Without maturity date.
- d) Nominal interest rate: There is a fixed interest rate of 3.35% from the issue date to the tenth year; if not redeemed by the Company, the fixed interest rate will be adjusted to 4.35% on the day following the bond's issue date to the tenth year.
- e) The interest is paid annually from the issue date.

- f) Early redemption right: Within 10 years from the issue date, at which time the condition of expiry is met, if SKLIC's Capital Adequacy Ratio after redemption is two times more than the minimum Capital Adequacy Ratio required by the authorities' regulation, SKLIC is able to proceed with early redemption of each bond at par value plus accrued interest after the approval by the relevant authorities. SKLIC can redeem such bonds quarterly.
 - g) Bonds form: Incorporately issued.
- 2) SKLIC issued its first domestic cumulative subordinate corporate bond without maturity on October 31, 2016 which was approved under Rule No. 10502911780 issued by the Insurance Bureau of the FSC and Rule No. 10500291131 issued by the Taipei Exchange. Details of the bond payable issuance are summarized as follows:
- a) Principal issued: \$13,000,000 thousand.
 - b) Denomination and issue price: \$1,000 thousand each, issued at par.
 - c) Period: Without maturity date.
 - d) Early redemption right: Within 10 years from the issue date, at which time the condition of expiry is met, if SKLIC's Capital Adequacy Ratio after redemption is two times more than the minimum Capital Adequacy Ratio required by the authorities' regulation, SKLIC is able to proceed with early redemption of each bond at par value plus accrued interest after the approval by the relevant authorities.
 - e) Nominal interest rate: There is a fixed interest rate of 3.80% from the issue date to the tenth year; if not redeemed by the Company, 1% will be added to the fixed interest rate on the day following the bond's issue date to the tenth year.
 - f) The interest is paid annually from the issue date.
 - g) Bonds form: Incorporately issued.
- 3) SKLIC issued its first domestic cumulative subordinate corporate bond without maturity on June 29, 2018, which was approved under Rule No. 10704276590 issued by the Insurance Bureau of the FSC and Rule No. 10700153821 issued by the Taipei Exchange. Details of the bond payable issuance are summarized as follows:
- a) Principal issued: \$6,000,000 thousand.
 - b) Denomination and issue price: \$1,000 thousand each, issued at par.
 - c) Period: Without maturity date.
 - d) Early redemption rights: Within 10 years from the issue date, at which time the conditions of expiry are met, if SKLIC's Capital Adequacy Ratio after redemption is two times more than the minimum Capital Adequacy Ratio required by the authorities, SKLIC can proceed with early redemption of each bond at par value plus accrued interest after approval by the relevant authorities.
 - e) Nominal interest rate: There is a fixed interest rate of 3.50% from the issue date to the tenth year; if not redeemed by the Company, 1% will be added to the fixed interest rate on the day following the bond's issue date to the tenth year.
 - f) The interest is paid annually from the issue date.

- g) Bond format: Incorporately issued.
- 4) The Company issued the fourth convertible bonds on August 22, 2017, which was approved under Rule No. 1060017794 issued by the FSC. Details of the bond payable issuance are summarized as follows:
- a) Principal issued: \$4,000,000 thousand.
 - b) Denomination and issue price: \$100 thousand each, issued at par.
 - c) Nominal interest rate: 0%.
 - d) Period: 5 years, from August 22, 2017 to August 22, 2022.
 - e) Redemption at the Company's option:
 - i. Redemption at maturity:

Unless previously redeemed, converted, or canceled, the Company will redeem each bond at par value.
 - ii. Redemption before maturity:

At any time after one month of the issue date until the 40th day before the maturity date, the Company may redeem the whole bonds at par value if the closing price for 30 consecutive trading days exceeds 30% of the conversion price.

At any time after one month of the issue date until the 40th day before the maturity date, the Company may redeem the whole bonds at par value if the unredeemed bonds are less than \$400,000 thousand (10% of original principal issued).
 - f) Redemption at the bondholders' option:

The bondholders may request the Company to redeem their bonds at par value in cash after three years from the issue date.
 - g) Conversion method:
 - i. Conversion period:

Any time after three month of the issue date until the maturity date.
 - ii. Conversion price:

The conversion premium rate is 110% multiplied by the standard price, which is the simple arithmetic average calculated at the closing price of one, three or five business days before the date of deciding the conversion price. The conversion price was NT\$9.35 per share.
 - iii. Adjustment to conversion price:
 - i) The conversion price is adjusted in accordance with the rules of anti-dilution (ex-right, ex-dividend and ordinary shares issued for cash, etc.).

- ii) The conversion price is revised downward when SKFHC carries out the offering, issuing, or private placement of securities with ordinary shares conversion option or warranty or grants entitlement to ordinary shares (not for capital increase for cash); the conversion price is not adjusted upward. As of December 31, 2019 and 2018, the bond conversion price was NT\$8.73 and NT\$8.96 per share, respectively.
 - h) SKFHC separated the conversion, put and call options from the host liabilities and recorded them as equity (please refer to Note 32) and liability components. The components were recognized as embedded derivatives and non-derivative liabilities. As of December 31, 2019 and 2018, the fair value of the embedded derivatives were \$(301) thousand and \$4,061 thousand, respectively, and the net value of non-derivative bonds payable, which was measured at amortized cost, were \$1,459,750 thousand and \$1,443,340 thousand, respectively.
 - i) For the years ended December 31, 2019 and 2018, SKFHC recognized the amortization of discount on bonds of \$16,410 thousand and \$27,311 thousand, respectively, and the valuation gain of \$4,362 thousand and \$6,290 thousand, respectively, on financial liabilities under interest expense and valuation gains or losses on financial assets and liabilities at FVTPL, respectively, for the fourth unsecured convertible bonds issued.
 - j) As of December 31, 2019, \$2,496,100 thousand of the fourth domestic unsecured convertible bonds issued by SKFHC had been converted.
- 5) The Company issued its fifth domestic unsecured convertible bonds on December 17, 2018, which was approved under Rule No. 1070342950 issued by the FSC. Details of the bond payable issuance are summarized as follows:
- a) Principal issued: \$5,000,000 thousand.
 - b) Denomination and issue price: \$100 thousand each, issued at 100.1% of par.
 - c) Nominal interest rate: 0%.
 - d) Period: 5 years, from December 17, 2018 to December 17, 2023.
 - e) Redemption at the Company's option:
 - i. Redemption at maturity:

Unless previously redeemed, converted, or canceled, the Company will redeem each bond at par value.
 - ii. Redemption before maturity:

At any time after one month of the issue date until the 40th day before the maturity date, the Company may redeem all the bonds at par value if the closing price for 30 consecutive trading days exceeds 30% of the conversion price.

At any time after one month of the issue date until the 40th day before the maturity date, the Company may redeem all the bonds at par value if the unredeemed bonds are less than \$500,000 thousand (10% of original principal issued).
 - f) Redemption at the bondholders' option:

The bondholders may request the Company to redeem their bonds at par value in cash after three years from the issue date.

- g) Conversion method:
 - i. Conversion period:
 - Any time after three months of the issue date until the maturity date.
 - ii. Conversion price:
 - The conversion premium rate is 110% multiplied by the standard price, which is the simple arithmetic average calculated at the closing price of one, three or five business days before the date of deciding the conversion price. The conversion price was NT\$11.06 per share.
 - iii. Adjustment to conversion price:
 - i) The conversion price is adjusted in accordance with the rules of anti-dilution (ex-right, ex-dividend and ordinary shares issued for cash, etc.).
 - ii) The conversion price is revised downwards when SKFHC carries out the offering, issuing, or private placement of securities with the option for conversion of ordinary shares or warranty or grants entitlement to ordinary shares (not for capital increase for cash); the conversion price is not adjusted upwards. As of December 31, 2019 and 2018, the bond conversion price was NT\$10.78 and NT\$11.06 per share, respectively.
 - h) SKFHC separated the conversion, put and call options from the host liabilities and recorded them as equity (refer to Note 32 for the details) and liability components. The components were recognized as embedded derivatives and non-derivative liabilities. As of December 31, 2019 and 2018, the fair value of the embedded derivatives was \$17,500 thousand and \$37,500 thousand and the net value of non-derivative bonds payable, which was measured at amortized cost, was \$4,802,498 thousand and \$4,753,856 thousand, respectively.
 - i) For the years ended December 31, 2019 and 2018, SKFHC recognized the amortization of discount on bonds of \$48,642 thousand and \$1,856 thousand and the valuation loss of \$20,000 thousand and \$5,500 thousand on financial assets under interest expense and valuation gains or losses on financial assets and liabilities at FVTPL, respectively, for the issued fifth unsecured convertible bonds.
 - j) As of December 31, 2019, all of the fifth domestic unsecured convertible bonds issued by SKFHC had not been converted.
- 6) SKFHC issued the first domestic unsecured corporate bonds on July 22, 2015, which was approved by Rule No. 1040024200 issued by the FSC. Details of the bond payable issuance were summarized as follows:
- a) Principal issued: \$3,000,000 thousand.
 - b) Denomination and issue price: \$1,000 thousand each, issued at par.
 - c) Period: 5 years, from July 22, 2015 to July 22, 2020.
 - d) Repayment: On maturity.
 - e) Nominal interest rate: 1.42%.
 - f) Interest is paid annually from the issue date.
 - g) Bonds form: Incorporately issued.

7) SKFHC issued the first domestic unsecured corporate bonds on April 5, 2017, which was approved by Rule No. 10600053121 issued by the FSC. Details of the bond payable issuance were summarized as follows:

- a) Principal issued: \$5,000,000 thousand.
- b) Denomination and issue price: \$1,000 thousand each, issued at par.
- c) Period: 5 years, from April 5, 2017 to April 5, 2022.
- d) Repayment: On maturity.
- e) Nominal interest rate: 1.25%.
- f) Interest is paid annually from the issue date.
- g) Bonds form: Incorporately issued.

27. OTHER LOANS

	December 31			
	2019		2018	
	Interest Rate %	Ending Balance	Interest Rate %	Ending Balance
Pledged loans	1.14-3.02	\$ 248,245	-	\$ -
Credit loans	1.45-5.94	<u>928,525</u>	5.46-6.08	<u>592,771</u>
		<u>\$ 1,176,770</u>		<u>\$ 592,771</u>

As of December 31, 2019, the Company provided 42,000 thousand shares of SKLIC for credit line.

Refer to Note 40 for information on pledged assets.

28. PROVISIONS

	2019	2018
Net defined benefit liabilities	\$ 515,466	\$ 1,061,954
Other employee benefit liabilities	<u>141,799</u>	<u>110,969</u>
	<u>\$ 657,265</u>	<u>\$ 1,172,923</u>

The retirement expense recognized under defined benefit plans for 2019 and 2018 were calculated using the determined discount rates as of December 31, 2019 and 2018 and are as follows:

	December 31	
	2019	2018
Employee benefits expense	<u>\$ 117,426</u>	<u>\$ 147,445</u>

a. Defined contribution plans

The Company and its domestic subsidiaries adopted a pension plan under the Labor Pension Act (the “LPA”), which is a state-managed defined contribution plan. Under the LPA, an entity makes monthly contributions to employees’ individual pension accounts at 6% of monthly salaries and wages.

The employees of subsidiaries in China are members of a state-managed retirement benefit plan operated by the government of China. The subsidiary is required to contribute a specified percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit plan is to make the specified contributions.

b. Defined benefit plans

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

The amounts included in the consolidated balance sheets in respect of the Group’s defined benefit plans were as follows:

	December 31	
	2019	2018
Present value of defined benefit obligation	\$ 8,688,613	\$ 9,164,608
Fair value of plan assets	<u>(9,275,821)</u>	<u>(8,102,654)</u>
Net defined benefit (assets) liabilities	<u>\$ (587,208)</u>	<u>\$ 1,061,954</u>
Defined benefit assets (Note 22)	<u>\$ 1,102,674</u>	<u>\$ -</u>
Defined benefit liabilities	<u>\$ 515,466</u>	<u>\$ 1,061,954</u>

Movements in net defined benefit liabilities (assets) were as follows:

	Present Value of the Defined Benefit Obligation	Fair Value of the Plan Assets	Net Defined Benefit Liabilities (Assets)
Balance at January 1, 2018	<u>\$ 9,618,914</u>	<u>\$ (7,968,110)</u>	<u>\$ 1,650,804</u>
Service cost			
Current service cost	129,204	-	129,204
Past service cost	828	-	828
Net interest expense (income)	<u>113,437</u>	<u>(96,024)</u>	<u>17,413</u>
Recognized in profit or loss	<u>243,469</u>	<u>(96,024)</u>	<u>147,445</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(47,703)	(47,703)
Actuarial loss - changes in demographic assumptions	28,343	-	28,343
Actuarial loss - changes in financial assumptions	(114,542)	-	(114,542)
Actuarial loss - experience adjustments	<u>516,957</u>	<u>-</u>	<u>516,957</u>
Recognized in other comprehensive income	<u>430,758</u>	<u>(47,703)</u>	<u>383,055</u>
Contributions from the employer	-	(1,114,104)	(1,114,104)
Benefits paid	(1,127,265)	1,123,287	(3,978)
Others	<u>(1,268)</u>	<u>-</u>	<u>(1,268)</u>
Balance at December 31, 2018	<u>9,164,608</u>	<u>(8,102,654)</u>	<u>1,061,954</u>
Service cost			
Current service cost	106,887	-	106,887
Past service cost	2,478	-	2,478
Net interest expense (income)	<u>100,999</u>	<u>(92,938)</u>	<u>8,061</u>
Recognized in profit or loss	<u>210,364</u>	<u>(92,938)</u>	<u>117,426</u>
Remeasurement			
Return on plan assets (excluding amounts included in net interest)	-	(548,836)	(548,836)
Actuarial loss - changes in demographic assumptions	90,435	-	90,435
Actuarial loss - changes in financial assumptions	187,468	-	187,468
Actuarial loss - experience adjustments	<u>76,519</u>	<u>-</u>	<u>76,519</u>
Recognized in other comprehensive income	<u>354,422</u>	<u>(548,836)</u>	<u>(194,414)</u>
Contributions from the employer	-	(1,568,357)	(1,568,357)
Benefits paid	(1,036,964)	1,036,964	-
Others	<u>(3,817)</u>	<u>-</u>	<u>(3,817)</u>
Balance at December 31, 2019	<u>\$ 8,688,613</u>	<u>\$ (9,275,821)</u>	<u>\$ (587,208)</u>

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

- 1) Investment risk: The plan assets are invested in domestic (foreign) equity and debt securities, bank deposits, etc. The investment is conducted at the discretion of the Bureau or under the mandated management. However, in accordance with relevant regulations, the return generated by plan assets should not be below the interest rate for a 2-year time deposit with local banks.

- 2) Interest risk: A decrease in the bond interest rate will increase the present value of the defined benefit obligation; however, this will be partially offset by an increase in the return on the plan's debt investments.
- 3) Salary risk: The present value of the defined benefit obligation is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the present value of the defined benefit obligation.
- 4) Changes in demographic assumptions risk: The present value of the defined benefit obligation is calculated by reference to the turnover rate of plan participants. As such, a decrease in the turnover rate of the plan participants will increase the present value of the defined benefit obligation.

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

Measurement Date	Discount Rate	Expected Rate of Salary Increase
<u>December 31, 2019</u>		
SKLIC	1.00%	0.00%-9.20%
SKLRESC	0.75%	2.00%
SKITC	0.80%	2.75%
MLSC	0.70%	0.05%-1.00%
TSKCB	0.75%	2.25%
SKMC	0.75%	2.25%
SKLIAC	0.75%	3.25%
<u>December 31, 2018</u>		
SKLIC	1.11%	2.00%-4.00%
SKLRESC	1.00%	2.00%
SKITC	1.13%	2.75%
MLSC	0.97%-0.98%	0.05%-1.00%
TSKCB	1.13%	2.25%
SKMC	1.00%	2.25%
SKLIAC	1.13%	3.25%

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

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Discount rate(s)		
0.5% increase	<u>\$ (259,773)</u>	<u>\$ (280,849)</u>
0.5% decrease	<u>\$ 277,146</u>	<u>\$ 298,866</u>
Expected rate(s) of salary increase		
0.5% increase	<u>\$ 268,520</u>	<u>\$ 290,883</u>
0.5% decrease	<u>\$ (254,297)</u>	<u>\$ (276,171)</u>

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

	December 31	
	2019	2018
The expected contributions to the plan for the next year	<u>\$ 225,190</u>	<u>\$ 245,500</u>
The average duration of the defined benefit obligation	3-13 years	4-14 years

Shares and bonds of the consolidated entities, affiliates, and related parties held by the pension trust fund in the custody of the Committee of Pension Trust Funds were summarized as follows:

		Unit: Share/Units	
Name	Category	December 31	
		2019	2018
<u>Shares</u>			
SKFHC	Listed shares	122,634,210	104,314,798
Taiwan-Sok Shin Kong Security Co., Ltd.	Listed shares	15,593,883	17,261,883
Shinhai Gas Corporation	Listed shares	3,404,636	3,406,636
ShinKong Insurance Co., Ltd.	Listed shares	<u>-</u>	<u>55,000</u>
		<u>141,632,729</u>	<u>125,038,317</u>
<u>Beneficiary certificates</u>			
SKITC	Shin Kong Domestic Demand High Dividend ETF	-	2,500,000
	Shin Kong Global Preferred Stock Income Fund	3,000,000	-
	Shin Kong High Dividend Value Fund	1,651,231	-
	Shin Kong Shiller CAPE Fund	<u>2,500,000</u>	<u>-</u>
		<u>7,151,231</u>	<u>2,500,000</u>
<u>Corporate bonds</u>			
SKLIC	Cumulative subordinate corporate bond of 2012 without maturity date	<u>130 units</u>	<u>130 units</u>
SKLIC	Cumulative subordinate corporate bond of 2016 without maturity date	<u>700 units</u>	<u>700 units</u>
SKLIC	Cumulative subordinate corporate bond of 2018 without maturity date	<u>300 units</u>	<u>300 units</u>

29. INSURANCE PRODUCTS - SEPARATE ACCOUNTS

	December 31	
	2019	2018
Separate account assets		
Beneficiary certificates	\$ 33,467,504	\$ 31,765,361
Bonds	8,093,334	9,454,574
Accounts receivable	269,711	78,437
Bank deposits	<u>3,262</u>	<u>2,505</u>
	<u>\$ 41,833,811</u>	<u>\$ 41,300,877</u>
Separate account liabilities		
Reserves	\$ 40,682,557	\$ 40,460,664
Accounts payable	13,245	13,335
Investment contracts	<u>1,138,009</u>	<u>826,878</u>
	<u>\$ 41,833,811</u>	<u>\$ 41,300,877</u>

The related account balances were summarized as follows:

	2019	2018
Income on insurance products - separate-accounts		
Premium income	\$ 3,735,532	\$ 5,489,612
Gain and loss on fair value change of financial assets and liabilities designated as at FVTPL	3,495,135	(3,908,314)
Exchange gain and loss	(992,696)	(419,840)
Interest income and fund distributions	(3,512)	1,620,630
Other gains	<u>1,259,373</u>	<u>(3,199)</u>
	<u>\$ 7,493,832</u>	<u>\$ 2,778,889</u>
Disbursement on insurance products - separate-account		
Insurance claims and payment	\$ 869,002	\$ 897,816
Cash surrender value	5,040,921	5,942,308
Net change in insurance reserves - insurance contract	268,692	(5,327,858)
Payment of maintenance fee	<u>1,315,217</u>	<u>1,266,623</u>
	<u>\$ 7,493,832</u>	<u>\$ 2,778,889</u>

For the years ended December 31, 2019 and 2018, SKLIC managed separate-accounts and received sales rebates of \$98,147 thousand and \$83,723 thousand from dealers, respectively, as processing fee income and commission income.

30. OTHER PAYABLES

	December 31	
	2019	2018
Payable of transactions on securities	\$ -	\$ 4,909,378
Forward contracts payable	4,314,061	13,255,207
Settlement accounts payable	12,598,404	9,408,679
Payable of check clearing	1,024,574	2,934,597
Bank acceptance bill	248,839	597,397
Trust fund payable	56,560	63,157
Interest and dividend payable	1,022,750	945,199
Payable for short-sale transactions	1,600,443	1,752,342
Payable for insurance payment	351,285	632,463
Collection payable	243,534	449,242
Commissions payable	1,051,444	937,536
Others	<u>5,600,156</u>	<u>2,306,596</u>
	<u>\$ 28,112,050</u>	<u>\$ 38,191,793</u>

31. INSURANCE LIABILITY RESERVES

Insurance liability reserves as of December 31, 2019 and 2018 were as follows:

	December 31	
	2019	2018
Reserve for unearned premiums	\$ 9,075,971	\$ 8,604,415
Reserve for claim payments	3,497,329	3,058,189
Reserve for life insurance liability	2,740,280,802	2,515,837,684
Special reserve for life insurance	5,713,165	5,962,648
Reserve for insufficient premiums	6,078,103	6,695,999
Reserve for insurance contract with the nature of financial products	103	-
Reserve for change in foreign exchange valuation (Note 48)	<u>2,078,314</u>	<u>4,734,258</u>
	<u>\$ 2,766,723,787</u>	<u>\$ 2,544,893,193</u>

Net changes of insurance liability reserves were as follows:

	2019	2018
Provision of reserve for life insurance liability	\$(234,637,203)	\$(216,735,788)
Recovery of special reserve for life insurance	249,483	1,725,946
Recovery (provision) of reserve for claim payments	(441,365)	(273,048)
(Provision) recovery of reserve for insufficient premiums	565,125	707,289
Provision for insurance contract with the nature of financial products	<u>(103)</u>	<u>-</u>
	(234,264,063)	(214,575,601)
Recovery (provision) of reserve for unearned premiums (Note 35)	(455,599)	(614,816)
Recovery (provision) of reserve for change in foreign exchange valuation (Note 35)	<u>2,655,944</u>	<u>(2,183,033)</u>
	<u>\$(232,063,718)</u>	<u>\$(217,373,450)</u>

a. Insurance liabilities for insurance contracts and financial instruments with discretionary participation feature

As of December 31, 2019 and 2018, each category and movements of reserve for insurance contracts and financial instruments with discretionary participation feature of the Group were as follows:

1) Reserve for unearned premiums

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance	\$ 903	\$ 6	\$ 909	\$ 770	\$ 9	\$ 779
Individual accident insurance	3,885,939	-	3,885,939	3,596,090	-	3,596,090
Individual health insurance	4,032,373	-	4,032,373	3,712,553	-	3,712,553
Group insurance	1,112,002	-	1,112,002	1,255,078	-	1,255,078
Investment type insurance	44,748	-	44,748	39,915	-	39,915
	<u>9,075,965</u>	<u>6</u>	<u>9,075,971</u>	<u>8,604,406</u>	<u>9</u>	<u>8,604,415</u>
Less: Ceded reserve for unearned premiums						
Individual life insurance	22,808	-	22,808	19,843	-	19,843
Individual accident insurance	-	-	-	332	-	332
Individual health insurance	70,249	-	70,249	56,966	-	56,966
Investment type insurance	11	-	11	1	-	1
	<u>93,068</u>	<u>-</u>	<u>93,068</u>	<u>77,142</u>	<u>-</u>	<u>77,142</u>
	<u>\$ 8,982,897</u>	<u>\$ 6</u>	<u>\$ 8,982,903</u>	<u>\$ 8,527,264</u>	<u>\$ 9</u>	<u>\$ 8,527,273</u>

Movements in reserve for unearned premiums were as follows:

	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
	Balance, January 1	\$ 8,604,406	\$ 9	\$ 8,604,415	\$ 8,001,791	\$ 10
Provision	10,257,265	11	10,257,276	10,294,962	9	10,294,971
Recovery	(9,785,706)	(14)	(9,785,720)	(9,692,347)	(10)	(9,692,357)
Balance, December 31	<u>9,075,965</u>	<u>6</u>	<u>9,075,971</u>	<u>8,604,406</u>	<u>9</u>	<u>8,604,415</u>
Less: Ceded reserve for unearned premiums						
Balance, January 1, net	77,142	-	77,142	89,438	-	89,438
Increase	437,568	-	437,568	320,226	-	320,226
Decrease	(421,611)	-	(421,611)	(332,428)	-	(332,428)
Net exchange differences	(31)	-	(31)	(94)	-	(94)
Balance, December 31	<u>93,068</u>	<u>-</u>	<u>93,068</u>	<u>77,142</u>	<u>-</u>	<u>77,142</u>
Balance, December 31, net	<u>\$ 8,982,897</u>	<u>\$ 6</u>	<u>\$ 8,982,903</u>	<u>\$ 8,527,264</u>	<u>\$ 9</u>	<u>\$ 8,527,273</u>

2) Reserve for claim payments

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance						
Reported but not paid	\$ 237,577	\$ -	\$ 237,577	\$ 219,479	\$ -	\$ 219,479
Incurred but not reported	5,805	2	5,807	5,886	3	5,889
Individual accident insurance						
Reported but not paid	147,742	-	147,742	197,340	-	197,340
Incurred but not reported	1,181,361	-	1,181,361	948,858	-	948,858
Individual health insurance						
Reported but not paid	76,167	-	76,167	81,461	-	81,461
Incurred but not reported	1,175,046	-	1,175,046	1,042,245	-	1,042,245
Group insurance						
Reported but not paid	36,975	-	36,975	21,505	-	21,505
Incurred but not reported	594,287	-	594,287	513,772	-	513,772
Investment type insurance						
Reported but not paid	42,367	-	42,367	27,640	-	27,640
	3,497,327	2	3,497,329	3,058,186	3	3,058,189
Less: Ceded reserve for claim payments	-	-	-	-	-	-
	<u>\$ 3,497,327</u>	<u>\$ 2</u>	<u>\$ 3,497,329</u>	<u>\$ 3,058,186</u>	<u>\$ 3</u>	<u>\$ 3,058,189</u>

Movements in reserve for claim payments were as follows:

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Balance, January 1	\$ 3,058,186	\$ 3	\$ 3,058,189	\$ 2,784,732	\$ 3	\$ 2,784,735
Provision	4,183,643	121	4,183,764	3,620,910	-	3,620,910
Recovery	(3,742,277)	(122)	(3,742,399)	(3,347,862)	-	(3,347,862)
Net exchange differences	(2,225)	-	(2,225)	406	-	406
Balance, December 31	3,497,327	2	3,497,329	3,058,186	3	3,058,189
Less: Ceded reserve for claim payments	-	-	-	-	-	-
Balance, December 31, net	<u>\$ 3,497,327</u>	<u>\$ 2</u>	<u>\$ 3,497,329</u>	<u>\$ 3,058,186</u>	<u>\$ 3</u>	<u>\$ 3,058,189</u>

3) Reserve for life insurance liability:

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Life insurance	\$ 2,468,136,568	\$ 5,084,007	\$ 2,473,220,575	\$ 2,265,176,475	\$ 4,810,548	\$ 2,269,987,023
Health insurance	240,155,079	-	240,155,079	217,555,052	-	217,555,052
Annuity insurance	424,311	25,710,407	26,134,718	464,025	27,136,866	27,600,891
Investment type insurance	160,373	-	160,373	227,425	-	227,425
	2,708,876,331	30,794,414	2,739,670,745	2,483,422,977	31,947,414	2,515,370,391
Less: Ceded reserve for life insurance liability	-	-	-	-	-	-
	<u>\$ 2,708,876,331</u>	<u>\$ 30,794,414</u>	<u>\$ 2,739,670,745</u>	<u>\$ 2,483,422,977</u>	<u>\$ 31,947,414</u>	<u>\$ 2,515,370,391</u>

Movements in reserve for life insurance liability were as follows:

	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Balance, January 1	\$ 2,483,422,977	\$ 31,947,414	\$ 2,515,370,391	\$ 2,260,564,638	\$ 34,784,967	\$ 2,295,349,605
Provision	357,468,741	1,648,640	359,117,381	342,788,861	1,057,055	343,845,916
Recovery	(121,678,538)	(2,801,640)	(124,480,178)	(123,215,520)	(3,894,608)	(127,110,128)
Net exchange differences	(10,336,849)	-	(10,336,849)	3,284,998	-	3,284,998
Balance, December 31	2,708,876,331	30,794,414	2,739,670,745	2,483,422,977	31,947,414	2,515,370,391
Less: Ceded reserve for life insurance liability	-	-	-	-	-	-
Balance, December 31, net	<u>\$ 2,708,876,331</u>	<u>\$ 30,794,414</u>	<u>\$ 2,739,670,745</u>	<u>\$ 2,483,422,977</u>	<u>\$ 31,947,414</u>	<u>\$ 2,515,370,391</u>

Reserve for life insurance liability plus “Reserve for life insurance - pending payments to insured” was \$2,740,280,802 thousand and \$2,515,837,684 thousand on December 31, 2019 and 2018, respectively.

4) Special reserve for life insurance:

	December 31					
	2019			2018		
	Insurance Contracts	Effect of Transition to IFRSs	Total	Insurance Contracts	Effect of Transition to IFRSs	Total
Reserve for participating policy dividends	\$ 1,738,205	\$ -	\$ 1,738,205	\$ 1,987,688	\$ -	\$ 1,987,688
Surplus of fair value measurement of investment properties offset by the negative effect of transition to IFRSs	-	3,974,960	3,974,960	-	3,974,960	3,974,960
	<u>\$ 1,738,205</u>	<u>\$ 3,974,960</u>	<u>\$ 5,713,165</u>	<u>\$ 1,987,688</u>	<u>\$ 3,974,960</u>	<u>\$ 5,962,648</u>

Movements in special reserve for life insurance were as follows:

	2019			2018		
	Insurance Contracts	Surplus of Fair Value Measurement of Investment Properties Offset by the Negative Effect of Transition to IFRSs	Total	Insurance Contracts	Surplus of Fair Value Measurement of Investment Properties Offset by the Negative Effect of Transition to IFRSs	Total
Balance, January 1	\$ 1,987,688	\$ 3,974,960	\$ 5,962,648	\$ 2,198,940	\$ 5,565,384	\$ 7,764,324
Adjustment on IFRS 9	-	-	-	(4,777)	-	(4,777)
Balance, January 1 as restated	1,987,688	3,974,960	5,962,648	2,194,163	5,565,384	7,759,547
Provision of reserve for participating policy dividends	270,995	-	270,995	333,193	-	333,193
Recovery of reserve for participating policy dividends	(520,478)	-	(520,478)	(468,715)	-	(468,715)
Gain on disposal of investment in equity instrument designated as at fair value through other comprehensive income from participating policy transfer in special reserve	-	-	-	(70,953)	-	(70,953)
Recovery of appreciation of investment properties following the first-time adoption of IFRSs	-	-	-	-	(1,590,424)	(1,590,424)
Balance, December 31	<u>\$ 1,738,205</u>	<u>\$ 3,974,960</u>	<u>\$ 5,713,165</u>	<u>\$ 1,987,688</u>	<u>\$ 3,974,960</u>	<u>\$ 5,962,648</u>

Note 1: The Group did not provide special reserve for financial instruments with discretionary participation feature.

Note 2: Under Rule No. 10704272230 issued on March 28, 2018, the Group obtained approval to recover its special reserve for property which was appreciated monthly at a total amount of \$1,590,424 thousand, as of December 31, 2018. As of December 31, 2018, the Group had recovered an amount of \$1,590,424 thousand.

5) Reserve for insufficient premiums:

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Individual life insurance	\$ 5,868,931	\$ -	\$ 5,868,931	\$ 6,455,048	\$ -	\$ 6,455,048
Individual health insurance	209,172	-	209,172	240,951	-	240,951
	6,078,103	-	6,078,103	6,695,999	-	6,695,999
Less: Ceded reserve for insufficient premiums	-	-	-	-	-	-
	<u>\$ 6,078,103</u>	<u>\$ -</u>	<u>\$ 6,078,103</u>	<u>\$ 6,695,999</u>	<u>\$ -</u>	<u>\$ 6,695,999</u>

Movements in reserve for insufficient premiums were as follows:

	December 31					
	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Balance, January 1	\$ 6,695,999	\$ -	\$ 6,695,999	\$ 7,382,034	\$ -	\$ 7,382,034
Provision	473,524	-	473,524	583,709	-	583,709
Recovery	(1,038,649)	-	(1,038,649)	(1,290,998)	-	(1,290,998)
Net exchange differences	(52,771)	-	(52,771)	21,254	-	21,254
Balance, December 31	6,078,103	-	6,078,103	6,695,999	-	6,695,999
Less: Ceded reserve for insufficient premiums	-	-	-	-	-	-
Balance, December 31, net	<u>\$ 6,078,103</u>	<u>\$ -</u>	<u>\$ 6,078,103</u>	<u>\$ 6,695,999</u>	<u>\$ -</u>	<u>\$ 6,695,999</u>

6) Reserve for liability adequacy

	Insurance Contracts and Financial Instruments with Discretionary Participation Feature	
	December 31	
	2019	2018
Reserve for life insurance	\$ 2,740,280,802	\$ 2,515,837,684
Reserve for unearned premiums	9,075,971	8,604,415
Reserve for claim payments	3,497,329	3,058,189
Reserve for insufficient premiums	6,078,103	6,695,999
Special reserve for life insurance	7,234,118	7,483,601
	<u>2,766,166,323</u>	<u>2,541,679,888</u>
Less: Intangible assets	-	-
Book value of insurance obligation	<u>\$ 2,766,166,323</u>	<u>\$ 2,541,679,888</u>
Current estimates of cash flows	<u>\$ 2,284,757,295</u>	<u>\$ 2,236,635,346</u>
Balance of reserve for liability adequacy	<u>\$ -</u>	<u>\$ -</u>

As of December 31, 2019 and 2018, the Group was not required to provide reserve for liability adequacy after evaluation.

Method used in the liability adequacy test is shown as follows:

December 31, 2019 and 2018

Test method	Total premium measurement method
Test groups	All insurance contracts as a whole
Assumptions	The assumption of discount rate of every year was based on the best estimate scenario as well as the rate of return on investment with current information

7) Reserve for Insurance Contract with the Nature of Financial Products

The Group issued financial instruments with discretionary participation feature and appropriated reserve for insurance contract with the nature of financial products. As of December 31, 2019 and 2018, the balance and movements were as follows:

	December 31	
	2019	2018
Investment linked product	\$ <u>103</u>	\$ <u>-</u>
	For the Year Ended December 31	
	2019	2018
Balance, January 1	\$ -	\$ -
Provision	<u>103</u>	<u>-</u>
Balance, December 31	<u>\$ 103</u>	<u>\$ -</u>

b. Net insurance premium income:

	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Gross written premiums	\$ 312,270,290	\$ 1,013,666	\$ 313,283,956	\$ 301,821,382	\$ 474,469	\$ 302,295,851
Reinsurance premiums	<u>(4)</u>	<u>-</u>	<u>(4)</u>	<u>19,277</u>	<u>-</u>	<u>19,277</u>
Total insurance income	312,270,286	1,013,666	313,283,952	301,840,659	474,469	302,315,128
Less: Reinsurance expenses	(1,387,377)	-	(1,387,377)	(1,243,943)	-	(1,243,943)
Net changes in reserve for unearned premiums	<u>(455,602)</u>	<u>3</u>	<u>(455,599)</u>	<u>(614,817)</u>	<u>1</u>	<u>(614,816)</u>
Net insurance premium income	<u>\$ 310,427,307</u>	<u>\$ 1,013,669</u>	<u>\$ 311,440,976</u>	<u>\$ 299,981,899</u>	<u>\$ 474,470</u>	<u>\$ 300,456,369</u>

c. Net insurance benefits and claims:

	2019			2018		
	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total	Insurance Contracts	Financial Instruments with Discretionary Participation Feature	Total
Gross written insurance benefits and claims	\$ 154,554,748	\$ 2,805,459	\$ 157,360,207	\$ 151,887,976	\$ 3,894,997	\$ 155,782,973
Reinsurance claims	<u>7,906</u>	<u>-</u>	<u>7,906</u>	<u>7,887</u>	<u>-</u>	<u>7,887</u>
Insurance benefits and claims	154,562,654	2,805,459	157,368,113	151,895,863	3,894,997	155,790,860
Less: Claims recovered from reinsurers	<u>(624,411)</u>	<u>-</u>	<u>(624,411)</u>	<u>(1,015,977)</u>	<u>-</u>	<u>(1,015,977)</u>
Net insurance benefits and claims	<u>\$ 153,938,243</u>	<u>\$ 2,805,459</u>	<u>\$ 156,743,702</u>	<u>\$ 150,879,886</u>	<u>\$ 3,894,997</u>	<u>\$ 154,774,883</u>

32. EQUITY

a. Share capital

	December 31	
	2019	2018
Shares authorized (in thousands of shares)	<u>14,500,000</u>	<u>13,500,000</u>
Shares authorized (in thousands of NTD)	<u>\$ 145,000,000</u>	<u>\$ 135,000,000</u>
Shares issued and fully paid (in thousands of shares)	<u>12,675,394</u>	<u>12,185,506</u>
Ordinary shares	12,600,394	12,185,506
Preferred share	<u>75,000</u>	<u>-</u>
	<u>12,675,394</u>	<u>12,185,506</u>
Shares issued (in thousands of NTD)	\$ 126,753,941	\$ 121,855,057
Stock dividend to be distributed	-	-
Capital collected in advance	<u>-</u>	<u>748,884</u>
	<u>\$ 126,753,941</u>	<u>\$ 122,603,941</u>

Fully paid ordinary shares, which have a par value of \$10, carry one vote per share and carry a right a dividends.

On July 16, 2019, the Company's board of directors resolved to issue 340,000 thousand ordinary shares with a par value of \$10, for a consideration of \$8.6 per share. On August 13, 2019, the above transaction was approved by the FSC, and the subscription base date was September 27, 2019.

The bondholders of the convertible bonds issued by the Group requested the Group to convert their bonds to 0 thousand units and 74,888 thousand units of ordinary shares, respectively, as of December 31, 2019 and 2018.

Issuance of global depositary receipts

The Group issued 42,088 thousand units of Global Depositary Receipts (GDRs) in the amount of 1,052,200 thousand ordinary shares, each GDR unit is equal to 25 ordinary shares. As of December 31, 2019, the outstanding GDRs were 334 thousand units, equal to 8,358 thousand shares of ordinary shares.

Issuance of series a preferred stock

The board of directors had approved the issuance of Series A Preferred Shares on July 16, 2019. The Company issued 75,000 thousand preferred shares with a par value of \$10 per share issued at \$45 per share. The capital injection was approved by the FSC on 13 August 2019. The subscription date was September 27, 2019. All issued shares were registered and recognized as equity. The rights and obligations of Series A Preferred Shares Issuance are listed as follows:

- 1) 3.8% per annum for Series A Preferred Shares (7-year IRS 0.72%+3.08%) calculated pursuant to issue price per share. Interest rate per annum will be reset on the day after the 7th anniversary of the issue date (“Issue Date”) and the day after each subsequent 7-year period hereafter. The pricing base date shall be the previous 1 business day for financial institutions in Taipei. Record date for interest reset shall be the previous 2 business day for financial institutions in Taipei. The 7-year IRS rate shall be the arithmetic mean of 7-year IRS quotations as published by Reuter, PYTWDFIX and COSMOS3 at 11:00 a.m. of the day of the pricing base date and reset record date (must be a business day for Taipei’s financial institutions). If the above quotations cannot be obtained on reset record date, interest rate shall be decided by the issuer in good faith and taken into account of reasonable market rate.
- 2) The Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside a legal reserve, setting aside or reversing a special reserve in accordance with the laws and regulations, and then any remaining profit shall be first be distributed as preferred share dividend.
- 3) The Company has sole discretion to distribute dividend of the Preferred Shares, including its discretion to not declare dividends when no profit is recorded, or insufficient profit is recorded for Preferred Share dividends, or preferred share dividend distribution would render the Company’s RBC ratio below the level required by law or competent authorities. The Company’s cancellation of preferred share dividend distribution shall not be deemed an event of default. The Series A Preferred Shares which were issued this time are non-cumulative. Undeclared or under-declared dividends are not cumulative, and are not paid in subsequent years with profit.
- 4) Cannot participate in distribution of cash or stock dividends to holders of common shares from profit or additional paid-in capital.
- 5) Holders of Series A Preferred Shares shall have the same priority as holders of all subsequently issued preferred share in liquidation, which are prior to holders of common shares but subordinated to general creditors, to the extent of the issuance amount.
- 6) Holders of Series A Preferred Shares have no voting right at the annual shareholders meeting, and cannot elect directors, but can be elected as directors. However, holders of Series A Preferred Shares have voting rights at shareholders meeting of Preferred Shares, and at annual shareholders meeting on items relating to rights of Preferred Shares holders.
- 7) Holders of Series A Preferred Shares cannot convert said preferred shares to common shares, and have no right to request the Company for redemption of Series A Preferred Shares.
- 8) Through issuance of perpetual preferred stock, on the day after the 7th anniversary of the Issue Date, the Company may redeem all or part of outstanding Preferred Shares at issue price.

Non-cash transaction

On October 1, 2018, the Group issued ordinary shares of \$10,637,438 thousand and acquired MLSC's 66.82% non-controlling interests of \$15,601,360 thousand by a share swap agreement. The other equity, treasury shares and share capital were adjusted and increased by \$608,352 thousand, \$(227,793) thousand and \$4,583,363 thousand, respectively.

Capitalization of surplus

After approval by the shareholders in their meeting on June 8, 2018, the Group appropriated \$1,576,897,720 thousand of distributable earnings for the issuance of 157,689,772 thousand ordinary shares. The date of distribution of dividends was September 28, 2018.

b. Capital surplus

1) Capital surplus comprised:

	December 31	
	2019	2018
Additional paid-in capital	\$ 12,998,872	\$ 13,278,968
Conversion option of convertible bonds	290,782	290,782
Others	<u>365,572</u>	<u>365,572</u>
	<u>\$ 13,655,226</u>	<u>\$ 13,935,322</u>

2) The source and utilization of additional paid-in capital were summarized as follows:

	December 31	
	2019	2018
From subsidiaries		
Capital surplus	\$ 42,260	\$ 42,260
Legal reserve	5,407,818	5,407,818
Special reserve	2,134,509	2,134,509
Retained earnings	<u>1,207,446</u>	<u>1,207,446</u>
	8,792,033	8,792,033
Total share capital of subsidiaries exceeding the Company's paid-in capital	<u>2,584,153</u>	<u>2,584,153</u>
	<u>11,376,186</u>	<u>11,376,186</u>
Changes after establishment of the Company		
Changes in long-term equity investments	(147,506)	(147,506)
Conversion of convertible bonds	7,401,898	7,401,898
Issuance of new shares and share conversions	27,232,985	25,067,894
Distribution of cash dividends	(2,445,185)	-
Retirement of treasury shares	(128,277)	(128,277)
Offset of accumulated deficit	<u>(30,291,229)</u>	<u>(30,291,229)</u>
	<u>1,384,761</u>	<u>1,664,857</u>
	<u>\$ 12,998,872</u>	<u>\$ 13,278,968</u>

- 3) The capital surplus recorded during the conversion of financial institution may be distributed as cash dividends according to the fourth paragraph of Article 47 of Financial Holding Company Act and other related requirements if not restricted by other regulations or may be transferred to capital in the year of conversion with the proportion of the transfer not limited by Article 72-1 of Regulations Governing the Offering and Issuance of Securities by Securities Issuers. The unrestricted retained earnings of the financial institution presents the remaining balance after the appropriation of legal reserve or special reserve as required by law.

c. Retained earnings and dividend policy

In accordance with the amendments to the Company Act in May 2015, the recipients of dividends and bonuses are limited to shareholders and do not include employees. The shareholders held their regular meeting on June 14, 2019 and, in that meeting, resolved amendments to the Company's Articles of Incorporation (the "Articles"), particularly the amendment to the policy on dividend distribution and the addition of the policy on the distribution of employees' compensation.

Under the dividends policy as set forth in the amended Articles, where the Company made profit in a fiscal year, the profit shall be first utilized for paying taxes, offsetting losses of previous years, setting aside a legal reserve until the legal reserve equals the Company's paid-in capital, setting aside or reversing a special reserve in accordance with the laws and regulations, distribution of preferred stock dividends, and then any remaining profit together with any undistributed retained earnings shall be used by the Company's board of directors as the basis for proposing a distribution plan, which should be resolved in the shareholders' meeting for the distribution of dividends and bonuses to shareholders. For the policies on the distribution of employees' compensation and remuneration of directors and supervisors before and after amendment, refer to Note 37 (a), employee benefits expense.

In order for the Company to continue to expand its scale and increase profitability in line with its long-term financial strategy and future demand for capital, the Company adopted a dividend policy in framing a proposal for the distribution of annual earnings for the purpose of sustainable development, whereby ordinary share dividends, if declared, shall exceed 20% of distributable earnings for the year, and exceed 10% of the total dividends declared for the year.

The appropriation of earnings to a legal reserve shall be made until the legal reserve equals the Company's paid-in capital. The legal reserve may be used to offset deficits. If the Company has no deficit and the legal reserve has exceeded 25% of the Company's paid-in capital, the excess may be transferred to capital or distributed in cash.

The appropriations of earnings for 2018 and 2017 approved in the shareholders' meetings on June 14, 2019 and June 8, 2018, respectively, were as follows:

	Appropriation of Earnings	
	For the Year Ended December 31	
	2018	2017
Legal reserve	\$ -	\$ 1,053,117
Special reserve	-	(6,062,765)
Cash dividends	-	3,679,429
Share dividends	-	1,576,898

The Company's shareholders resolved in the meeting on June 14, 2019 to offset deficits of \$672,681 thousand by legal reserve, and issue cash dividends of \$2,445,185 thousand from the capital surplus. Dividend per share was \$0.2.

The appropriation of earnings for 2019 had been proposed by the Company's board of directors on February 25, 2020 were as follows:

	For the Year Ended December 31, 2019
Legal reserve	<u>\$ 1,685,280</u>
Special reserve	<u>\$ 18,670</u>
Ordinary share cash dividends	<u>\$ 5,040,158</u>
Preference share cash dividends	<u>\$ 33,732</u>

The appropriation of earnings for 2019 is subject to the resolution of the shareholders in the shareholders' meeting.

d. Special reserve comprised:

	<u>December 31</u>	
	2019	2018
Special reserve for unrealized loss on financial instruments (1)	\$ 12,852,497	\$ 12,852,497
Transferred special reserve from reserve for trading default and for trading loss (2)	156,585	156,585
Special reserve reclassified from liability (3)	3,377,273	3,377,273
Special reserve appropriated following first-time adoption of IFRSs (4)	<u>4,768,004</u>	<u>4,768,004</u>
	<u>\$ 21,154,359</u>	<u>\$ 21,154,359</u>

- 1) Under Rule No. 1010012865 and Rule No. 1010047490 issued by the FSC and the directive titled "Questions and Answers for Special Reserves Appropriated Following Adoption of IFRSs", the Company should appropriate or reverse to a special reserve. Any special reserve appropriated may be reversed to the extent that the net debit balance reverses and thereafter distributed.
- 2) Under Rule No. 09900738571 and No. 10000002891 issued by the FSC, the reserve for trading default and reserve for trading loss which had been provided before December 31, 2010 should be transferred to special reserve under shareholders' equity. TSKCB and MLSC transferred to special reserve \$60,508 thousand (reserve for trading loss \$72,902 thousand net of deferred tax asset \$12,394 thousand) and \$291,852 thousand (reserve for trading default and reserve for trading loss \$282,811 thousand net of deferred tax asset \$48,077 thousand), respectively. The special reserve can be used only to offset a deficit or, when it has reached the amount of paid-in capital, up to 50% thereof may be transferred to paid-in capital.
- 3) According to the revised Regulations Governing Calculation of Various Reserves for Operations on February 7, 2012, SKLIC transferred the balance of special reserve for catastrophe and for contingent claim, net of tax, from liability to special reserve.
- 4) Special reserves appropriated following first-time adoption of IFRSs

For the first-time adoption of IFRSs, 2013, the Company appropriated to special reserve the amounts that were the same as the unrealized revaluation increment, \$4,812,157 thousand, cumulative translation differences, \$124,142 thousand, and the increment of \$20,398 thousand according to article No. 32 under Regulations Governing the Preparation of Financial Statements by Insurance Companies.

If the special reserve appropriated on the first-time adoption of IFRSs relates to unrealized revaluation increment, the special reserve may be reversed on the disposal or reclassification of the related asset. A proportionate share of the special reserve relating to exchange differences arising from the translation of the financial statements of foreign operations will be reversed on the Group's disposal of foreign operations; on the Group's loss of significant influence, however, the entire special reserve will be reversed.

Investment properties have been disposed of and the related special reserve had been reversed; thus, cumulative balance of special reserve was \$188,693 thousand as of December 31, 2019.

e. Unrealized gain (loss) on financial assets at FVTOCI

	For the Year Ended December 31	
	2019	2018
Balance at January 1 under IAS 39	\$ -	\$ -
Effect of retrospective application under IFRS 9	-	<u>5,878,655</u>
Balance at January 1 under IFRS 9	(2,951,688)	5,878,655
Effect of change in tax rate	-	(364,631)
Recognized for the year		
Unrealized gain (loss) - debt instruments	7,362,212	(15,190,751)
Unrealized gain (loss) - equity instruments	8,253,386	1,911,013
Income tax related to financial assets at FVTOCI	(2,330,047)	1,112,978
Net remeasurement of loss allowance	(11,536)	(17,962)
Share from joint ventures accounted for using the equity method	8,449	(12,545)
Reclassification adjustment		
Disposal of investments in debt instruments	(1,089,381)	(15,352,850)
Income tax related to disposal of investments in debt instruments	<u>217,529</u>	<u>2,376,169</u>
Other comprehensive income recognized for the year	12,410,612	(25,538,579)
Disposal of partial interests in subsidiaries	-	(1,797)
Changes in percentage of ownership interests in subsidiaries	-	651,798
Cumulative unrealized gain (loss) of equity instruments transferred to retained earnings due to disposal	(162,399)	16,741,583
Income tax related to disposal of investments in equity instruments	26,798	(681,795)
Joint ventures accounted for using the equity method reclassified to equity related to assets (or disposal groups) classified as held for sale	<u>-</u>	<u>(1,553)</u>
Balance at December 31	<u>\$ 9,323,323</u>	<u>\$ (2,951,688)</u>

f. Non-controlling interests

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ -	\$ 14,660,102
Effect of retrospective application under IFRS 9	-	<u>526,622</u>
Balance at January 1 per IFRS 9	409,160	15,186,724
Attributable to non-controlling interests:		
Share of profit for the year	68,157	724,804
Exchange differences arising on translation of foreign entities	-	(2,867)
Unrealized gain or loss on financial assets at fair value through other comprehensive income	(6,072)	243,747
Remeasurement of defined benefit plan	589	(1,211)
Income tax related to remeasurement of defined benefit plan	(118)	2,465
Cash dividends of non-controlling interests	(69,964)	(143,142)
Disposal of partial interests in subsidiaries	-	-
Changes in percentage of ownership interests in subsidiaries	-	<u>(15,601,360)</u>
Balance at December 31	<u>\$ 401,752</u>	<u>\$ 409,160</u>

g. Treasury shares

Purpose of Buy-Back	Shares Transferred to Employees (In Thousands of Shares)
Number of shares at January 1, 2018	50,693
Shares transferred to employees	(50,693)
Increase during the year	14,267
Shares held by subsidiaries	<u>20,205</u>
Number of shares at December 31, 2018	<u>34,472</u>
Number of shares at January 1, 2019	34,472
Increase during the year	-
Number of shares at December 31, 2019	<u>34,472</u>

On November 24, 2017, the board of directors of the Company approved to transfer 200,000 thousand treasury shares to employees on the basis of the regulation of the Company for transferring the buy-back of shares to employees. As of December 31, 2018, the Company already transferred all of the shares with a transfer price of NT\$9.17.

The Company acquired 14,267 thousand ordinary shares at \$12.2 per share for \$174,053 thousand from the shareholders who raised an objection to the share swap agreement which was approved in the shareholder's meeting on June 8, 2018.

The subsidiaries held shares of the Company which were treated as treasury shares and had the same rights as normal shareholders except for the right to apply for new shares and to vote. MLSC held 20,205 shares of the Company, and bought back an amount of \$227,793 thousand, which were treated as treasury shares.

Under the Securities and Exchange Act, the Company shall neither pledge treasury shares nor exercise shareholders' rights on these shares, such as rights to dividends and to vote.

33. EARNINGS PER SHARE

Unit: NT\$ Per Share

	For the Year Ended December 31	
	2019	2018
Basic earnings per share	<u>\$ 1.34</u>	<u>\$ 0.89</u>
Diluted earnings per share	<u>\$ 1.28</u>	<u>\$ 0.85</u>

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

Net Profit for the Year

	For the Year Ended December 31	
	2019	2018
Earnings used in the computation of basic earnings per share	\$ 16,562,137	\$ 9,753,791
Effect of potentially dilutive ordinary shares:		
Convertible bonds	<u>65,051</u>	<u>55,554</u>
Earnings used in the computation of diluted earnings per share	<u>\$ 16,627,188</u>	<u>\$ 9,809,345</u>

Weighted average number of ordinary shares outstanding (in thousands of shares):

	For the Year Ended December 31	
	2019	2018
Weighted average number of ordinary shares used in the computation of basic earnings per share	12,315,347	11,018,050
Effect of potentially dilutive ordinary shares:		
Convertible bonds	636,090	483,128
Employees' compensation	<u>483</u>	<u>310</u>
Weighted average number of ordinary shares used in the computation of diluted earnings per share	<u>12,951,920</u>	<u>11,501,488</u>

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

34. NET PROCESSING FEE AND COMMISSION (LOSS) INCOME

	For the Year Ended December 31	
	2019	2018
Processing fee and commission income		
Processing fee income	\$ 6,503,026	\$ 6,324,435
Commission income	<u>316,290</u>	<u>416,070</u>
	<u>6,819,316</u>	<u>6,740,505</u>
Processing fee and commission expense		
Commission expense	(11,362,832)	(11,188,510)
Processing fee expense	<u>(1,988,388)</u>	<u>(1,614,637)</u>
	<u>(13,351,220)</u>	<u>(12,803,147)</u>
	<u>\$ (6,531,904)</u>	<u>\$ (6,062,642)</u>

35. NET INCOME FROM LIFE INSURANCE BUSINESS

	For the Year Ended December 31	
	2019	2018
Income from life insurance business		
Gross written premiums	\$ 313,283,956	\$ 302,295,851
Reinsurance premiums	<u>(4)</u>	<u>19,277</u>
Total insurance income	313,283,952	302,315,128
Less: Reinsurance expenses	(1,387,377)	(1,243,943)
Net changes in reserve for unearned premiums	<u>(455,599)</u>	<u>(614,816)</u>
Net insurance premium income	311,440,976	300,456,369
Changes in reserve for changes in foreign exchange valuation	2,655,944	(2,183,033)
Income on insurance products - separate-accounts (Note 30)	<u>7,493,832</u>	<u>2,778,889</u>
	<u>321,590,752</u>	<u>301,052,225</u>
Expenses on life insurance business		
Insurance benefits and claims	157,368,113	155,790,860
Less: Benefits and claims recovered from reinsurers	<u>(624,411)</u>	<u>(1,015,977)</u>
Net insurance benefits and claims	156,743,702	154,774,883
Acquisition expenses	12,731	13,111
Insurance Industry Stability Fund	719,339	574,427
Disbursement on insurance products - separate-accounts (Note 30)	<u>7,493,832</u>	<u>2,778,889</u>
	<u>164,969,604</u>	<u>158,141,310</u>
	<u>\$ 156,621,148</u>	<u>\$ 142,910,915</u>

36. NET GAIN ON INVESTMENTS

	For the Year Ended December 31	
	2019	2018
Interest income		
Cash in bank	\$ 2,433,004	\$ 2,082,276
Financial instruments at FVTPL	1,654,827	2,316,041
Financial instruments at FVTOCI	4,305,942	7,123,196
Financial assets at amortized cost	81,891,844	70,507,391
Loans	21,934,971	21,042,134
Others	<u>760,050</u>	<u>701,401</u>
	<u>\$ 112,980,638</u>	<u>\$ 103,772,439</u>
Gain (loss) on financial assets and liabilities as at FVTPL		
Gain (loss) on changes in fair value	\$ 39,445,043	\$ (34,108,071)
Dividend income	5,777,366	3,170,793
Gain (loss) on disposal of investments		
Non-derivative instruments	21,780,258	11,429,170
Derivative instruments	(19,927,982)	(53,055,913)
Distributions from foreign investments	<u>1,199,802</u>	<u>1,396,881</u>
	<u>\$ 48,274,487</u>	<u>\$ (71,167,140)</u>
Realized gain on investments in equity instruments at fair value through other comprehensive income		
Dividend revenue	\$ 10,195,474	\$ 9,414,385
Distributable income from foreign investments	<u>118,199</u>	<u>748,012</u>
	<u>\$ 10,313,673</u>	<u>\$ 10,162,397</u>
Gain (loss) on investments in debt instruments at fair value through other comprehensive income		
Gain (loss) on disposal of investments	<u>\$ 1,356,561</u>	<u>\$ 15,515,460</u>
Gain (loss) on financial assets at amortized cost		
Gain (loss) on disposal of investments	<u>\$ 9,889,007</u>	<u>\$ 63,396</u>
Gain on investment properties		
Rental income (Note 36)	<u>\$ 3,861,956</u>	<u>\$ 3,582,906</u>
Gain on reversal of impairment loss recognized		
Investment properties	\$ -	\$ (1,261,905)
Prepayments for leases - land use rights	-	(559,026)
Investments in debt instruments at fair value through other comprehensive income	11,536	17,963
Financial assets at amortized cost	<u>296,483</u>	<u>(403,384)</u>
	<u>\$ 308,019</u>	<u>\$ (2,206,352)</u>
Other gain on investment		
Gain on disposal of investments in equity method	<u>\$ -</u>	<u>\$ 1,688,029</u>

37. NET PROFIT FROM CONTINUING OPERATIONS

a. Employee benefits expense

The bonuses paid to employees and remuneration of directors and supervisors for 2019 and 2018

	For the Year Ended December 31	
	2019	2018
Short-term benefits		
Salary	\$ 17,539,939	\$ 17,129,422
Labor and health insurance	1,306,924	1,252,278
Termination benefits	741,692	737,534
Remuneration of directors and supervisors	161,125	198,436
Share-based payments	38,226	-
Other employee benefits	<u>579,886</u>	<u>614,713</u>
 Total employee benefits expense	 <u>\$ 20,367,792</u>	 <u>\$ 19,932,383</u>
 An analysis of employee benefits expense by function		
Profit from operations	\$ 4,542,863	\$ 4,747,756
Operating expenses	<u>15,824,929</u>	<u>15,184,627</u>
	<u>\$ 20,367,792</u>	<u>\$ 19,932,383</u>

As of December 2019 and 2018, the number of employees in the Group was 17,470 and 17,063, respectively, including 59 and 69 directors who were not concurrently serving as employees, respectively, its calculation basis was consistent with employee benefits expense.

For 2019 and 2018, the average employee benefit was both \$1,161 thousand, and the average salary expense was \$1007.4 thousand and \$1,008 thousand, respectively.

In compliance with the amended Articles of Incorporation of the Company, the Company accrued employees' compensation and remuneration of directors and supervisors at the rates no less than 0.01% and no higher than 1%, respectively, of net profit before income tax, employees' compensation, and remuneration of directors and supervisors. The bonuses to employees and remuneration to directors and supervisors for 2019 and 2018, were as follows:

Accrual rate

	For the Year Ended December 31	
	2019	2018
Employees' compensation	0.03%	0%
Remuneration of directors and supervisors	0.29%	0%
	2019	2018
	Cash Dividends	Cash Dividends
Bonuses paid to employees	\$ 5,000	\$ -
Remuneration of directors and supervisors	46,500	-

If there is a change in the proposed amounts after the annual consolidated financial statements were authorized for issue, the differences are recorded as a change in accounting estimate.

The employees' compensation and remuneration of directors and supervisors for 2018 and 2017 resolved by the Company's board of directors on March 22, 2019 and March 16, 2017, respectively, were as follows:

	For the Year Ended December 31	
	2018	2017
	Cash Dividends	Cash Dividends
Bonuses to employees	\$ -	\$ 3,250
Remuneration of directors and supervisors	-	31,000

There was no difference between the actual amounts of employees' compensation and remuneration of directors and supervisors paid and the amounts recognized in the consolidated financial statements for the year ended December 31, 2018 and 2017.

Information on the employees' compensation and remuneration to directors and supervisors resolved by the Company's board of directors in 2019 and 2018 is available at the Market Observation Post System website of the Taiwan Stock Exchange.

b. Depreciation and amortization

	For the Year Ended December 31	
	2019	2018
Property and equipment	\$ 763,220	\$ 760,295
Investment properties	1,151,529	907,518
Right-of-use assets	639,973	-
Intangible assets	346,168	291,731
Other assets	<u>86,244</u>	<u>111,608</u>
	<u>\$ 2,987,134</u>	<u>\$ 2,071,152</u>
An analysis of depreciation by function		
Operating expenses	<u>\$ 2,554,722</u>	<u>\$ 1,667,813</u>
An analysis of amortization by function		
Operating expenses	<u>\$ 432,412</u>	<u>\$ 403,339</u>

38. INCOME TAX

a. Income tax recognized in profit or loss

The major components of tax expense were as follows:

	For the Year Ended December 31	
	2019	2018
Current tax		
In respect of the current year	\$ (1,484,050)	\$ (762,503)
Income tax expense of unappropriated earnings	(3,382)	(847,609)
Adjustments for prior periods	233,074	300,866
Deferred tax		
In respect of the current year	2,594,216	(1,095,603)
Effect of change in tax rate	<u>-</u>	<u>1,848,728</u>
Income tax expense recognized in profit or loss	<u>\$ 1,339,858</u>	<u>\$ (556,121)</u>

A reconciliation of accounting profit and income tax benefit (expenses) is as follows:

	For the Year Ended December 31	
	2019	2018
Profit before tax from continuing operations	<u>\$ 15,290,436</u>	<u>\$ 11,034,716</u>
Income tax expense calculated at the statutory rate	\$ (3,058,087)	\$ (2,206,944)
Gain (loss) on disposal of equity instruments at fair value through other comprehensive income	(44,752)	3,353,333
Nondeductible expenses in determining taxable income	(92,473)	(104,409)
Tax-exempt income	7,549,729	1,060,491
Unrecognized deductible temporary differences	85,176	(435,924)
Unrecognized loss carryforwards	(2,723,046)	(3,013,174)
Additional income tax under the Alternative Minimum Tax Act	(239,467)	-
Income tax on unappropriated earnings	(3,382)	(847,609)
Effect of change in tax rate	-	1,848,728
Withholding tax on foreign income without tax deduction	(354,338)	(636,454)
Effect of different tax rate of group entities operating in other jurisdictions	(5,966)	(1,099)
Adjustments for prior years' tax	233,074	300,866
Others	<u>(6,610)</u>	<u>126,074</u>
Income tax benefit (expenses) recognized in profit or loss	<u>\$ 1,339,858</u>	<u>\$ (556,121)</u>

The applicable tax rate used above is the corporate tax rate of 20% payable by the Group in the ROC, while the applicable tax rate used by subsidiaries in China is 25%. Tax rates used by other group entities operating in other jurisdictions are based on the tax laws in those jurisdictions.

In February 2018, it was announced by the President that the Income Tax Act in the ROC was amended and, starting from 2018, the corporate income tax rate will be adjusted from 17% to 20%. In addition, the rate of the corporate surtax applicable to the 2018 unappropriated earnings was reduced from 10% to 5%.

b. Income tax recognized directly in equity

	For the Year Ended December 31	
	2019	2018
Current tax		
Disposal of investments in equity instruments designated as at FVTOCI	\$ (26,798)	\$ (681,795)
Deferred tax		
Disposal of investments in equity instruments designated as at FVTOCI	<u>26,798</u>	<u>681,795</u>
Total income tax recognized directly in equity	<u>\$ -</u>	<u>\$ -</u>

c. Income tax recognized in other comprehensive income

	For the Year Ended December 31	
	2019	2018
<u>Deferred tax</u>		
Effect of change in tax rate	\$ -	\$ (139,648)
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	(2,328,528)	1,112,502
Remeasurement of the defined benefit plan	(38,885)	76,611
Arising on income and expenses reclassified from equity to profit or loss:		
On disposal of investments in debt instruments at fair value through other comprehensive income	217,529	2,376,169
Other comprehensive income based on reclassification using the overlay approach	<u>(3,632,076)</u>	<u>4,061,879</u>
Expense (benefit) on total income tax recognized in other comprehensive income	<u>\$ (5,781,960)</u>	<u>\$ 7,487,513</u>

d. Current tax assets and liabilities

	December 31	
	2019	2018
<u>Current tax assets</u>		
Tax refund receivable	<u>\$ 1,296,063</u>	<u>\$ 2,299,374</u>
<u>Current tax liabilities</u>		
Income tax payable	<u>\$ 142,762</u>	<u>\$ 211,241</u>

e. Deferred tax assets and liabilities

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

For the year ended December 31, 2019

	Opening Balance	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Closing Balance
<u>Deferred tax assets</u>					
Temporary differences					
Differences in depreciation of properties	\$ 268,877	\$ 4,633	\$ -	\$ -	\$ 273,510
Defined benefit obligation	207,298	(90,430)	(10,896)	-	105,972
Unrealized gain (loss) on financial assets	8,063,989	3,393,211	-	-	11,457,200
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	4,677,976	(2,161)	(4,516,480)	24,501	183,836
Doubtful account	450,246	9,495	-	-	459,741
Others	39,660	69,652	-	-	109,312
Tax losses	<u>5,246,870</u>	<u>(606,035)</u>	<u>-</u>	<u>(26,798)</u>	<u>4,614,037</u>
	<u>\$ 18,954,916</u>	<u>\$ 2,778,365</u>	<u>\$ (4,527,376)</u>	<u>\$ (2,297)</u>	<u>\$ 17,203,608</u>
<u>Deferred tax liabilities</u>					
Temporary differences					
Fair value of investment properties	\$ 385,038	\$ (14,092)	\$ -	\$ -	\$ 370,946
Defined benefits plan	-	200,517	27,989	-	228,506
Amortization of goodwill	254,656	1,431	-	-	256,087
Unrealized gain (loss) on financial assets	61,033	(3,707)	-	-	57,326
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	85,822	-	1,226,595	-	1,312,417
Others	18,811	-	-	-	18,811
Reserve of land increment tax	<u>2,902,797</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,902,797</u>
	<u>\$ 3,708,157</u>	<u>\$ 184,149</u>	<u>\$ 1,254,584</u>	<u>\$ -</u>	<u>\$ 5,146,890</u>

For the year ended December 31, 2018

	Opening Balance	Effect of Retrospective Application on IFRS 9	Opening Balance, as Restated	Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Others	Closing Balance
<u>Deferred tax assets</u>							
Temporary differences							
Differences in depreciation of properties	\$ 223,656	\$ -	\$ 223,656	\$ 45,221	\$ -	\$ -	\$ 268,877
Defined benefit obligation	281,333	-	281,333	(375,629)	301,594	-	207,298
Unrealized gain (loss) on financial assets	10,790,568	423,078	11,213,646	(3,149,657)	-	-	8,063,989
Unrealized gain on available-for-sale financial assets	2,106,634	(2,106,634)	-	-	-	-	-
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	-	240,743	240,743	11,586	5,119,676	(694,029)	4,677,976
Doubtful account	458,335	99,413	557,748	(107,502)	-	-	450,246
Others	32,607	(24,502)	8,105	31,555	-	-	39,660
Tax losses	179,441	-	179,441	4,385,634	-	681,795	5,246,870
	<u>\$ 14,072,574</u>	<u>\$ (1,367,902)</u>	<u>\$ 12,704,672</u>	<u>\$ 841,208</u>	<u>\$ 5,421,270</u>	<u>\$ (12,234)</u>	<u>\$ 18,954,916</u>
<u>Deferred tax liabilities</u>							
Temporary differences							
Fair value of investment properties	\$ 324,909	\$ -	\$ 324,909	\$ 60,129	\$ -	\$ -	\$ 385,038
Amortization of goodwill	215,241	-	215,241	39,415	-	-	254,656
Unrealized gain (loss) on financial assets	78,259	-	78,259	(17,226)	-	-	61,033
Unrealized gain (loss) on financial assets at fair value through other comprehensive income	-	2,146,340	2,146,340	5,725	(2,066,243)	-	85,822
Others	18,771	-	18,771	40	-	-	18,811
Reserve of land increment tax	2,902,797	-	2,902,797	-	-	-	2,902,797
	<u>\$ 3,539,977</u>	<u>\$ 2,146,340</u>	<u>\$ 5,686,317</u>	<u>\$ 88,083</u>	<u>\$ (2,066,243)</u>	<u>\$ -</u>	<u>\$ 3,708,157</u>

Note: Reclassified income tax payable for linked-tax and deferred tax assets.

- f. Deductible temporary differences, unused loss carryforwards and unused investment credits for which no deferred tax assets have been recognized in the consolidated balance sheets

	<u>December 31</u>	
	2019	2018
Loss carryforwards	<u>\$ 54,081,502</u>	<u>\$ 52,408,526</u>
Impairment losses on assets	<u>\$ 2,543,482</u>	<u>\$ 2,857,683</u>

- g. Information about unused loss carryforwards

Loss carryforwards as of December 31, 2019 comprised:

Unused Amount	Expiry Year
\$ 40,318,716	2025
<u>36,832,961</u>	2028
<u>\$ 77,151,677</u>	

h. Income tax assessments

The income tax returns of the Group assessed by the tax authority were as follows:

	<u>Year of Assessment</u>
SKFHC	2015
SKLIC	2015
SKSC	2015
TSKCB	2015
SKLRESC	2017
SKMC	2016
SKLIAC	2015
SKIB	2015
SKITC	2015
MLSC	2017

The consolidated income tax returns of the Company and its subsidiaries which adopted consolidated income tax through 2015 were assessed by the tax authority, and the tax difference of 2013, 2014 and 2015 were recorded in the year ended December 31, 2018 and 2017, respectively. For the difference between the amounts declared and assessed in 2010, 2011, 2012 and 2013, the Company had filed for administrative remedy within legal time limit.

MLSC's income tax returns in 2014 and from 2016 to 2017 have been assessed by the tax authority. The tax authority considered that (1) partial operating and interest expenses which were allocated to income from security transactions shall not be recognized as expenses, (2) creditor's loss, (3) and items such as business transfer and amortization expenses shall be re-calculated and approved for supplementary tax.

MLSC did not agree with the assessments of the taxes in 2014 and from 2016 to 2017, and had filed an appeal for administrative remedy within the legal time limit.

The above total taxes payable of MLSC was \$117,246 thousand, and had been paid in full.

39. RELATED-PARTY TRANSACTIONS

a. The related parties and their relationships with the Group are as follows:

<u>Related Party</u>	<u>Relationship</u>
Wu, Tung-Chin	Key management personnel
Lin, Bai Han and other directors	Key management personnel
DingCheng Life Insurance Co.	Associate venture company
Kaixin Energy Co.	Associate venture company
Shin Kong Enterprise Co., Ltd.	Its chairman is a relative of the Company's chairman
Tong Yin Investment Co.	Its chairman is a relative of the Company's chairman
Auto21 Co., Ltd.	Its chairman is a relative of the Company's chairman
Skin Kong Shien Ya International Co., Ltd.	Its chairman is a relative of the Company's chairman
Ruey-Chin Enterprise Co., Ltd.	Its chairman is a relative of the Company's chairman
Shin Cheng Investment Co., Ltd.	Its chairman is a relative of the Company's chairman
Ying Investment Co., Ltd.	Its chairman is a relative of the Company's chairman

(Continued)

Related Party	Relationship
Shin Kong Hae Yang Co., Ltd.	Its chairman is a relative of the Company's chairman
Rue-Ying Enterprise Co., Ltd.	Its chairman is a relative of the Company's chairman
Seed Studio Co., Ltd.	Its chairman is a relative of the Company's chairman
The Great Taipei Gas Corp.	Its vice chairman is a relative of the Company's chairman
Shin Kong Construction and Development Co., Ltd.	Its chairman is a relative of the Company's chairman
Shinkong International Leasing Corp.	Its chairman is a relative of the Company's chairman
Shin Kong Recreation Co., Ltd.	Its chairman is a relative of the Company's chairman
Dong Tian Investment Corp.	Its chairman is a relative of the Company's chairman
Pon Jin Corp.	Its chairman is a relative of the Company's chairman
Pon Da Corp.	Its chairman is a relative of the Company's chairman
Shian-Da Co., Ltd.	Its director is a relative of the Company's chairman
Shin-Po Life Care Co., Ltd.	Its director is a relative of the Company's chairman
Tong Shan Investment Co., Ltd.	Its director is a key management personal of the Company
Shin Kong Lease Co., Ltd.	Its director is a key management personal of the Company
Shin Sheng Co., Ltd.	Its director is a key management personal of the Company
Gui Yuan Investment Co., Ltd.	Its director is a key management personal of the Company
Shin Kong Farm Co., Ltd.	Its director is a key management personal of the Company
Yung Kwang Co., Ltd.	Its director is a key management personal of the Company
Skin Kong Lohas Co., Ltd.	Its vice chairman is a relative of the Company's chairman
Shin Hai Gas Corporation	Its director is a relative of the Company's chairman
Shin-bao Car Rental Co., Ltd.	Its director is a relative of the Company's chairman
Lian-an Service Co., Ltd.	Its director is a relative of the Company's chairman
Shin Natural Gas Co., Ltd.	Its director is a relative of the Company's chairman
Hsin-Pao Investment Co., Ltd.	Its director is a relative of the Company's chairman
Hsin-Pao Technology Co., Ltd.	Its vice chairman is a relative of the Company's chairman
Shin Kong Communication Co., Ltd.	Its director is a relative of the Company's chairman
Shin Kong Medical Club	Its vice chairman is a relative of the Company's chairman
Shin Kong Real Estate Co., Ltd.	Its chairman is a key management personnel of the Company
Taiwan Shin Kong Construction Management Co., Ltd.	Its chairman is a key management personnel of the Company
Wen Shih Consulting Company Co., Ltd.	Its chairman is a key management personnel of the Company
Ruey-Fang Farm Company	Its chairman is a key management personnel of the Company
Gentle Development Company	Its chairman is a key management personnel of the Company
Shin Kong Investment Co., Ltd.	Its chairman is a key management personnel of the Company
Shin Kong International Investment Co., Ltd.	Its chairman is a key management personnel of the Company
Wu Tung-Chin Charity Foundation	Its chairman is a key management personnel of the Company
Shin Kong the Wu's Foundation	Its chairman is a key management personnel of the Company

(Continued)

Related Party	Relationship
Shin Kong Wu Ho-Su Cultural Foundation	Its chairman is a key management personnel of the Company
Shin Kong Life Charity Foundation	Its chairman is a key management personnel of the Company
Shin Kong Life Scholarship Foundation	Its chairman is a key management personnel of the Company
Shin Kong Bank Cultural and Educational Foundation	Its chairman is a key management personnel of the Company
Shin Kong Wu Ho-Su Memorial Hospital (Shin Kong Memorial Hospital)	Its chairman is a key management personnel of the Company
Shin Kong Wu Ho-Su First Aid Foundation	Its chairman is a key management personnel of the Company
Taiwan Shin Kong Security Foundation for Arts and Culture	Its chairman is a key management personnel of the Company
Shin Kong Ton Shin Yuan Health Sciences Foundation	Its chairman is a key management personnel of the Company
TOYOZAWA INTERNATIONAL CO., LTD.	Its chairman is a key management personnel of the Company
Taroko Development Co., Ltd.	Its chairman is a key management personnel of the Company
Shin Kong Mitsukoshi Department Store Co., Ltd.	Its director is a key management personnel of the Company
Sian Shun Enterprise Co.	Its director is a key management personnel of the Company
Wang Tien Woolen Textile Co., Ltd.	Its director is a key management personnel of the Company
Taiwan Fuhbic Corp.	Its director is a key management personnel of the Company
Great Taipei Broadband Co., Ltd.	Its director is a key management personnel of the Company
Chi-Ye Chemical Engineering Co., Ltd.	Its director is a key management personnel of the Company
Pei-Tou Hotel Co., Ltd.	Its chairman is a key management personnel of the Company
Yi Kong Security Co., Ltd.	Its director is a key management personnel of the Company
Taiwan Institute for Sustainable Energy	Its director is a key management personnel of the Company
Shin Kong Synthetic Fiber Corp.	Its director is a key management personal of the Company
Taiwan Security Co., Ltd.	Its director is a relative of the Company's chairman
Shin Lung Natural Gas Co.	Its director is a key management personnel of the Company
Boa-shun Automatic Co., Ltd.	Its director is a key management personnel of the Company
Soochow University	Its director is a key management personnel of the Company
Taiwan Leasing Co., Ltd. (Note 1)	Its supervisor is a key management personnel of the Company
Xin-Yi Construction Co., Ltd.	Its chairman is a key management personnel of the Company

(Continued)

Related Party	Relationship
Sin-Pei Co., Ltd.	Its supervisor is a key management personnel of the Company
Shin Kong Chao-Feng Co., Ltd.	Its vice chairman is a key management personnel of the Company
Taiwan-Sok Shin Kong Security Co., Ltd.	Its vice chairman is a relative of the Company's chairman
Yi Kong Building Management Service Co., Ltd.	Its director is a relative of the Company's chairman
Jui-hung financial consultant CO., LTD.	Its chairman is a relative of the Company's chairman
Wu, Anthony T.S.	Related party in substance
Wu, Thomas T.L.	Related party in substance
Wu, Tung-Sheng	Related party in substance
Kuo Wu, Ru-Yue	Related party in substance
Wu, Bein-Sen	Related party in substance
Su, Jun-hong	Related party in substance
Grand Fortune Securities Co., Ltd.	Related party in substance
Ubright Optronics Co., Ltd.	Related party in substance
Ruey-Shin Enterprise Co., Ltd.	Related party in substance
Taishin International Bank Co., Ltd.	Related party in substance
Hung Shin Enterprise Co., Ltd.	Related party in substance
Chin Shan Investment Co., Ltd.	Related party in substance
Taishin Financial Holding Co., Ltd.	Related party in substance
YuPang Investment Co., Ltd.	Related party in substance
Hsin Hsien Industrial Co.	Related party in substance
An Long Enterprise Co., Ltd.	Related party in substance
Shin Kong Materials Technology Co., Ltd.	Related party in substance
Hou Sheng Chemical Co.	Related party in substance
TacBright Optronics Co., Ltd.	Related party in substance
Shin Kong Fire & Marine Insurance Company	Related party in substance
Hung Shin Enterprise Co., Ltd.	Related party in substance
SBright Optronics Co., Ltd.	Related party in substance
Taishin Investment Trust Co., Ltd.	Related party in substance
Taishin Securities Co., Ltd.	Related party in substance
Shin Kong Asset Management Company	Related party in substance
ShinSoft Co., Ltd.	Related party in substance
White Cloudy Village Enterprise Co., Ltd.	Related party in substance
Chia Her Industrial Co., Ltd.	Related party in substance
Hong-Qi Co.	Related party in substance
New Light International Co., Ltd.	Related party in substance
MienHao Enterprise Co., Ltd.	Related party in substance
Hong Tai Electric Industrial Co., Ltd.	Related party in substance
KueiHsin Enterprise Co., Ltd.	Related party in substance
Tsui Yuan Investment Co., Ltd.	Related party in substance
ChiaBan Investment Co., Ltd.	Related party in substance
The Foundation for Excellent Journalism Award	Related party in substance
Taishin Holdings Insurance Brokers Co., Ltd.	Related party in substance
Northeast Corner Recreation Co., Ltd.	Related party in substance
Shin-Kong Global Venture Capital Corp.	Related party in substance
Taiwan Shin Kong Construction Co.	Related party in substance
ChaoBan Investment Co., Ltd.	Related party in substance

(Continued)

Related Party	Relationship
Hsin Ming Enterprise Co., Ltd.	Related party in substance
Hsin Hsen Construction Co., Ltd.	Related party in substance
Hui Feng Investment Co., Ltd.	Related party in substance
Shin Kong Spinning Co., Ltd.	Related party in substance
Tung Sheng Media Co., Ltd.	Related party in substance
Eaibel Enterprises, Inc.	Related party in substance
Jaspervilla Co., Ltd.	Related party in substance
Dah-Yu Mee Company	Related party in substance
Chia-Yin Enterprise Co., Ltd.	Related party in substance
Hua Nan Financial Holding Co., Ltd.	Related party in substance
Hua Nan Commercial Bank Co., Ltd.	Related party in substance
Hua Nan Securities Co., Ltd.	Related party in substance
Hua Nan Investment Trust Co., Ltd.	Related party in substance
Yuan Ding Investment Co.	Related party in substance
Yong Chen Investment Co.	Related party in substance
Other related party in substance	Independent director of the Company, spouse and the relative within second degree of kinship of the subsidiaries, director, and associate and related party in substance of the Company

(Concluded)

Note 1: Under liquidation procedure as of December 31, 2019.

Note 2: The Company classified the above relationship into four categories: (1) associate, (2) key management personnel, (3) related party in substance and (4) others. This classification is a basis for disclosure of transactions with related parties.

- b. Except for significant intra-group transactions that have been eliminated on consolidation and are not disclosed in this note, significant transactions with related parties were as follows:

1) Deposits

Deposits (recognized as cash and cash equivalents)

	December 31			
	2019		2018	
	Amount	%	Amount	%
Related party in substance				
Taishin International Bank	\$ 240,672	-	\$ 450,795	1
Hua Nan Bank	<u>297,703</u>	<u>-</u>	<u>210,431</u>	<u>-</u>
	<u>\$ 538,375</u>	<u>-</u>	<u>\$ 661,226</u>	<u>1</u>

Time deposits with original maturities exceeding three months
(recognized as financial assets measured at amortized cost)

	December 31			
	2019		2018	
	Amount	%	Amount	%
Related party in substance				
Taishin International Bank	<u>\$ 5,480</u>	<u>-</u>	<u>\$ 5,700</u>	<u>-</u>

The deposits above referred to the amount of bank deposit adjusted for in-transit deposits and undiscounted checks. The terms and conditions of the above deposits to related parties were not significantly different from that of unrelated parties.

2) Customers' margin accounts

	<u>December 31</u>	
	2019	2018
Related party in substance		
Hua Nan Bank	\$ 13,011	\$ 8,827
Taishin International Bank	<u>156,889</u>	<u>116,798</u>
	<u>\$ 169,900</u>	<u>\$ 125,625</u>

3) Secured loans

a) Secured loans of related parties due to SKLIC were as follows:

Loans

Year	<u>December 31</u>		<u>Interest Income</u>	
	Amount	%	Amount	%
2019	\$ 21,473	-	\$ 443	-
2018	49,259	-	1,209	-

For the Year Ended December 31, 2019								
Classification	Name	Highest Balance	Period-End Balance	Status		Content of Guarantee	Interest Revenue	Difference of Terms with Third Party
				Loans	Nonperforming Loans			
Other loans	Key management personnel	\$ 1,390	\$ -	\$ -	-	Real estate	\$ 3	None
	Related party in substance	27,416	21,473	21,473	-	Real estate	440	None

For the Year Ended December 31, 2018								
Classification	Name	Highest Balance	Period-End Balance	Status		Content of Guarantee	Interest Revenue	Difference of Terms with Third Party
				Loans	Nonperforming Loans			
Other loans	Key management personnel	\$ 4,719	\$ 1,411	\$ 1,411	-	Real estate	\$ 57	None
	Related party in substance	130,726	47,848	47,848	-	Real estate	1,152	None

The terms and conditions of the above secured loans to related parties were not significantly different from that of unrelated parties.

b) Secured loans of related parties due from TSKCB were as follows:

Loans

Year	<u>December 31</u>		<u>Interest Income</u>	
	Amount	%	Amount	%
2019	\$ 1,912,801	-	\$ 38,729	-
2018	2,420,938	-	45,539	-

For the Year Ended December 31, 2019								
Classification	Number or Name	Highest Balance	Period-End Balance	Status		Content of Guarantee	Interest Revenue	Difference of Terms with Third Party
				Loans	Nonperforming Loans			
Consuming loans	24	\$ 19,421	\$ 12,381	\$ 12,381	\$ -	Vehicle	\$ 266	None
Residential mortgage loans	74	561,230	473,520	473,520	-	Real estate	7,126	None
Other loans	Related party in substance							
	ShinSoft Co., Ltd.	40,000	40,000	40,000	-	Real estate	20	None
	Yuan Ding Investment Co.	150,000	120,000	120,000	-	Public trade stock	2,046	None
	Yong Chen Investment Co.	40,000	40,000	40,000	-	Public trade stock	573	None
	Hung Chi Co., Ltd.	271,580	181,600	181,600	-	Real estate, public trade stock	3,849	None
	Ru Yue, Guo Wu	150,000	150,000	150,000	-	Real estate	2,250	None
	Other related parties							
	Wang Tien Woolen Textile	496,000	-	-	-	Real estate	6,604	None
	Shin Kong Chao Feng	690,000	690,000	690,000	-	Real estate	11,713	None
	Wen Shih Consulting Company Co., Ltd.	205,900	157,300	157,300	-	Real estate, Public trade stock	2,961	None
	Ruey-Fang Farm Company	21,600	-	-	-	Public trade stock	212	None
	Gentle Development Company	67,000	48,000	48,000	-	Public trade stock	927	None
	Shin Kong Synthetic Fiber Corp.	500,000	-	-	-	Public trade stock	182	None

For the Year Ended December 31, 2018								
Classification	Number or Name	Highest Balance	Period-End Balance	Status		Content of Guarantee	Interest Revenue	Difference of Terms with Third Party
				Loans	Nonperforming Loans			
Consuming loans	33	\$ 23,690	\$ 11,522	\$ 11,522	\$ -	Vehicle	\$ 345	None
Residential mortgage loans	69	460,110	396,716	396,716	-	Real estate	5,796	None
Other loans	Related party in substance							
	Yuan Ding Investment Co.	210,000	150,000	150,000	-	Public trade stock	2,783	None
	Yong Chen Investment Co.	40,000	40,000	40,000	-	Public trade stock	588	None
	Hung Chi Co., Ltd.	257,700	257,700	257,700	-	Real estate, public trade stock	3,507	None
	Ru Yue, Guo Wu	150,000	150,000	150,000	-	Real estate	2,373	None
	Ruey-Shin Enterprise Co., Ltd.	120,000	-	-	-	Real estate	8	None
	Other related parties							
	Wang Tien Woolen Textile	500,000	496,000	496,000	-	Real estate	9,756	None
	Shin Kong Chao Feng	711,850	660,000	660,000	-	Real estate	11,930	None
	Wen Shih Consulting Company Co., Ltd.	261,800	201,900	201,900	-	Real estate, Public trade stock	3,322	None
	Ruey-Fang Farm Company	16,000	-	-	-	Public trade stock	168	None
	Gentle Development Company	62,100	57,100	57,100	-	Public trade stock	381	None
	Taroko Development Co., Ltd.	233,600	-	-	-	Real estate	4,582	None

According to Articles 32 and 33 of the Banking Act, unsecured credit cannot be extended to any interested party except consumer loans and loans extended to the government and secured credit to an interested party shall be fully secured, of which the terms shall not be more favorable than those terms offered to a customer in the same category.

Guarantee

For the Year Ended December 31, 2019					
Related Party	Highest Balance	Period-end Balance	Guarantee		Content of Guarantee
			Reserve Balance	Interest Rate (%)	
Related party in substance					
Skin Kong Spinning Co., Ltd.	\$ 38,341	\$ 945	\$ -	0.50	Listed securities
Ruey-shin Enterprise Co., Ltd.	10,000	-	-	0.50	Real estate
		<u>\$ 945</u>			

For the Year Ended December 31, 2018					
Related Party	Highest Balance	Period-end Balance	Guarantee Reserve Balance	Interest Rate (%)	Content of Guarantee
Related party in substance					
Ruey-shin Enterprise Co., Ltd.	\$ 100,000	\$ -	\$ -	0.50	Real estate
Skin Kong Spinning Co., Ltd.	6,351	-	-	0.50	Listed securities
Others					
Shin Kong Synthetic Fiber Corp.	38,341	<u>38,341</u>	-	0.50	Listed securities
		<u>\$ 38,341</u>			

4) Deposits

For the Year Ended December 31, 2019			
Related Party	Year-end Balance	Interest Rate	Interest Income
Related party in substance			
Shin Kong Fire & Marine Insurance Company			
	\$ 843,856	0.00%-2.50%	\$ 3,601
UBright Optronics Co., Ltd.	155,855	0.00%-1.04%	231
Hung Shin Enterprise Co., Ltd.	271,892	0.00%-0.65%	1,686
New Light International Co., Ltd.	110,563	0.00%-0.48%	417
Shin Kong Spinning Co., Ltd.	98,742	0.00%-1.04%	100
Jasperivilla Co., Ltd.	162,780	0.00%-1.04%	1,023
Ruey-Shin Enterprise Co., Ltd.	203,512	0.00%-0.05%	32
Northeast Corner Recreation Co., Ltd.	57,541	0.00%-0.04%	67
Yong Chen Investment Co.	52,514	0.00%-0.00%	-
Yuan Ding Investment Co.	87,288	0.00%-0.00%	-
Others	<u>498,533</u>		<u>2,238</u>
	<u>2,543,076</u>		<u>9,395</u>
Others			
Shin Kong Synthetic Fiber Corp.	492,515	0.00%-0.30%	256
The Great Taipei Gas Corp.	584,954	0.00%-0.80%	2,803
Yi Kong Securities Co., Ltd.	365,979	0.00%-0.40%	168
Shin Kong Memorial Hospital	205,837	0.00%-0.48%	187
Shin Kong Life Charity Foundation	66,787	0.00%-0.40%	139
Shin Kong Wu Ho-Su Cultural Foundation	98,362	0.00%-1.09%	984
Wu Tung-Chin Charity Foundation	70,951	0.00%-1.07%	711
New Light Investment Co., Ltd.	112,632	0.05%-0.40%	257
Others	<u>1,161,141</u>		<u>8,034</u>
	<u>3,159,158</u>		<u>13,539</u>
	<u>\$ 5,702,234</u>		<u>\$ 22,934</u>

Related Party	For the Year Ended December 31, 2018		
	Year-end Balance	Interest Rate	Interest Income
Related party in substance			
Shin Kong Fire & Marine Insurance Company	\$ 790,640	0.00%-2.43%	\$ 1,846
UBright Optronics Co., Ltd.	394,517	0.00%-1.04%	190
Hung Shin Enterprise Co., Ltd.	273,356	0.00%-0.53%	703
Jasperivilla Co., Ltd.	194,482	0.00%-1.04%	316
New Light International Co., Ltd.	107,927	0.00%-0.48%	309
Shih Soft Co., Ltd.	195,153	0.00%-0.66%	66
Shin Kong Spinning Co., Ltd.	100,555	0.00%-1.04%	74
Others	<u>382,984</u>		<u>1,836</u>
	<u>2,439,614</u>		<u>5,340</u>
Others			
Shin Kong Synthetic Fiber Corp.	364,786	0.00%-1.20%	309
The Great Taipei Gas Corp.	621,846	0.00%-0.80%	2,329
Yi Kong Securities Co., Ltd.	379,752	0.00%-0.40%	192
Yi Kong Building Management Service	61,280	0.00%-0.05%	18
Shin Kong Memorial Hospital	140,413	0.00%-0.30%	161
Taiwan-Sok Shin Kong Security Co., Ltd.	54,897	0.00%-0.05%	13
Shin Kong Life Charity Foundation	63,184	0.00%-0.40%	136
Wu Tung-Chin Charity Foundation	69,350	0.00%-1.07%	648
Shin Kong Bank Cultural and Educational Foundation	42,253	0.00%-1.07%	407
New Light Investment Co., Ltd.	64,950	0.01%-0.05%	10
Others	<u>1,485,931</u>		<u>8,927</u>
	<u>3,348,642</u>		<u>13,150</u>
	<u>\$ 5,788,256</u>		<u>\$ 18,490</u>

The transaction terms with related parties do not significantly differ from those with usual customers except for the 6.08% interest rate on the employee deposits for the years 2019 and 2018.

5) Lease arrangements

a) Acquisitions of right-of-use assets

	For the Year Ended December 31, 2019
Others	
The Great Taipei Gas Corp.	\$ 216,270
Shin-bao Car Rental Co., Ltd.	<u>1,042</u>
	<u>217,312</u>
Related party in substance	
Shin Kong Spinning Co., Ltd.	<u>423</u>
	<u>\$ 217,735</u>

b) Lease liabilities

	December 31, 2019
Others	
The Great Taipei Gas Corp.	\$ 657,406
Others	<u>3,841</u>
	<u>661,247</u>
Related party in substance	
Others	<u>728</u>
	<u>\$ 661,975</u>

c) Interest expense

	For the Year Ended December 31	
	2019	2018
Others	\$ 15,621	\$ -
Related party in substance	<u>25</u>	<u>-</u>
	<u>\$ 15,646</u>	<u>\$ -</u>

d) Depreciation expense

	For the Year Ended December 31	
	2019	2018
Others	\$ 94,862	\$ -
Related party in substance	<u>758</u>	<u>-</u>
	<u>\$ 95,620</u>	<u>\$ -</u>

e) Lease expense

	For the Year Ended December 31	
	2019	2018
Others	\$ 16,610	\$ 111,115
Related party in substance	<u>410</u>	<u>2,929</u>
	<u>\$ 17,020</u>	<u>\$ 114,044</u>

As of December 31, 2019 and 2018, the deposits paid for leasing and building management to related parties were as follow:

	December 31	
	2019	2018
Others	\$ 28,908	\$ 25,322
Related party in substance	<u>7,021</u>	<u>4,021</u>
	<u>\$ 35,929</u>	<u>\$ 29,343</u>

Above deposits were paid for lease of operating locations. Upon termination of the lease contract and return of the leased properties, these deposits will be refunded without interest.

6) Lease of investment properties to related parties

Operating lease/sublease

a) Rentals receivable from related party were as follows:

	December 31	
	2019	2018
Others	\$ 418	\$ 6,143
Related party in substance	<u>1,322</u>	<u>4,317</u>
	<u>\$ 1,740</u>	<u>\$ 10,460</u>

b) Future lease payment receivables are as follows:

	December 31	
	2019	2018
Others		
Shin Kong Mitsukoshi Department Store Co., Ltd.	\$ 4,274,286	\$ 4,777,143
Shin Kong Wu Ho-Su Memorial Hospital	-	36,580
Yi Kong Building Management Service Co., Ltd.	161,350	120,104
Others	<u>146,924</u>	<u>118,098</u>
	<u>4,582,560</u>	<u>5,051,925</u>
Related party in substance	<u>101,958</u>	<u>56,782</u>
	<u>\$ 4,684,518</u>	<u>\$ 5,108,707</u>

c) Rentals received for leasing investment properties to related party were as follows:

	For the Year Ended December 31			
	2019		2018	
	Amount	%	Amount	%
Others				
Shin Kong Mitsukoshi Department Store Co., Ltd.	\$ 502,857	16	\$ 502,857	14
Shin Kong Wu Ho-Su Memorial Hospital	33,860	1	33,839	1
Others	<u>102,744</u>	<u>3</u>	<u>99,056</u>	<u>3</u>
	<u>639,461</u>	<u>20</u>	<u>635,752</u>	<u>18</u>
Related party in substance	<u>47,238</u>	<u>2</u>	<u>47,759</u>	<u>1</u>
	<u>\$ 686,699</u>	<u>22</u>	<u>\$ 683,511</u>	<u>19</u>

d) All the terms of the lease transactions with related parties were not significantly different from that of general transactions. The above rentals received excluded VAT.

- e) As of December 31, 2019 and 2018, deposits received for the lease of properties to related parties were as follows:

	December 31	
	2019	2018
Others	\$ 29,072	\$ 26,629
Related party in substance	<u>12,115</u>	<u>10,163</u>
	<u>\$ 41,187</u>	<u>\$ 36,792</u>

- 7) Other miscellaneous income (loss)

	For the Year Ended December 31			
	2019		2018	
	Other Operating Revenue	Building Management Cost	Other Operating Revenue	Building Management Cost
Others	\$ 139,131	\$ 126,447	\$ 136,649	\$ 120,937
Related party in substance	<u>40,014</u>	<u>9,927</u>	<u>36,988</u>	<u>10,496</u>
	<u>\$ 179,145</u>	<u>\$ 136,374</u>	<u>\$ 173,637</u>	<u>\$ 131,433</u>

- 8) Commission expense

	For the Year Ended December 31	
	2019	2018
Related party in substance		
Shin Kong Fire & Marine Insurance Company	\$ 2,702	\$ 1,735
Taishin International Bank Co., Ltd.	719,924	592,050
Hua Nan Commercial Bank Co., Ltd.	<u>292,490</u>	<u>259,843</u>
	<u>\$ 1,015,116</u>	<u>\$ 853,628</u>

- 9) Processing fee income

	For the Year Ended December 31	
	2019	2018
Related party in substance		
Shin Kong Fire & Marine Insurance Company	\$ 367,164	\$ 340,742
Hua Nan Investment Trust Co., Ltd.	-	5
Shin Soft Co., Ltd.	204	-
Taishin International Bank Co., Ltd.	239	-
Others	223	-
Others		
Taiwan-Soft Shin Kong Security Co., Ltd.	930	532
Shin Kong Mitsukoshi Department Store Co., Ltd.	8,460	8,458
Shin Kong Memorial Hospital	7,749	-
Others	<u>1,176</u>	<u>-</u>
	<u>\$ 386,145</u>	<u>\$ 349,737</u>

10) Processing fee expense

	For the Year Ended December 31	
	2019	2018
Related party in substance		
Shin Kong Fire & Marine Insurance Company	\$ 5,599	\$ 5,700
Taishin International Bank Co., Ltd.	55,154	47,741
Hua Nan Securities Co., Ltd.	30	79
Hua Nan Commercial Bank Co., Ltd.	16,115	831
Others		
Shin Kong Mitsukoshi Department Store Co., Ltd.	8,999	9,338
Yi Kong Building Management Service Co., Ltd.	<u>1,168</u>	<u>931</u>
	<u>\$ 87,065</u>	<u>\$ 64,620</u>

11) Operating expenses

a) Building management expense and cleaning fee

	For the Year Ended December 31	
	2019	2018
Others		
Yi Kong Building Management Service Co., Ltd.	\$ 3,967	\$ 4,033
The Great Taipei Gas Corp.	<u>27</u>	<u>27</u>
	<u>\$ 3,994</u>	<u>\$ 4,060</u>

b) Insurance expense

	For the Year Ended December 31	
	2019	2018
Related party in substance		
Shin Kong Fire & Marine Insurance Co., Ltd.	<u>\$ 47,094</u>	<u>\$ 50,848</u>

c) Postage expense

	For the Year Ended December 31	
	2019	2018
Related party in substance		
Taishin International Bank Co., Ltd.	\$ 36	\$ -
Others		
Great Taipei Broadband Co., Ltd.	41,383	41,016
Taiwan Security Co., Ltd.	<u>34</u>	<u>-</u>
	<u>\$ 41,453</u>	<u>\$ 41,016</u>

d) Professional service expense

	For the Year Ended December 31	
	2019	2018
Others		
Taiwan Shin Kong Security Co., Ltd.	\$ 93,585	\$ 115,476
Yi Kong Securities Co., Ltd.	37,804	8
Shin Kong Memorial Hospital	35	-
Others	2,423	2,315
Related party in substance		
Jaspervilla Co., Ltd.	63,726	48,356
Others	<u>157</u>	<u>118</u>
	<u>\$ 197,730</u>	<u>\$ 166,273</u>

e) Donation expense

	For the Year Ended December 31	
	2019	2018
Others		
Shin Kong Life Charity Foundation	\$ 22,000	\$ 6,000
Shin Kong Bank Cultural and Educational Foundation	5,000	-
Shin Kong Wu Ho-Su Memorial Hospital	40,000	-
Soochow University	<u>1,800</u>	<u>-</u>
	<u>\$ 68,800</u>	<u>\$ 6,000</u>

The Group donated \$10,000 thousand (paid in two years from 2019 to 2018, at \$5,000 thousand per year) and \$2,000 thousand; \$4,000 thousand, \$15,000 thousand (paid in 2019), and \$2,000 thousand to Shin Kong Life Charitable Foundation, which were approved by the Group's board of directors on December 20, 2019, and August 14, 2019; January 30, 2018, April 24, 2018, and July 4, 2018, respectively.

The Group donated \$5,000 thousand and \$3,000 thousand (recognized as prepaid expenses) to Shin Kong Bank Cultural and Educational Foundation, which were approved by the Group's board of directors on October 9, 2019 and November 21, 2018, respectively.

The Group donated \$40,000 thousand to Shin Kong Wu Ho-Su Memorial Hospital, which was approved by the Group's board of directors on September 20, 2019.

The Group donated \$5,400 thousand (paid in three years from 2019 to 2021, at \$1,800 thousand per year) to Soochow University, which was approved by the Group's board of directors on February 26, 2019.

g) Other expense

	For the Year Ended December 31	
	2019	2018
Others	\$ 87,181	\$ 34,331
Related party in substance	<u>6,670</u>	<u>770</u>
	<u>\$ 93,851</u>	<u>\$ 35,101</u>

12) Beneficiary certificates

	For the Year Ended December 31	
	2019	2018
Related party in substance		
Taishin Investment Trust Co., Ltd.	\$ 2,246,985	\$ 572,168
Hua Nan Investment Trust Co., Ltd.	1,011,150	141,872
Taishin International Bank Co., Ltd.	<u>-</u>	<u>449,755</u>
	<u>\$ 3,258,135</u>	<u>\$ 1,163,795</u>

The Group acquired and disposed of several mutual funds from Taishin Investment Trust Co., Ltd., Hua Nan Investment Trust Co., Ltd., and Taishin International Bank for the years ended December 31, 2019 and 2018; the mutual funds were as follows:

	For the Year Ended December 31	
	2019	2018
Buy	<u>\$ 4,014,110</u>	<u>\$ 6,378,000</u>
Sell	<u>\$ 1,582,060</u>	<u>\$ 5,650,748</u>

13) Bonds issued under repurchase agreements

	For the Year Ended December 31, 2019			
	Par Value	Trading Value	Ending Balance	Interest Income
Related party in substance				
Grand Fortune Securities Co., Ltd.	\$ 750,000	\$ 753,914	\$ -	\$ 8
Shin Kong Fire & Marine Insurance Co., Ltd.	1,988,500	2,207,841	-	477
Taishin Securities Co., Ltd.	<u>10,300,000</u>	<u>10,336,501</u>	<u>-</u>	<u>122</u>
	<u>\$ 13,038,500</u>	<u>\$ 13,298,256</u>	<u>\$ -</u>	<u>\$ 607</u>

	For the Year Ended December 31, 2018			
	Par Value	Trading Value	Ending Balance	Interest Income
Related party in substance				
Hua Nan Securities Co, Ltd.	\$ 300,000	\$ 301,108	\$ -	\$ 1
Grand Fortune Securities Co., Ltd.	400,000	399,938	-	2
Shin Kong Fire & Marine Insurance Co., Ltd.	<u>2,261,800</u>	<u>2,510,943</u>	<u>-</u>	<u>367</u>
	<u>\$ 2,961,800</u>	<u>\$ 3,211,989</u>	<u>\$ -</u>	<u>\$ 370</u>

14) Bonds purchased under resale agreements

	For the Year Ended December 31, 2019		
	Ending Balance	Interest Rate (%)	Interest Income
Related party in substance			
Taishin International Bank	\$ -	0.60	\$ 122
Grand Fortune Securities Co., Ltd.	-	0.30-0.35	1
Hua Nan Securities Co., Ltd.	-	0.35	-
Taishin Investment Trust Co., Ltd	<u>-</u>	0.15-0.45	<u>3</u>
	<u>\$ -</u>		<u>\$ 126</u>

	For the Year Ended December 31, 2018		
	Ending Balance	Interest Rate (%)	Interest Income
Related party in substance			
Taishin International Bank	\$ -	0.41-0.50	\$ 926
Grand Fortune Securities Co., Ltd.	-	1.00	5
Hua Nan Securities Co., Ltd.	<u>-</u>	0.63-1.00	<u>1</u>
	<u>\$ -</u>		<u>\$ 932</u>

15) Notes purchased under resale agreements

	For the Year Ended December 31, 2018		
	Ending Balance	Interest Rate (%)	Interest Income
Related party in substance			
Taishin International Bank	<u>\$ -</u>	0.38-0.40	<u>\$ 462</u>

16) Outright purchase

	For the Year Ended December 31			
	2019		2018	
	Par Value	Trading Value	Par Value	Trading Value
Related party in substance				
Taishin International Bank	\$ 4,600,000	\$ 4,800,844	\$ 5,150,000	\$ 5,189,131
Taishin Securities Co., Ltd	1,900,000	1,899,130	2,150,000	2,153,653
Grand Fortune Securities Co., Ltd.	750,000	748,361	1,000,000	999,991
Hua Nan Commercial Bank Co., Ltd.	950,000	948,825	2,150,000	2,153,653
Hua Nan Securities Co., Ltd.	<u>2,450,000</u>	<u>2,473,472</u>	<u>3,150,000</u>	<u>3,156,434</u>
	<u>\$ 10,650,000</u>	<u>\$ 10,870,632</u>	<u>\$ 13,600,000</u>	<u>\$ 13,652,862</u>

17) Outright sale

	For the Year Ended December 31			
	2019		2018	
	Par Value	Trading Value	Par Value	Trading Value
Related party in substance				
Grand Fortune Securities Co., Ltd	\$ 350,000	\$ 349,182	\$ 850,000	\$ 850,767
Taishin International Bank	7,750,000	8,047,897	5,950,000	6,101,947
Taishin Securities Co., Ltd	1,150,000	1,150,003	-	-
Shin Kong Fire & Marine Insurance Co., Ltd.	-	-	200,000	200,000
Hua Nan Commercial Bank Co., Ltd.	1,650,000	1,645,601	7,490,000	7,874,291
Hua Nan Securities Co., Ltd.	2,800,000	2,797,399	2,900,000	2,904,954
Shin Ming Industrial Co., Ltd.	150,000	150,000	-	-
Shin Pei Industrial Co., Ltd.	<u>60,000</u>	<u>60,000</u>	<u>-</u>	<u>-</u>
	<u>\$ 13,910,000</u>	<u>\$ 14,200,082</u>	<u>\$ 17,390,000</u>	<u>\$ 17,931,959</u>

18) Bond investment

The non-cumulative secondary financial debentures without maturity date issued by Taishin International Bank and held by the Group were \$450,000 thousand, which were due and repaid in 2019.

The non-cumulative secondary financial debentures without maturity date issued by Taishin International Bank and held by the Group were \$450,630 thousand as of December 31, 2018.

19) Securities processing fees and other expenses

	For the Year Ended December 31	
	2019	2018
Related party in substance		
Taishin Securities Co., Ltd.	\$ 1,542	\$ 4,192
Hua Nan Securities Co., Ltd.	<u>10,176</u>	<u>25,608</u>
	<u>\$ 11,718</u>	<u>\$ 29,800</u>

20) Securities lending

	For the Year Ended December 31			
	2019		2018	
	Lending	Borrowings	Lending	Borrowings
Related party in substance				
Hua Nan Securities Co., Ltd.	<u>\$ 1,020</u>	<u>\$ -</u>	<u>\$ 274</u>	<u>\$ -</u>

21) Derivative financial instruments trading

or the Year Ended December 31, 2018						
Name of Related Party	Name of Derivative Commodity Contract	Contract Period	Nominal Principal	Evaluation of Profit and Loss for Current Period	Balance at the End of the Period	
					Account	Amount
Others Shin Kong Synthetic Fiber Corp.	Forward foreign exchange contract	2018.06.22-2019.06.21	US\$444 thousand	(NT\$31 thousand)	Financial liabilities at fair value through profit or loss	(NT\$31 thousand)

22) Prepaid expenses

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Related party in substance		
Shin Kong Fire & Marine Insurance Co., Ltd.	\$ 137	\$ 150
Shin Kong Mitsukoshi Department Store Co., Ltd.	8,597	8,906
Taiwan-Sok Shin Kong Security Co., Ltd.	4,707	4,480
Others		
Shin Kong Bank Cultural and Educational Foundation	-	3,000
	<u>\$ 13,441</u>	<u>\$ 16,536</u>

23) Acquisition of property, plant and equipment

	<u>For the Year Ended December 31</u>	
	<u>2019</u>	<u>2018</u>
Related party in substance		
Taiwan-Sok Shin Kong Security Co., Ltd.	\$ 30,614	\$ 120,554
Shih Soft Co., Ltd.	8,394	538
	<u>\$ 39,008</u>	<u>\$ 121,092</u>

24) Loan guarantees provided by directors of SKFHC and TSKCB

	<u>For the Year Ended December 31, 2019</u>		
	<u>Loan Account</u>	<u>Highest Balance</u>	<u>Ending Balance</u>
Key management personnel			
Wu, Ben-Sen	ChaoBan Investment Co., Ltd.	\$ 442	\$ 325
Hung, Shin-chi	Ruey Fang Agriculture Co., Ltd.	21,600	-
Hung, Shin-chi	Sinpei Co., Ltd.	2,800	-
Hung, Shin-chi	Gentle Development Company	57,100	-
Hung, Shin-chi	Whu Shin Consulting Co.	201,900	-
Hung, Shin-chi	HongQi Co.	257,700	-
		<u>\$ 541,542</u>	<u>\$ 325</u>

For the Year Ended December 31, 2018

	Loan Account	Highest Balance	Ending Balance
Key management personnel			
Wu, Ben-Sen	ChaoBan Investment Co., Ltd.	\$ 548	\$ 442
Hung, Shin-chi	Ruey Fang Agriculture Co., Ltd.	24,100	21,100
Hung, Shin-chi	Sinpei Co., Ltd.	9,700	-
Hung, Shin-chi	Gentle Development Company	62,100	57,100
Hung, Shin-chi	Whu Shin Consulting Co.	261,800	201,900
Hung, Shin-chi	HongQi Co.	<u>257,700</u>	<u>257,700</u>
		<u>\$ 615,948</u>	<u>\$ 538,242</u>

The loan guarantees of the directors of SKFHC and TSKCB for TSKCB were made under arm's length basis.

25) Other trading

As of April 3, 2019, the board of directors of TSKCB approved the Bank's transfer of the syndicated loan from Tai Shin International Bank with credit line of \$600,000 thousand (the actual loan amount was \$481,178 thousand). The service fee of transfer was allocated by the contract term, and the transaction term with related parties did not significantly differ from those with ordinary customers.

c. Compensation of key management personnel

	For the Year Ended December 31	
	2019	2018
Short-term employee benefits	\$ 496,869	\$ 469,096
Post-employment benefits	8,059	7,508
Other long-term employee benefits	58,500	54,894
Share-based payment	<u>367</u>	<u>-</u>
	<u>\$ 563,795</u>	<u>\$ 531,498</u>

The remuneration of directors and key executives was determined with regard to the performance of individuals and market trends.

40. ASSETS PLEDGED AS COLLATERAL OR FOR SECURITY

Financial Statement Account	Pledged Assets	December 31	
		2019	2018
Financial assets at fair value through other comprehensive income (including guarantee deposits paid)	Government bonds	\$ 5,682,600	\$ 3,578,700
Financial assets at amortized cost (including guarantee deposits paid)	Government bonds	9,184,553	9,382,548
Property and equipment	Land and buildings	1,596,810	1,607,446
Investment properties	Land and buildings	179,553	180,232
Miscellaneous assets, others	Guarantee deposits	971,500	870,000
Miscellaneous assets, others	Restricted assets - time deposits and compensative deposits	1,337,749	1,350,917

41. SIGNIFICANT CONTINGENT LIABILITIES AND UNRECOGNIZED COMMITMENTS

- a. As of December 31, 2019, SKLIC had 18 open purchase contracts and construction contracts signed for investment properties; the contract price payables in the future were as follows:

	Amount
2020-2024	<u>\$ 4,398,251</u>

- b. As of December 31, 2019 and 2018, TSKCB had the following commitments and contingent liabilities:

	December 31	
	2019	2018
Guarantees	\$ 12,233,770	\$ 12,405,929
Letters of credit	2,308,079	3,632,076
Trust liabilities	147,669,280	147,744,880
Loan commitments (excluding credit card)	187,312,541	187,713,260
Loan commitments - credit card	1,993,492	2,067,850

- c. According to Article 17 of the implementation rules of Trust Law, TSKCB disclosed its balance sheet of trust account and asset items as follows:

Trust Balance Sheet December 31, 2019 and 2018					
Trust Assets	2019	2018	Trust Liabilities	2019	2018
Cash in banks	\$ 3,467,960	\$ 2,804,067	Securities under custody payable		
Short-term investments			Securities under custody payable	\$ 9,507,125	\$ 10,632,208
Mutual fund	65,323,404	64,090,257	Trust capital		
Bond investments	41,131,626	43,958,876	Trust by cash	110,040,604	110,845,847
Share investments	228,600	75,788	Trust by real estate	28,487,975	26,649,978
Securities under custody			Reserve and accumulated deficit		
Securities under custody	9,507,125	10,632,208	Accumulated (deficit) earnings	(3,128,753)	(2,880,547)
Real estate			Exchange losses	(18)	(9)
Land	26,555,030	22,853,952	Net income (loss)	<u>2,762,347</u>	<u>2,497,403</u>
Buildings	11,009	13,473			
Construction in process	<u>1,444,526</u>	<u>3,316,259</u>			
	<u>\$ 147,669,280</u>	<u>\$ 147,744,880</u>		<u>\$ 147,669,280</u>	<u>\$ 147,744,880</u>

Trust Account Income Statement
For the Years Ended December 31, 2019 and 2018

	2019	2018
Trust income		
Interest revenue	\$ 5,157	\$ 4,569
Dividend income from preference shares	2,563,638	2,416,245
Dividend income from ordinary shares	2,620	2,899
Gain on disposal of assets	1,334,214	1,335,038
Realized capital gain	<u>1,790,115</u>	<u>1,901,473</u>
	<u>5,695,744</u>	<u>5,660,224</u>
Trust expense		
Management fee	(78,020)	(92,976)
Processing expense	(442)	(595)
Loss on disposal of assets	(2,854,586)	(3,068,961)
Other expense	<u>(16)</u>	<u>(19)</u>
	<u>(2,933,064)</u>	<u>(3,162,551)</u>
Income before tax	2,762,680	2,497,673
Income tax expense	<u>(333)</u>	<u>(270)</u>
Net income	<u>\$ 2,762,347</u>	<u>\$ 2,497,403</u>

Trust Assets
December 31, 2019 and 2018

	2019	2018
Cash in banks	\$ 3,467,960	\$ 2,804,067
Short-term investments		
Mutual fund	65,323,404	64,090,257
Bond investments	41,131,626	43,958,876
Ordinary share investments	228,600	75,788
Securities under custody		
Securities under custody	9,507,125	10,632,208
Real estate		
Land	26,555,030	22,853,952
Buildings	11,009	13,473
Construction in process	<u>1,444,526</u>	<u>3,316,259</u>
	<u>\$ 147,669,280</u>	<u>\$ 147,744,880</u>

d. As of December 31, 2019, MLSC and its subsidiaries had the following commitments and contingent liabilities:

- 1) By December 31, 2019, MLSC issued a \$1,400,000 thousand guarantee notes to First Bank and a \$1,300,000 thousand guarantee notes to Taiwan Bank for short-term loan guarantee purposes. The notes are not included in the financial report since they are contingent liabilities.
- 2) By December 31, 2019, prepaid equipment expense of MLSC was \$101,893 thousand, and contract amounted to \$150,639 thousand in total.

- 3) On August 8, 2011, MasterLink Futures Co., Ltd. suffered an additional loss due to the closed position of an investor due to lack of security deposit. After reporting a breach of contract and getting back some of the money, the investor still owed MasterLink Futures Co., Ltd. more than \$89 million, which are all recognized as allowance for bad debts. In addition, the investor believed that the salesperson has leaked his transaction information to other investors and filed a criminal incidental civil notice, which is still in progress.
- 4) On June 14, 2019, the board of directors of MLSC approved the joint venture contract with Fujian Investment and Development Group Co., Ltd. and Pingtan Comprehensive Experimental Zone Financial Holding Group Co., Ltd., and the three parties jointly funded the establishment of Straits Securities Co., Ltd. (tentative). MLSC invested CNY588,000 thousand and held 49% of the shares. MLSC shall make an application to the FSC in accordance with relevant regulations when investing in the mainland. In consideration of the changes in the mainland laws and operating environment, the company adjusted its investment strategy. On January 13, 2020, the board of directors passed a resolution not to participate in the joint venture to establish Straits Securities Co., Ltd.

42. MAJOR SUBSEQUENT EVENTS

On January 22, 2020, SKSC obtained a letter of approval for the liquidation from the court. However, the company should be considered as liquidated only when it has completed “legal liquidation”, instead of the approval letter from the court.

43. INFORMATION ON BUSINESS SEGMENTS

2019

Item \ Segment	Insurance	Security	Banking	Others	Combined
Net interest income (expense)	\$ 92,449,141	\$ 868,850	\$ 11,893,745	\$ (9,965)	\$ 105,201,771
Net income and gains other than interest income	163,903,638	4,360,364	3,046,328	528,180	171,838,510
Profit from operations	256,352,779	5,229,214	14,940,073	518,215	277,040,281
Net changes in insurance liability reserves	(234,264,063)	-	-	-	(234,264,063)
Bad debt expense	839,075	(2,741)	(1,313,086)	-	(476,752)
Operating expenses	(13,820,240)	(3,609,618)	(8,488,071)	(1,091,101)	(27,009,030)
Consolidated income (loss) before income tax	9,107,551	1,616,855	5,138,916	(572,886)	15,290,436
Income tax (expense) benefit	2,089,485	(130,130)	(1,168,433)	548,936	1,339,858
Consolidated net income (loss)	11,197,036	1,486,725	3,970,483	(23,950)	16,630,294

2018

Item \ Segment	Insurance	Security	Banking	Others	Combined
Net interest income (expense)	\$ 84,400,322	\$ 1,011,060	\$ 12,038,688	\$ 2,995	\$ 97,453,065
Net income and gains other than interest income	148,940,920	3,247,657	2,764,659	453,390	155,406,626
Profit from operations	233,341,242	4,258,717	14,803,347	456,385	252,859,691
Net changes in insurance liability reserves	(214,575,601)	-	-	-	(214,575,601)
Bad debt expense	6,805	(76,547)	(1,482,258)	-	(1,552,000)
Operating expenses	(13,430,656)	(3,325,850)	(8,030,714)	(910,154)	(25,697,374)
Consolidated income (loss) before income tax	5,341,790	856,320	5,290,375	(453,769)	11,034,716
Income tax (expense) benefit	1,139,694	(41,493)	(1,019,524)	(634,798)	(556,121)
Consolidated net income (loss)	6,481,484	814,827	4,270,851	(1,088,567)	10,478,595

Note: The transactions between SKFHC and its subsidiaries were eliminated from the above table.

44. FINANCIAL STATEMENTS OF SHIN KONG FINANCIAL HOLDING CO., LTD. AND CONDENSED FINANCIAL STATEMENTS OF SUBSIDIARIES

a. Financial statements of the Company

Shin Kong Financial Holding Co., Ltd.

Balance Sheets
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)

ASSETS	2019	2018	LIABILITIES AND EQUITY	2019	2018
CASH AND CASH EQUIVALENTS	\$ 4,878,314	\$ 4,120,076	FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS	\$ 17,200	\$ 41,561
CURRENT TAX ASSETS	1,296,305	2,303,000	ACCRUED EXPENSE	212,513	174,099
OTHER FINANCIAL ASSETS	3,568	3,871	OTHER PAYABLES	5,107,976	4,962,415
INVESTMENT ACCOUNTED FOR USING THE EQUITY METHOD	207,477,251	155,693,756	BONDS PAYABLE	14,262,247	14,197,196
PROPERTY AND EQUIPMENT, NET	7,407	7,527	LEASE LIABILITIES	17,701	-
RIGHT-OF-USE ASSETS	17,609	-	OTHER LIABILITIES	<u>57,266</u>	<u>76,594</u>
INTANGIBLE ASSETS, NET	54	373	Total liabilities	<u>19,674,903</u>	<u>19,451,865</u>
OTHER ASSETS	<u>889,503</u>	<u>1,529,822</u>	EQUITY		
			Ordinary shares	126,003,941	121,855,057
			Preferred shares	750,000	-
			Capital collected in advance	-	748,884
			Capital surplus	13,655,226	13,935,322
			Retained earnings		
			Legal reserve		
			Special reserve	4,845,115	5,517,796
			Unappropriated retained earnings	21,154,359	21,154,359
			Other equity	16,852,797	(672,681)
			Exchange difference on translating foreign operations		
			Unrealized losses on available-for-sale financial assets		
			Unrealized gain on investments in equity instruments at fair value	(38,013)	77,887
			through other comprehensive income	7,252,609	108,835
			Unrealized loss on investments in debt instruments at fair value	2,070,714	(3,060,523)
			through other comprehensive income	2,750,206	(15,056,530)
			Equity directly related to assets classified as held for sale	<u>(401,846)</u>	<u>(401,846)</u>
			Other comprehensive income reclassified using the overlay approach		
			Treasury shares		
			Total equity	<u>194,895,108</u>	<u>144,206,560</u>
TOTAL	<u>\$ 214,570,011</u>	<u>\$ 163,658,425</u>	TOTAL	<u>\$ 214,570,011</u>	<u>\$ 163,658,425</u>

Shin Kong Financial Holding Co., Ltd.

Statements of Income
For the Years Ended December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)

	2019	2018
REVENUE		
Share of subsidiaries	\$ 16,423,099	\$ 10,756,791
Other income	<u>65,600</u>	<u>54,857</u>
Total revenue	<u>16,488,699</u>	<u>10,811,648</u>
EXPENSES AND LOSSES		
Operating expenses	(377,139)	(334,237)
Interest expense	(170,459)	(166,939)
Other expenses and losses	<u>(13)</u>	<u>(6,324)</u>
Total expenses and losses	<u>(547,611)</u>	<u>(507,500)</u>
INCOME BEFORE TAX	15,941,088	10,304,148
INCOME TAX BENEFIT (EXPENSE)	<u>621,049</u>	<u>(550,357)</u>
NET INCOME	<u>16,562,137</u>	<u>9,753,791</u>
OTHER COMPREHENSIVE INCOME		
Share of other comprehensive income of subsidiaries	<u>30,256,507</u>	<u>(46,022,088)</u>
TOTAL COMPREHENSIVE INCOME	<u>\$ 46,818,644</u>	<u>\$ (36,268,297)</u>
EARNINGS PER SHARE		
Basic	<u>\$1.34</u>	<u>\$0.89</u>
Diluted	<u>\$1.28</u>	<u>\$0.85</u>

Shin Kong Financial Holding Co., Ltd.
 Statements of Changes in Equity
 For the Years Ended December 31, 2019 and 2018
 (In Thousands of New Taiwan Dollars)

	Share Capital Ordinary Shares	Preferred Shares	Capital Collected in Advance	Capital Surplus	Retained Earnings			Other Equity					Total	
					Legal Reserve	Special Reserve	Unappropriated Earnings	Exchange Differences on Translating Foreign Operations	Unrealized Losses on Available-for-sale Financial Assets	Unrealized Gain on Financial Assets at Fair Value Through Other Comprehensive Income	Equity Related to Assets Classified as Held for Sale	Other Comprehensive Income on Reclassification of Overlay Approach		Treasury Shares
BALANCE, DECEMBER 31, 2017	\$ 102,281,441	\$ -	\$ 137,586	\$ 10,033,789	\$ 4,464,679	\$ 27,217,124	\$ 10,441,856	\$ 69,907	\$ (12,852,496)	\$ -	\$ -	\$ -	\$ (483,387)	\$ 141,310,499
Effect of retrospective application on IFRS 9	-	-	-	-	-	-	(4,550,099)	-	12,852,496	5,878,655	-	5,400,103	-	19,581,155
BALANCE, JANUARY 1, 2018 AS RESTATED	102,281,441	-	137,586	10,033,789	4,464,679	27,217,124	5,891,757	69,907	-	5,878,655	-	5,400,103	(483,387)	160,891,654
Special reserve reversed under Rule No. 1010012865 issued by the FSC	-	-	-	-	-	(6,062,765)	6,062,765	-	-	-	-	-	-	-
Buy-back of treasury shares and transferred to employees	-	-	-	(19,921)	-	-	-	-	-	-	-	-	483,387	463,466
Equity component of convertible bonds issued by the Company	-	-	-	221,000	-	-	-	-	-	-	-	-	-	221,000
Convertible bonds converted to ordinary shares	7,359,280	-	611,298	(851,658)	-	-	-	-	-	-	-	-	-	7,118,920
Appropriation of 2017 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve	-	-	-	-	1,053,117	-	(1,053,117)	-	-	-	-	-	-	-
Cash dividends distributed by the Company	-	-	-	-	-	-	(3,679,429)	-	-	-	-	-	-	(3,679,429)
Share dividends distributed by the Company	1,576,898	-	-	-	-	-	(1,576,898)	-	-	-	-	-	-	-
Buy-back of treasury shares by the subsidiaries	-	-	-	(34,659)	-	-	-	164	-	(1,797)	-	-	-	(36,292)
Subsidiaries transferred treasury shares to employees	-	-	-	3,408	-	-	-	-	-	-	-	-	-	3,408
Buy-back of treasury shares by the Company	-	-	-	-	-	-	-	-	-	-	-	-	(174,053)	(174,053)
Changes in percentage of ownership interests in subsidiaries	10,637,438	-	-	4,583,363	-	-	-	(43,446)	-	651,798	-	-	(227,793)	15,601,360
Net income for the year ended December 31, 2018	-	-	-	-	-	-	9,753,791	-	-	-	-	-	-	9,753,791
Other comprehensive income (loss) for the year ended December 31, 2018, net of income tax	-	-	-	-	-	-	(82,715)	55,839	-	(25,538,579)	-	(20,456,633)	-	(46,022,088)
Total comprehensive income (loss) for the year ended December 31, 2018	-	-	-	-	-	-	9,671,076	55,839	-	(25,538,579)	-	(20,456,633)	-	(36,268,297)
Loss on disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	(16,059,788)	-	-	16,059,788	-	-	-	-
Gain on disposal of investment in equity instrument designated as at fair value through other comprehensive income from participating policy transfer in special reserve	-	-	-	-	-	-	70,953	-	-	-	-	-	-	70,953
Joint ventures accounted for using the equity method reclassified to equity directly related to assets classified as held for sale	-	-	-	-	-	-	-	(4,577)	-	(1,553)	6,130	-	-	-
Loss on disposal of investments accounted for using the equity method	-	-	-	-	-	-	-	-	-	-	(6,130)	-	-	(6,130)
BALANCE AT DECEMBER 31, 2018	121,855,057	-	748,884	13,935,322	5,517,796	21,154,359	(672,681)	77,887	-	(2,951,688)	-	(15,056,530)	(401,846)	144,206,560
Appropriation of 2018 earnings	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal reserve used to offset accumulated deficits	-	-	-	-	(672,681)	-	672,681	-	-	-	-	-	-	-
Cash dividends from capital surplus	-	-	-	(2,445,185)	-	-	-	-	-	-	-	-	-	(2,445,185)
Issue of shares	3,400,000	750,000	-	2,126,862	-	-	-	-	-	-	-	-	-	6,276,862
Convertible bonds converted to ordinary shares	748,884	-	(748,884)	-	-	-	-	-	-	-	-	-	-	-
Share-based payment	-	-	-	38,227	-	-	-	-	-	-	-	-	-	38,227
Net income for the year ended December 31, 2019	-	-	-	-	-	-	16,562,137	-	-	-	-	-	-	16,562,137
Other comprehensive income (loss) for the year ended December 31, 2019, net of income tax	-	-	-	-	-	-	155,059	(115,900)	-	12,410,612	-	17,806,736	-	30,256,507
Total comprehensive income (loss) for the year ended December 31, 2019	-	-	-	-	-	-	16,717,196	(115,900)	-	12,410,612	-	17,806,736	-	46,818,644
Gain on disposal of investments in equity instruments designated as at fair value through other comprehensive income	-	-	-	-	-	-	135,601	-	-	(135,601)	-	-	-	-
BALANCE AT DECEMBER 31, 2019	\$ 126,003,941	\$ 750,000	\$ -	\$ 13,655,226	\$ 4,845,115	\$ 21,154,359	\$ 16,852,797	\$ (38,013)	\$ -	\$ 9,323,323	\$ -	\$ 2,750,206	\$ (401,846)	\$ 194,895,108

Shin Kong Financial Holding Co., Ltd.

Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	\$ 15,941,088	\$ 10,304,148
Depreciation expenses and amortization expense	18,798	3,799
Gain on financial assets and liabilities at fair value through profit or loss	(24,361)	(309)
Compensation cost of share-based payments	249	-
Share of profit of subsidiaries	(16,423,099)	(10,756,791)
Gain on disposal of property and equipment	(940)	-
Interest income	(27,585)	(31,636)
Interest expense	170,459	166,939
Net changes in operating assets and liabilities		
Other assets	1,341,241	(50,618)
Accrued expenses	38,669	27,493
Other payables	109,325	(28,994)
Other liabilities	(92)	1,579
Cash used in operations	1,143,752	(364,390)
Interests received	27,888	32,382
Dividends received	1,213,000	712,171
Interests paid	(105,408)	(111,386)
Income tax (received) paid	<u>963,058</u>	<u>(493,980)</u>
Net cash provided (used in) by operating activities	<u>3,242,290</u>	<u>(225,203)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from capital reduction of investments accounted for using equity method	1,853	-
Acquisitions of investments in equity method	(6,300,000)	(3,000,000)
Proceeds from disposal of property and equipment	2,524	-
Acquisitions of property and equipment	<u>(3,968)</u>	<u>(1,380)</u>
Net cash used in investing activities	<u>(6,299,591)</u>	<u>(3,001,380)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from issue of bonds	-	5,000,000
Purchase of treasury shares by employees	-	463,466
Payment to cash dividends	(2,445,185)	(3,679,429)
Decrease in short-term loans	-	(20,000)
Payments of lease liabilities	(16,138)	-
Proceeds from issuing shares	6,276,862	-
Cost of treasury shares buyback	<u>-</u>	<u>(174,053)</u>
Net cash provided by financing activities	<u>3,815,539</u>	<u>1,589,984</u>

(Continued)

	2019	2018
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	\$ 758,238	\$ (1,636,599)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>4,120,076</u>	<u>5,756,675</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 4,878,314</u>	<u>\$ 4,120,076</u>

(Concluded)

b. Condensed balance sheets and statements of comprehensive income of subsidiaries

1) Condensed balance sheets:

Shin Kong Life Insurance Company
Condensed Consolidated Balance Sheets
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)

<u>Assets</u>	2019	2018	<u>Liabilities</u>	2019	2018
Cash and cash equivalents	\$ 227,242,806	\$ 56,746,986	Payables	\$ 9,765,874	\$ 11,922,603
Accounts receivable	28,120,832	29,258,848	Current tax liabilities	20,782	44,368
Current tax assets	5,016,969	4,926,442	Financial liabilities	162,057	27,646,870
Assets held for sale	-	37,976	Lease liabilities	4,852,023	-
Investments	2,622,573,892	2,511,667,368	Reserves	74,877	470,149
Reinsurance assets	866,525	1,096,943	Deferred tax liabilities	4,733,228	3,293,954
Right-of-use assets	2,098,327	-	Insurance liabilities	2,766,166,323	2,546,414,146
Property and equipment	20,816,692	19,830,484	Provisions for insurance contracts with the nature of financial instruments	103	-
Intangible assets	374,234	331,502	Other liabilities	35,824,297	6,143,747
Deferred tax assets	16,491,169	18,022,734	Liabilities on insurance products - separate-account	<u>41,833,811</u>	<u>41,300,877</u>
Other assets	12,817,480	24,216,939	Total liabilities	<u>2,863,433,375</u>	<u>2,637,236,714</u>
Assets on insurance products - separate-accounts	<u>41,833,811</u>	<u>41,300,877</u>			
			<u>Equity</u>		
			Ordinary shares	60,536,582	57,975,606
			Capital surplus	3,875,900	21,075,224
			Retained earnings	40,657,582	10,213,914
			Other equity	9,347,546	(19,473,519)
			Non-controlling interests	<u>401,752</u>	<u>409,160</u>
			Total equity	<u>114,819,362</u>	<u>70,200,385</u>
Total	<u>\$ 2,978,252,737</u>	<u>\$ 2,707,437,099</u>	Total	<u>\$ 2,978,252,737</u>	<u>\$ 2,707,437,099</u>

Shin Kong Securities Co., Ltd.

**Condensed Balance Sheets
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018		2019	2018
<u>Assets</u>			<u>Liabilities</u>		
Current assets	\$ 77,176	\$ 77,176	Payment to be distributed	\$ 77,298	\$ 77,298
Other assets	<u>122</u>	<u>122</u>			
			<u>Equity</u>		
			Ordinary shares	-	-
			Capital surplus	-	-
			Retained earnings	-	-
			Total equity	<u>-</u>	<u>-</u>
Total	<u>\$ 77,298</u>	<u>\$ 77,298</u>	Total	<u>\$ 77,298</u>	<u>\$ 77,298</u>

Taiwan Shin Kong Commercial Bank Co., Ltd.

**Condensed Consolidated Balance Sheets
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018		2019	2018
<u>Assets</u>			<u>Liabilities</u>		
Cash and cash equivalents	\$ 13,830,782	\$ 17,015,533	Due to Central Bank and other banks	\$ 8,493,819	\$ 8,705,068
Due from Central Bank of China and other banks	51,801,518	38,818,698	Financial liabilities at fair value through profit or loss	1,316,824	1,075,064
Financial assets at fair value through profit or loss	95,186,626	97,770,157	Notes and bonds issued under repurchase agreements	605,125	3,509,187
Financial assets at fair value through other comprehensive income	116,924,827	88,498,722	Accounts payable	10,460,292	21,443,533
Investments in debt instruments at amortized cost	33,379,766	33,488,967	Current tax liabilities	832,989	1,458,130
Accounts receivable	17,474,609	25,961,627	Deposits and remittances	815,013,097	741,670,429
Loans, net	597,428,365	559,020,972	Debentures payable	22,500,000	21,500,000
Current tax assets	68	1,745	Miscellaneous financial liabilities	8,737,354	10,347,224
Miscellaneous financial assets	-	19,741	Lease liabilities	3,783,464	-
Property and equipment	5,804,645	5,819,822	Other liabilities	2,976,946	1,829,354
Right-of-use assets	3,720,311	-	Total liabilities	<u>874,719,910</u>	<u>811,537,989</u>
Investment properties	744,998	785,373			
Intangible assets	1,538,457	1,504,963	<u>Equity</u>		
Deferred tax assets			Ordinary shares	44,216,869	41,119,415
Other assets	576,292	739,629	Capital surplus	1,712,366	1,703,165
	<u>1,430,350</u>	<u>1,626,435</u>	Retained earnings	17,876,860	15,906,040
			Other equity	1,315,609	805,775
			Total equity	<u>65,121,704</u>	<u>59,534,395</u>
Total	<u>\$ 939,841,614</u>	<u>\$ 871,072,384</u>	Total	<u>\$ 939,841,614</u>	<u>\$ 871,072,384</u>

Shin Kong Insurance Brokerage Co., Ltd.

**Condensed Balance Sheets
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018		2019	2018
<u>Assets</u>			<u>Liabilities</u>		
Current assets	\$ -	\$ 1,895	Current liabilities	\$ -	\$ 2,042
Other assets	<u>-</u>	<u>2,000</u>			
			<u>Equity</u>		
			Ordinary shares	-	-
			Unappropriated retained earnings	<u>-</u>	<u>1,853</u>
			Total equity	<u>-</u>	<u>1,853</u>
Total	<u>\$ -</u>	<u>\$ 3,895</u>	Total	<u>\$ -</u>	<u>\$ 3,895</u>

Note: On July 24, 2019, the liquidation process of TSKIBC was completed.

Shin Kong Investment Trust Co., Ltd.

**Condensed Balance Sheets
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018		2019	2018
<u>Assets</u>			<u>Liabilities</u>		
Current assets	\$ 635,577	\$ 579,430	Total liabilities	\$ 147,883	\$ 73,087
Property and equipment	1,678	2,922			
Right-of-use assets	47,845	-	<u>Equity</u>		
Intangible assets	12,697	7,072	Ordinary shares	400,000	400,000
Other assets	<u>114,414</u>	<u>116,828</u>	Capital surplus	123,316	123,083
			Retained earnings	141,555	110,572
			Other equity	<u>(543)</u>	<u>(490)</u>
			Total equity	<u>664,328</u>	<u>633,165</u>
Total	<u>\$ 812,211</u>	<u>\$ 706,252</u>	Total	<u>\$ 812,211</u>	<u>\$ 706,252</u>

MasterLink Securities Co., Ltd.

**Condensed Consolidated Balance Sheets
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018		2019	2018
<u>Assets</u>			<u>Liabilities</u>		
Current assets	\$ 96,903,488	\$ 93,615,608	Current liabilities	\$ 79,356,954	\$ 76,870,142
Non-current assets	<u>7,456,858</u>	<u>6,332,740</u>	Other liabilities	<u>576,915</u>	<u>213,643</u>
			Total liabilities	<u>79,933,869</u>	<u>77,083,785</u>
			<u>Equity</u>		
			Ordinary shares	16,096,099	15,996,099
			Capital surplus	42,358	38,284
			Retained earnings	7,043,618	6,257,401
			Other equity	1,472,195	800,572
			Treasury shares	<u>(227,793)</u>	<u>(227,793)</u>
			Total equity	<u>24,426,477</u>	<u>22,864,563</u>
Total	<u>\$ 104,360,346</u>	<u>\$ 99,948,348</u>	Total	<u>\$ 104,360,346</u>	<u>\$ 99,948,348</u>

Shin Kong Venture Capital International Co., Ltd.

**Condensed Balance Sheets
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018		2019	2018
<u>Assets</u>			<u>Liabilities</u>		
Current assets	\$ 279,067	\$ 66,113	Total liabilities	\$ <u>7,512</u>	\$ <u>6,173</u>
Investments accounted for using the equity method	850,550	890,291			
Other assets	<u>374,784</u>	<u>619,081</u>	<u>Equity</u>		
			Ordinary shares	1,550,000	1,550,000
			Capital surplus	35	-
			Retained earnings	43,280	79,118
			Other equity	<u>(96,426)</u>	<u>(59,806)</u>
			Total equity	<u>1,496,889</u>	<u>1,569,312</u>
Total	<u>\$ 1,504,401</u>	<u>\$ 1,575,485</u>	Total	<u>\$ 1,504,401</u>	<u>\$ 1,575,485</u>

Shin Kong Property Insurance Agency Co., Ltd.

**Condensed Balance Sheets
December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018		2019	2018
<u>Assets</u>			<u>Liabilities</u>		
Current assets	\$ 166,871	\$ 137,684	Total liabilities	\$ 78,450	\$ 56,099
Property and equipment	315	347			
Intangible assets	103	135	<u>Equity</u>		
Other assets	<u>5,580</u>	<u>2,238</u>	Ordinary shares	10,000	10,000
			Capital surplus	40	-
			Legal reserve	12,355	12,355
			Unappropriated retained earnings	<u>72,024</u>	<u>61,950</u>
			Total equity	<u>94,419</u>	<u>84,305</u>
Total	<u>\$ 172,869</u>	<u>\$ 140,404</u>	Total	<u>\$ 172,869</u>	<u>\$ 140,404</u>

2) Condensed statements of operations of subsidiaries

Shin Kong Life Insurance Company

**Condensed Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2019	2018
Operating revenue	\$ 436,105,042	\$ 405,394,347
Operating costs	(413,225,905)	(385,692,845)
Operating expenses	<u>(15,824,493)</u>	<u>(15,118,528)</u>
Operating income	7,054,644	4,582,974
Net non-operating income and expense	<u>149,219</u>	<u>(415,747)</u>
Income before income tax	7,203,863	4,167,227
Income tax benefit	<u>2,042,872</u>	<u>1,096,009</u>
Net income	9,246,735	5,263,236
Other comprehensive income (loss)	<u>29,117,811</u>	<u>(45,575,930)</u>
Total comprehensive income (loss)	<u>\$ 38,364,546</u>	<u>\$ (40,312,694)</u>
Earnings per share		
Basic	<u>\$1.57</u>	<u>\$0.90</u>

Shin Kong Securities Co., Ltd.

**Condensed Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars)**

	2019	2018
Net income	\$ -	\$ -
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income	<u>\$ -</u>	<u>\$ -</u>

Taiwan Shin Kong Commercial Bank Co., Ltd.

**Condensed Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2019	2018
Net interest income	\$ 11,720,316	\$ 11,824,201
Net income and gains other than interest income	<u>4,885,318</u>	<u>4,288,107</u>
Profit from operations	16,605,634	16,112,308
Provision for bad-debt expenses	(1,313,087)	(1,482,258)
Operating expenses	<u>(8,600,677)</u>	<u>(8,395,123)</u>
Income before income tax	6,691,870	6,234,927
Income tax expense	<u>(1,168,433)</u>	<u>(1,019,524)</u>
Net income	5,523,437	5,215,403
Other comprehensive income (loss)	<u>554,671</u>	<u>(340,750)</u>
Total comprehensive income	<u>\$ 6,078,108</u>	<u>\$ 4,874,653</u>
Earnings per share		
Basic	<u>\$1.25</u>	<u>\$1.23</u>

Shin Kong Insurance Brokerage Co., Ltd.

**Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars, Except Loss Per Share)**

	2019	2018
Net income	\$ -	\$ -
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive loss	<u>\$ -</u>	<u>\$ -</u>

Shin Kong Investment Trust Co., Ltd.

**Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2019	2018
Operating revenue	\$ 281,348	\$ 240,328
Operating expenses	<u>(242,460)</u>	<u>(211,440)</u>
Operating income	38,888	28,888
Non-operating income and expense	<u>7,627</u>	<u>(3,385)</u>
Income before tax	46,515	25,503
Income tax expense	<u>(2,060)</u>	<u>(6,457)</u>
Net income	44,455	19,046
Other comprehensive loss	<u>(527)</u>	<u>(1,257)</u>
 Total comprehensive income	 <u>\$ 43,928</u>	 <u>\$ 17,789</u>
 Earnings per share		
Basic	<u>\$ 1.11</u>	<u>\$ 0.48</u>

MasterLink Securities Co., Ltd.

**Condensed Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2019	2018
Revenue	\$ 6,020,254	\$ 5,084,587
Cost	<u>(4,689,648)</u>	<u>(4,372,001)</u>
Operating income	1,330,606	712,586
Other income and losses	<u>341,790</u>	<u>159,630</u>
Net income before tax	1,672,396	872,216
Income tax expense	<u>(130,130)</u>	<u>(41,493)</u>
Net income	1,542,266	830,723
Other comprehensive loss	<u>615,574</u>	<u>155,779</u>
 Total comprehensive income	 <u>\$ 2,157,840</u>	 <u>\$ 986,502</u>
 Earnings per share		
Basic	<u>\$ 0.97</u>	<u>\$ 0.52</u>

Shin Kong Venture Capital International Co., Ltd.

**Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2019	2018
Revenue	\$ 36,033	\$ 76,448
Costs	<u>(18,892)</u>	<u>(9,177)</u>
Net income before tax	17,141	67,271
Income tax expense	<u>(2,978)</u>	<u>(3,654)</u>
Net income	14,163	63,617
Other comprehensive loss	<u>(36,622)</u>	<u>(17,801)</u>
Total comprehensive (loss) income	<u>\$ (22,459)</u>	<u>\$ 45,816</u>
Earnings per share		
Basic	<u>\$ 0.09</u>	<u>\$ 0.41</u>

Shin Kong Property Insurance Agency Co., Ltd.

**Condensed Statements of Comprehensive Income
For the Years Ended December 31, 2019 and 2018
(In Thousands of New Taiwan Dollars, Except Earnings Per Share)**

	2019	2018
Operating revenue	\$ 367,154	\$ 340,742
Operating costs and expenses	<u>(293,058)</u>	<u>(269,623)</u>
Operating income	74,096	71,119
Non-operating income	<u>183</u>	<u>124</u>
Net income before tax	74,279	71,243
Income tax expense	<u>(15,205)</u>	<u>(14,258)</u>
Net income	59,074	56,985
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income	<u>\$ 59,074</u>	<u>\$ 56,985</u>
Earnings per share		
Basic	<u>\$ 59.07</u>	<u>\$ 56.99</u>

The above condensed (consolidated) balance sheets and statements of comprehensive income of subsidiaries were audited by auditors in accordance with auditing standards generally accepted in the ROC.

3) Allocation of revenue, costs, expenses resulting from intercompany sharing of resources:

To benefit from economies of scale and multiple product selling operations, TSKCB and MLSC planned and processed the use of SKLIC's service centers and business equipment by the Group. So far, Taipei and Ban Qiao service centers were formally approved to carry on business. The rentals paid by TSKCB and MLSC to SKLIC for the years ended December 31, 2019 and 2018 were \$262,536 thousand and \$263,791 thousand; \$33,850 thousand and \$33,326 thousand, respectively.

SKLIC share common trading platform with MLSC to trade securities and bonds. The processing fees and terms of payment for both related and third parties are similar. Processing fees paid by SKLIC to MLSC for the years ended December 31, 2019 and 2018 were \$53,067 thousand and \$94,957 thousand, respectively.

4) Share swap agreement with MLSC

To benefit from the comprehensive operation of financial institutions and strengthen competitiveness, the board of directors of the Company approved the share swap agreement with MLSC, and the contract was signed in April 2018. SKFHC issued the ordinary shares to all the shareholders of MLSC to obtain the issued shares of MLSC instead of the ordinary shares held by the Company, so that MLSC became a 100%-owned subsidiary. The share conversion consideration is the exchange of 0.96 ordinary shares of the Company for each ordinary share of MLSC; the conversion ratio was due to the conversion of domestic unsecured convertible bonds issued by the Company into ordinary shares before the completion date, the share exchange ratio was adjusted in accordance with the share conversion contract, and the board of directors of the Company approved the adjustment from 0.96 shares to 0.989 shares on September 3, 2018. The agreement was approved by the board of directors of both companies on June 8, 2018, and in order not to violate the prohibition of the business combination by the Fair Trade Commission on August 1, 2018, the approval from the Financial Supervision and Administration Commission was obtained on October 1, 2018. The Company and MLSC agreed that the completion date of the share swap was on October 1, 2018.

5) Capital adequacy information specified in the Regulations Governing the Preparation of Financial Statements by Financial Holding Companies:

a) SKFHC's group capital adequacy ratio as of December 31, 2019:

Unit: In Thousands of New Taiwan Dollars; %

Company	Item	% Owned by SKFHC	Qualified Capital	Statutory Capital
Financial holding company			\$ 194,895,054	\$ 208,395,338
Banking subsidiary		100	85,490,228	62,285,634
Bills finance subsidiary		-	-	-
Security subsidiary		100	18,239,265	7,355,823
Insurance subsidiary		100	160,234,589	145,163,540
Trust subsidiary		-	-	-
Futures subsidiary		-	-	-
Venture capital subsidiary		100	1,496,889	752,201
Others			758,747	479,603
Deduction			220,016,608	207,477,251
Total			(A) 241,098,164	(B) 216,954,888
Group capital adequacy ratio (C)=(A)÷(B)				(C) 111.13%

b) SKFHC's eligible capital as of December 31, 2019:

Unit: In Thousands of New Taiwan Dollars

Items		Amount
Ordinary shares		\$ 126,003,941
Ordinary shares advance receipt		-
Capital surplus		13,655,226
Legal reserve		4,845,115
Special reserve		21,154,359
Accumulated earnings		16,852,797
Equity adjustments		12,035,516
Preference shares	According to Tier 1 capital rules and quota	750,000
	Other preference shares	-
Subordinated debt	According to Tier 1 capital rules and quota	-
	Other subordinated debt	-
Less goodwill		54
Less deferred assets		-
Less treasury shares		401,846
Total eligible capital		194,895,054

45. ASSET QUALITY OF TSKCB - NONPERFORMING LOAN AND OVERDUE ACCOUNTS

a. Asset quality

Item		December 31, 2019					
		Nonperforming Loans (Note 1)	Total Loan	NPL Ratio (Note 2)	Loan Loss Reserve	Coverage Ratio (Note 3)	
Business finance	Secured	258,989	141,671,964	0.18%	1,448,470	559.28%	
	Unsecured	82,095	134,120,994	0.06%	1,475,597	1797.42%	
Consumer finance	Mortgage (Note)	169,678	145,041,289	0.12%	2,258,573	1331.09%	
	Cash card	-	853	-	670	-	
	Micro credit (Note)	146,640	36,141,872	0.41%	761,361	519.20%	
	Other (Note)	Secured	516,468	146,727,445	0.35%	1,590,129	307.89%
		Unsecured	16,095	1,169,834	1.38%	33,329	207.08%
Loans		1,189,965	604,874,251	0.20%	7,568,129	636.00%	

Item		December 31, 2018					
		Nonperforming Loans (Note 1)	Total Loan	NPL Ratio (Note 2)	Loan Loss Reserve	Coverage Ratio (Note 3)	
Business finance	Secured	\$ 465,410	\$ 127,275,017	0.37%	\$ 1,390,008	298.66%	
	Unsecured	77,177	129,145,119	0.06%	1,614,519	2,091.96%	
Consumer finance	Mortgage (Note)	153,788	134,263,011	0.11%	2,080,573	1,352.88%	
	Cash card	-	1,300	-	938	-	
	Micro credit (Note)	140,469	35,754,899	0.39%	682,743	486.05%	
	Other (Note)	Secured	433,469	138,587,200	0.31%	1,506,868	347.63%
		Unsecured	9,550	1,133,618	0.84%	21,516	225.30%
Loans		1,279,863	566,160,164	0.23%	7,297,165	570.15%	

Items		December 31, 2019				
		Overdue Receivable	Accounts Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio
Credit card		17,329	8,573,364	0.20%	96,772	558.15%
Accounts receivable without recourse (Note 7)		-	552,931	-	11,612	-

Items		December 31, 2018				
		Overdue Receivable	Accounts Receivable	Delinquency Ratio	Allowance for Credit Losses	Coverage Ratio
Credit card		\$ 18,381	7,878,359	0.23%	120,682	656.56%
Accounts receivable without recourse (Note 7)		-	409,101	-	11,854	-

Non-reportable overdue loans and receivable

	December 31, 2019		December 31, 2018	
	Non-reportable NPL Balance	Non-reportable Overdue Receivable Balance	Non-reportable NPL Balance	Non-reportable Overdue Receivable Balance
Non-reportable amount upon performance of debt negotiation program (Note 8)	\$ 9,206	\$ 103,871	\$ 13,649	\$ 125,346
Amount received from performance of debt negotiation program (Note 9)	157,828	239,551	158,183	256,778
Total	167,034	343,422	171,832	382,124

- Note 1: The amount recognized as non-performing loans (NPLs) is in compliance with the “Regulations Governing the Procedures for Banking Institutions to Evaluate Assets and Deal with Nonperforming/Non-accrual Loans”. Non-performing credit loans represent the amounts of non-performing loans reported to the FSC, as required by the FSC in its letter dated July 6, 2005 (Ref. No. 094400378).
- Note 2: Nonperforming loan ratio = Nonperforming loans ÷ Outstanding loan balance; Nonperforming credit loan ratio = Nonperforming loans ÷ Accounts receivable balance.
- Note 3: Allowance for loans ratio = Allowance for doubtful loans ÷ Overdue loans; Allowance for credit card ratio = Allowance for doubtful credit card ÷ Overdue loans.
- Note 4: Home mortgage refers to financing obtained to buy, build, or fix houses owned by the borrowers’ spouse or children, with the house used as loan collateral.
- Note 5: Micro credit is covered by the FSC pronouncement dated December 19, 2005 (Ref No. 09440010950) and is excluded from credit card and cash card loans.
- Note 6: “Others” under consumer loans refers to secured or unsecured loans other than mortgage loans, cash cards, micro credit, and credit cards.
- Note 7: As required by the FSC in its letter dated July 19, 2005 (Ref No. 094000494), provision for bad debt is recognized once no compensation is made by a factor or insurance company for accounts receivable factored without recourse.
- Note 8: Accounts under “loans not required to be classified as NPL upon performance of a debt negotiation program” and “accounts receivable not required to be classified as overdue receivable upon debt negotiation program” were processed according the FSC pronouncement dated April 25, 2006 (Ref No. 09510001270).
- Note 9: Accounts under “loans not required to be classified as NPL upon performance of a debt discharge program and rehabilitation program” and “accounts receivable not required to be classified as overdue receivable upon debt discharge program and rehabilitation program” were processed according the FSC pronouncement dated September 15, 2008 (Ref No. 09700318940).

b. Concentration of credit extensions

(In Thousands of New Taiwan Dollars, %)

December 31, 2019			
Ranking (Note 1)	Group Business Name (Note 2)	Amount (Note 3)	Percentage of Net Worth (%)
1	Group A (016700 real estate development activities)	\$ 3,777,458	5.80
2	Group B (016499 other financial service activities not elsewhere classified)	3,616,500	5.55
3	Group C (016700 real estate development activities)	2,770,052	4.25
4	Group D (016811 real estate activities for sale and rental with own or leased property)	2,470,000	3.79
5	Group E (011810 manufacturing of chemical material)	2,369,303	3.64
6	Group F (016020 television broadcasting)	2,301,837	3.53
7	Group G (013010 automobiles)	2,047,314	3.14
8	Group H (016700 real estate development activities)	1,700,000	2.61
9	Group I (016691 investment consultancy)	1,661,154	2.55
10	Group J (12613 semiconductor packaging and testing industry)	1,650,000	2.53

(In Thousands of New Taiwan Dollars, %)

December 31, 2018			
Ranking (Note 1)	Group Business Name (Note 2)	Amount (Note 3)	Percentage of Net Worth (%)
1	Group A (016499 other financial service activities not elsewhere classified)	\$ 2,762,000	4.64
2	Group B (016700 real estate development activities)	2,711,782	4.55
3	Group C (016640 fund management activities)	2,285,095	3.84
4	Group D (011810 manufacturing of chemical material)	2,250,913	3.78
5	Group E (016429 other holding stock)	2,095,199	3.52
6	Group F (016811 real estate activities for sale and rental with own or leased property)	2,020,000	3.39
7	Group G (12613 semiconductor packaging and testing industry)	1,776,175	2.98
8	Group H (016700 real estate development activities)	1,759,030	2.95
9	Group I (014615 wholesale of metal construction materials)	1,700,556	2.86
10	Group J (016811 real estate activities for sale and rental with own or leased property)	1,669,983	2.81

Note 1: The ranking is arranged in descending order of outstanding loan balance, excluding all the government entities and nation-owned enterprises. If the borrower is a member company of a group then the disclosed amount will be the total granted loan amount of that entire group.

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

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

c. Interest rate sensitivity information

Analysis of Assets and Liabilities Sensitivity (N.T. Dollars)

(In Thousands of New Taiwan Dollars; %)

Item	December 31, 2019				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 537,752,348	\$ 29,116,883	\$ 12,274,503	\$ 166,690,540	\$ 745,834,274
Interest-sensitive liabilities	242,873,580	303,144,647	139,972,037	27,441,681	713,431,945
Interest-sensitive gap	294,878,768	(274,027,764)	(127,697,534)	139,248,859	32,402,329
Net equity					65,121,704
Ratio of interest-sensitive assets to liabilities					104.54
Ratio of interest sensitivity gap to net equity					49.76

(In Thousands of New Taiwan Dollars; %)

Item	December 31, 2018				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 532,769,587	\$ 27,370,884	\$ 8,125,867	\$ 116,950,069	\$ 685,216,407
Interest-sensitive liabilities	210,588,506	290,550,326	123,330,508	24,192,755	648,662,095
Interest-sensitive gap	322,181,081	(263,179,442)	(115,204,641)	92,757,314	36,554,312
Net equity					59,534,395
Ratio of interest-sensitive assets to liabilities					105.64
Ratio of interest sensitivity gap to net equity					61.40

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

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

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

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

Analysis of Assets and Liabilities Sensitivity (U.S. Dollars)

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

Item	December 31, 2019				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 2,279,411	\$ 218,056	\$ 42,157	\$ 1,159,981	\$ 3,699,605
Interest-sensitive liabilities	2,733,639	481,338	259,266	1,131	3,475,374
Interest-sensitive gap	(454,228)	(263,282)	(217,109)	1,158,850	224,231
Net equity					2,163,081
Ratio of interest-sensitive assets to liabilities					106.45
Ratio of interest sensitivity gap to net equity					10.37

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

Item	December 31, 2018				
	1-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year	Total
Interest-sensitive assets	\$ 2,281,009	\$ 198,416	\$ 98,927	\$ 918,725	\$ 3,497,077
Interest-sensitive liabilities	2,566,202	317,116	315,715	1,702	3,200,735
Interest-sensitive gap	(285,193)	(118,700)	(216,788)	917,023	296,342
Net equity					1,937,149
Ratio of interest-sensitive assets to liabilities					109.26
Ratio of interest sensitivity gap to net equity					15.30

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

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

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

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

d. Profitability

Items		December 31, 2019	December 31, 2018
Return on assets	Before tax	0.74	0.74
	After tax	0.61	0.62
Return on equity	Before tax	10.73	11.13
	After tax	8.86	9.31
Profit margin		33.45	32.56

Note 1: Return on assets = Income before (after) tax/Average total assets.

Note 2: Return on equity = Income after tax/Average equity.

Note 3: Profit margin = Income after tax/Net income.

Note 4: Income before (after) tax is the income accumulated from the beginning of the year to the end of the period.

e. Maturity analysis of assets and liabilities

Maturity Analysis of Assets and Liabilities (N.T. Dollars)

(In Thousands of New Taiwan Dollars)

	Total	Amount Due to December 31, 2019					
		1-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year
Main capital inflow on maturity	\$ 842,523,225	\$ 139,910,718	\$ 37,043,135	\$ 85,161,616	\$ 59,254,871	\$ 38,205,647	\$ 482,947,238
Main capital outflow on maturity	981,585,398	43,968,748	73,335,601	136,620,627	113,380,286	264,349,077	349,931,059
Gap	(139,062,173)	95,941,970	(36,292,466)	(51,459,011)	(54,125,415)	(226,143,430)	133,016,179

(In Thousands of New Taiwan Dollars)

	Total	Amount Due to December 31, 2018					
		1-10 Days	11-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year
Main capital inflow on maturity	\$ 795,153,873	\$ 145,536,659	\$ 52,410,420	\$ 69,546,140	\$ 60,868,622	\$ 42,799,900	\$ 423,992,132
Main capital outflow on maturity	927,589,369	52,160,012	84,294,077	116,752,198	112,070,326	232,681,586	329,631,170
Gap	(132,435,496)	93,376,647	(31,883,657)	(47,206,058)	(51,201,704)	(189,881,686)	94,360,962

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

Maturity Analysis of Assets and Liabilities (U.S. Dollars)

(In Thousands of U.S. Dollars)

	Total	Amount Due to December 31, 2019				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year
Main capital inflow on maturity	\$ 5,714,816	\$ 1,028,648	\$ 1,256,578	\$ 673,531	\$ 278,152	\$ 2,477,907
Main capital outflow on maturity	7,211,288	1,283,344	2,173,533	1,437,721	1,185,314	1,131,376
Gap	(1,496,472)	(254,696)	(916,955)	(764,190)	(907,162)	1,346,531

(In Thousands of U.S. Dollars)

	Total	Amount Due to December 31, 2018				
		1-30 Days	31-90 Days	91-180 Days	181 Days-1 Year	More Than 1 Year
Main capital inflow on maturity	\$ 6,230,713	\$ 1,743,123	\$ 1,090,879	\$ 659,793	\$ 432,857	\$ 2,304,061
Main capital outflow on maturity	7,961,920	2,827,549	1,311,354	1,338,003	1,431,368	1,053,646
Gap	(1,731,207)	(1,084,426)	(220,475)	(678,210)	(998,511)	1,250,415

Note 1: The above amounts included only U.S. dollars amounts held by the head office, domestic branches, OBU and overseas branches of the bank and accounted on book value.

Note 2: The overseas assets to total assets more than 10% will be reported as supplementary disclosure.

46. THE PROFITABILITY OF THE COMPANY, THE GROUP AND THE INVESTEEES

Unit: %

2019	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.40	0.44	9.00	9.79	6.00
The Company	8.43	8.76	9.40	9.77	101.49
SKLIC	0.25	0.33	7.79	10.00	3.59
TSKCB	0.74	0.61	10.74	8.86	33.26
MLSC	1.64	1.51	7.07	6.52	28.54

Unit: %

2018	Return on Assets		Return on Equity		Net Income Ratio
	Before Tax	After Tax	Before Tax	After Tax	
The Group	0.31	0.30	7.34	6.97	4.14
The Company	6.31	5.97	7.22	6.83	91.68
SKLIC	0.16	0.20	5.18	6.54	2.25
TSKCB	0.74	0.62	11.13	9.31	32.37
MLSC	0.89	0.85	3.93	3.74	19.08

Note: Net income ratio = Net income/Net revenue

47. EXCHANGE RATE INFORMATION OF FOREIGN-CURRENCY DENOMINATED FINANCIAL ASSETS AND LIABILITIES

The following information was aggregated by the foreign currencies other than functional currencies of the Group entities and the exchange rates between foreign currencies and the respective functional currencies were as follows.

	December 31, 2019		
	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 62,112,097	30.1060	\$ 1,869,946,790
AUD	4,157,595	21.1013	87,730,649
CNH	15,672,524	4.3231	67,753,891
CNY	5,130,797	4.3219	22,174,791
HKD	1,452,984	3.8661	5,617,381
ZAR	2,234,027	2.1381	4,776,573
EUR	95,508	33.7488	3,223,266
JPY	6,989,267	0.2771	1,936,726
Non-monetary items			
USD	2,500,499	30.1060	75,280,010
EUR	91,451	33.7488	3,086,372
HKD	737,388	3.8661	2,850,815
CNY	583,457	4.3219	2,521,643
JPY	2,278,280	0.2771	631,311
ZAR	140,819	2.1381	301,085
AUD	13,722	21.1013	289,550
CHF	9,004	31.0563	279,630
Equity investments			
CNY	88,831	4.3219	383,918
<u>Financial liabilities</u>			
Monetary items			
USD	3,898,284	30.1060	117,361,723
CNY	1,594,388	4.3219	6,890,785
AUD	254,004	21.1013	5,359,815
HKD	1,331,266	3.8661	5,146,807
ZAR	1,181,109	2.1381	2,525,329
EUR	65,902	33.7488	2,224,113
JPY	7,000,363	0.2771	1,939,801
CAD	17,668	23.0768	407,753
Non-monetary items			
USD	67,466	30.1060	2,031,127
CNY	244,330	4.3219	1,055,970
EUR	27,000	33.7488	911,218
ZAR	140,869	2.1381	301,192

December 31, 2018

	Foreign Currency	Exchange Rate	New Taiwan Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 53,941,339	30.7330	\$ 1,657,779,183
CNH	18,829,820	4.4742	84,248,380
AUD	3,322,229	21.6791	72,022,937
CNY	5,094,169	4.4851	22,847,857
HKD	1,572,836	3.9240	6,171,808
JPY	7,976,080	0.2784	2,220,535
EUR	60,090	35.2047	2,115,454
BRL	93,163	7.9342	739,177
Non-monetary items			
USD	4,470,612	30.7330	137,395,334
CNY	1,144,129	4.4851	5,131,533
AUD	222,795	21.6791	4,829,985
HKD	1,220,811	3.9240	4,790,464
ZAR	1,794,493	2.1289	3,820,296
EUR	51,132	35.2047	1,800,084
JPY	2,327,449	0.2784	647,962
IDR	254,918,662	0.0021	535,329
Equity investments			
CNY	114,085	4.4851	511,677
<u>Financial liabilities</u>			
Monetary items			
USD	3,521,406	30.7330	108,223,367
CNY	1,393,670	4.4851	6,250,749
AUD	269,260	21.6769	5,837,314
HKD	1,340,946	3.9240	5,261,872
JPY	8,063,504	0.2784	2,244,880
EUR	60,261	35.2047	2,121,470
ZAR	949,271	2.1289	2,020,903
CAD	12,262	22.5911	277,012
Non-monetary items			
CNY	2,720,087	4.4851	12,199,862
USD	207,781	30.7330	6,385,734
ZAR	151,715	2.1289	322,986
AUD	6	21.6791	130

48. OTHERS

a. SKLIC's hedging strategies and exposure:

1) Simulations and measures in the case of significant fluctuations of foreign exchange

When special or significant events happen to the macroeconomic environment such as the September 11 terrorist attack in the U.S., the September 21 earthquake in Taiwan, the United Kingdom leaving the European Union or the exchange rate of the N.T. dollar against the U.S. dollar fluctuates over a pre-determined level, an emergency meeting will be held to discuss corresponding measures.

2) Foreign exchange hedging strategy

SKLIC mainly uses traditional hedging instruments. The Department of Investment evaluates various factors such as market liquidity, hedging cost, and investing environment, then chooses the hedging instruments with the optimal long-term cost efficiency, and executes foreign exchange hedges according to approved intervals and targets.

3) SKLIC's control mechanism of foreign exchange risk

a) Control of hedging ratio on foreign exchange

The Department of Risk Management periodically monitors whether the hedging ratio on foreign exchange satisfies the standards set by Asset & Liability Management Committee.

b) Control of value-at-risk of foreign exchange exposure

The Department of Risk Management calculates value-at-risk of foreign exchange exposure every week, and evaluates the market risk of foreign exchange exposure to forecast the possible losses from foreign exchange exposure due to changes in foreign exchange rates in certain periods and confidence intervals. When value-at-risk of foreign exchange exposure exceeds the limit, the Department of Risk Management will issue warning notice or hold emergency meetings to discuss corresponding measures.

c) Control of foreign exchange gains or losses

The risk management department monitors foreign exchange gains or losses of the foreign investment position every day. When losses exceed a certain level, the Department of Risk Management will issue warning notice or hold emergency meetings to discuss corresponding measures.

d) Control of reserve for changes in foreign exchange valuation

SKLIC takes the ratio of monthly ending balance of reserve for changes in foreign exchange valuation to the beginning balance as the warning criteria. When losses exceed a certain level, the Department of Risk Management will issue warning notice or hold emergency meetings to discuss corresponding measures.

e) Foreign exchange hedging instruments

SKLIC mainly uses traditional hedging instruments. The Department of Investment evaluates various factors such as market liquidity, hedging cost, and investing environment and chooses the hedging instruments with the optimal long-term cost efficiency.

b. Movements in reserve for changes in foreign exchange valuation:

	For the Year Ended December 31	
	2019	2018
Balance at January 1	\$ 4,734,258	\$ 2,551,225
Provision		
Compulsory provision	3,756,882	1,973,793
Additional provision	<u>6,818,474</u>	<u>4,120,674</u>
	10,575,356	6,094,467
Reversal	<u>(13,231,300)</u>	<u>(3,911,434)</u>
Balance at December 31	<u>\$ 2,078,314</u>	<u>\$ 4,734,258</u>

c. Effect of reserve for changes in foreign exchange valuation:

For the year ended December 31, 2019

Affected Accounts	Amounts If Not Applied	Amounts If Applied	Effects
Profit attributable to owner of the Company	\$ 14,437,382	\$ 16,562,137	\$ 2,124,755
Earnings per share	1.17	1.34	0.17
Reserve for changes in foreign exchange valuation	-	2,078,314	2,078,314
Equity attributable to owner of the Company	193,665,762	194,895,108	1,229,346

For the year ended December 31, 2018

Affected Accounts	Amounts If Not Applied	Amounts If Applied	Effects
Profit attributable to owner of the Company	\$ 11,500,217	\$ 9,753,791	\$ (1,746,426)
Earnings per share	1.04	0.89	(0.15)
Reserve for changes in foreign exchange valuation	-	4,734,258	4,734,258
Equity attributable to owner of the Company	145,015,230	144,119,821	(895,409)

Profit if not applied with reserve for change in foreign exchange valuation: Profit if applied with reserve for changes in foreign exchange valuation \pm (Net changes in reserve for changes in foreign exchange valuation) \times 80%, for the years ended December 31, 2019 and 2018.

49. SUPPLEMENTAL DISCLOSURES

a. Information about significant transactions:

Code	Description	Explanation
1	Accumulated purchases and sales balance of specific investee's marketable securities over \$300 million or 10% of the paid-in capital	None
2	Acquisition or disposal of individual real estate at prices over \$300 million or 10% of the paid-in capital	None
3	Discount on processing fee the transactions with related parties over \$5 million	None
4	Receivables from related parties over \$300 million or 10% of the paid-in capital	None
5	Disposal of nonperforming loans by subsidiaries	None
6	Related information of financial assets securitization or real estate securitization by subsidiaries	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None

b. Information of investees

Code	Description	Explanation
1	Information regarding investee companies and percentage of ownership	Table 2
2	Acquisition and disposal of real estate at prices over \$300 million or 10% of the paid-in capital	None
3	Discount on processing fee for transactions with related parties over \$5 million	None
4	Receivables from related parties over \$300 million or 10% of the paid-in capital	None
5	Disposal of nonperforming loans by investees	None
6	Related information of financial assets securitization or real estate securitization by investees	None
7	Other significant transaction which may affect the decisions of users of the financial statements	None
8	Financing provided to others	Note
9	Endorsements/guarantees provided	Table 1
10	Marketable securities held as of December 31, 2013	Table 3 and Note
11	Marketable securities acquired or disposed of at costs or prices over \$300 million or 10% of the paid-in capital	None
12	Derivative transactions	Notes 8 and 50

Note: Disclosure requirement is not applicable to SKLIC, TSKCB and MLSC.

c. Investments in mainland China

Code	Description	Explanation
1	Name of companies, principal business activities, paid-in capital, method of investment, inward and outward remittance of funds, ownership percentage, investment income, carrying amount of the investment, repatriation of investment income, and limit of investment in investee in the mainland China area.	Table 5
2	Significant transaction elements like price, disbursement condition and unrealizable income generated directly or indirectly through a third area, by investee in mainland China.	None
3	Notes, endorsements and collateral provided directly or indirectly through an investee in a third area in mainland China.	None
4	Capital financing directly or indirectly through an investee in a third area in mainland China.	None
5	Other significant transactions which may affect the decisions of users of the financial statements	None

- d. The important intercompany transactions among the Group are disclosed in Table 6 following the Notes to Consolidated Financial Statements.

50. FINANCIAL INSTRUMENTS

Fair Value of Financial Instruments

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

Except as detailed in the following table, the financial assets and financial liabilities recognized in the consolidated financial statements approximate their fair values or their fair values cannot be reliably measured.

Item	December 31			
	2019		2018	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<u>Financial assets</u>				
Financial assets at amortized cost	\$ 1,802,686,194	\$ 1,953,837,520	\$ 1,714,648,273	\$ 1,618,751,036
Refundable deposits	18,993,464	20,612,151	17,551,027	18,969,673
<u>Financial liabilities</u>				
Deposits received	9,110,731	8,968,274	4,228,688	4,185,139

Fair value hierarchy presented above were as below:

December 31, 2019

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at amortized cost	\$ 230,597,160	\$ 964,138,018	\$ 759,102,342	\$ 1,953,837,520
Refundable deposits	-	20,612,151	-	20,612,151
<u>Financial liabilities</u>				
Deposits received	-	8,968,274	-	8,968,274

December 31, 2018

	Level 1	Level 2	Level 3	Total
<u>Financial assets</u>				
Financial assets at amortized cost	\$ 194,448,253	\$ 780,772,257	\$ 643,530,526	\$ 1,618,751,036
Refundable deposits	-	18,969,673	-	18,969,673
<u>Financial liabilities</u>				
Deposits received	-	4,185,139	-	4,185,139

The fair values of the financial assets and financial liabilities included in the Level 2 and Level 3 categories above have been determined in accordance with the income approach based on a discounted cash flow analysis, with the most significant unobservable input being the discount rate that reflects the credit risk of counterparties.

b. Fair value of financial instruments that are measured at fair value.

1) Fair value hierarchy

Item	December 31, 2019			
	Total	Level 1	Level 2	Level 3
<u>Non-derivatives</u>				
Assets				
Financial assets at FVTPL				
Share investments	\$ 74,304,583	\$ 73,980,165	\$ -	\$ 324,418
Debt investments	84,657,303	37,552,832	46,285,683	818,788
Others	301,218,869	291,100,529	10,118,340	-
Financial assets at FVTOCI				
Share investments	213,103,195	205,278,932	2,285,389	5,538,874
Debt investments	135,966,335	41,714,740	94,251,595	-
Liabilities				
Financial liabilities at FVTPL	572,120	572,120	-	-
<u>Derivatives</u>				
Assets				
Financial assets at FVTPL	16,140,390	39,115	16,101,275	-
Liabilities				
Financial liabilities at FVTPL	4,931,517	361,593	4,569,924	-

Item	December 31, 2018			
	Total	Level 1	Level 2	Level 3
<u>Non-derivatives</u>				
Assets				
Financial assets at FVTPL				
Share investments	\$ 134,180,088	\$ 133,891,190	\$ -	\$ 288,898
Debt investments	93,709,509	45,403,012	47,439,566	866,931
Others	156,707,070	149,106,549	7,600,521	-
Financial assets at FVTOCI				
Share investments	220,487,308	207,498,461	8,173,094	4,815,753
Debt investments	173,621,113	33,070,355	140,550,758	-
Liabilities				
Financial liabilities at FVTPL	1,146,953	1,146,953	-	-
<u>Derivatives</u>				
Assets				
Financial assets at FVTPL	4,026,839	14,490	4,012,349	-
Liabilities				
Financial liabilities at FVTPL	7,405,250	253,953	7,151,297	-

As of December 31, 2019, the non-derivative financial instruments held in open quotations with no active market and self-assessed fair value using an evaluation model, classified as Level 2 and Level 3 belonging to SKLIC amounted to \$36,237,025 thousand.

The transfers between Levels 1 and 2 were as follows:

December 31, 2019

Item	Products	The Amount Transferred from Levels 1 to 2	The Amount Transferred from Levels 2 to 1
Financial assets at FVTPL	Government bonds	\$ 49,600	\$ 1,500,000
	Corporate bonds	13,888,668	20,516,019
	Beneficiary certificates	<u>14,260</u>	<u>-</u>
		<u>\$ 13,952,528</u>	<u>\$ 22,016,019</u>

December 31, 2018

Item	Products	The Amount Transferred from Levels 1 to 2	The Amount Transferred from Levels 2 to 1
Financial assets at FVTPL	Government bonds	\$ 200,000	\$ 571,000
	Corporate bonds	<u>4,687,390</u>	<u>18,189,333</u>
		<u>\$ 4,887,390</u>	<u>\$ 18,760,333</u>

The central government bonds, corporate bonds, and beneficiary certificates, which are held by the Group, are not debt securities and beneficiary certificates in the active market; thus, the amount of those assets were transferred from Level 1 to Level 2. Resulting from increasing liquidity of the corporate bonds market, the amount of the assets from Level 2 were transferred to Level 1.

2) Reconciliation of Level 3 fair value measurements of financial instruments

For the year ended December 31, 2019

Item	January 1, 2019	Evaluation Profit or Loss		Increase in Current Year		Decrease in Current Year		December 31, 2019
		Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Purchase or Issuance	Transferred to Level 3	Sale, Disposal or Settlement	Transferred from Level 3	
<u>Non-derivatives</u>								
Financial assets at fair value through profit or loss	\$ 1,155,829	\$ 10,929	\$ -	\$ 2,185	\$ 35,482	\$ (61,219)	\$ -	\$ 1,143,206
Financial assets at fair value through other comprehensive income	4,815,753	-	887,990	40,000	9,995	(214,864)	-	5,538,874
Total	\$ 5,971,582	\$ 10,929	\$ 887,990	\$ 42,185	\$ 45,477	\$ (276,083)	\$ -	\$ 6,682,080

For the year ended December 31, 2018

Item	January 1, 2019	Adjustments Arising from IFRS 9 Application	Adjusted Amount as of January 1, 2019	Profit or Loss		Increase in Current Year	Decrease in Current Year		December 31, 2019
				Recognized in Profit or Loss	Recognized in Other Comprehensive Income	Purchase or Issuance	Sale, Disposal or Settlement	Transferred from Level 3	
Non-derivatives									
Financial assets at fair value through profit or loss	\$ -	\$ 1,110,251	\$ 1,110,251	\$ 690,053	\$ -	\$ 705,316	\$ (1,268,303)	\$ (81,488)	\$ 1,155,829
Financial assets at fair value through other comprehensive income	-	4,487,062	4,487,062	-	384,076	145,177	(200,562)	-	4,815,753
Derivatives									
Financial assets at fair value through profit or loss	299,061	(299,061)	-	-	-	-	-	-	-
Total	\$ 299,061	\$ 5,298,252	\$ 5,597,313	\$ 690,053	\$ 384,076	\$ 850,493	\$ (1,468,865)	\$ (81,488)	\$ 5,971,582

The total gains or losses for the year ended December 31, 2019 included an unrealized gain on financial assets at FVTPL of \$10,929 thousand which was measured at fair value based on level 3 fair value measurement at the end of the reporting period.

The total gains or losses for the year ended December 31, 2018 included an unrealized gain on financial assets at FVTPL of \$690,053 thousand which was measured at fair value based on level 3 fair value measurement at the end of the reporting period.

3) Valuation techniques and inputs applied for the purpose of Level 2 fair value measurement

Financial Instruments	Valuation Techniques and Inputs
Non-derivatives	
Domestic and foreign debt securities	Discounted cash flow: Future cash flows are discounted based on credit spread and market interest rate.
Bond investments	Market evaluation. Market quotes provided and Notional Amount of the contract by Bloomberg are used as bond evaluations.
Negotiable time deposits	Discounted cash flow. Future cash flows are estimated based on contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Foreign bonds payable and structured notes	Counterparty evaluation. According to the Yield Book, Bloomberg evaluation or other valuation methods that are consistent with academic and market practice.
Foreign mutual funds	Quoted price in non-active market.
Derivatives	
Options contracts	Model evaluation. The execution price, the maturity date and the market volatility, interest rate and exchange rate set by the contract are used as evaluation parameters. The model with closed solution is then used for evaluation.

(Continued)

<u>Financial Instruments</u>	<u>Valuation Techniques and Inputs</u>
Foreign exchange swap contracts and foreign exchange forward contracts	Evaluation of forward exchange at market price: Forward exchange is evaluated and calculated in accordance with notional amounts, contract forward rate and market forward rate. Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, repricing rate, discounted at a rate that reflects the credit risk of various counterparties.
Interest rate swap contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.
Asset swap contracts	Convertible corporate bond closing price on the day minus bond value. The pure bond value is discounted by the cash flow provided by the convertible corporate bonds in accordance with Taiwan Bills Index Rate (TAIBIR).
Cross-currency forward contracts	Discounted cash flow. Future cash flows are estimated based on observable forward exchange rates at the end of the reporting period and contract forward rates, repricing rate, discounted at a rate that reflects the credit risk of various counterparties.

(Concluded)

Because of market changes and the improved valuation techniques of part of the domestic debt investments held by the Group, the unobservable inputs applied for the discounted cash flow approach were adjusted.

4) Valuation techniques and inputs applied for the purpose of Level 3 fair value measurement

SKLIC and its subsidiaries

The theoretical value of unlisted shares and MBS are calculated using the market multiple approach (price-book ratio, price-equity ratio, etc.), equity adjustment approach, yield book system and the discounted cash flow approach which are based on the attributes of the assets and conform to theory and market practices. The sources of the valuation information are from an independent system and the financial statements. The sources of information are updated and evaluated to ensure that the valuation is reasonable.

The significant unobservable inputs for Level 3 valuation adopted by the Group included the net income growth rate, the cost of equity capital, the discount for a lack of marketability and the price-book ratio.

	December 31	
	2019	2018
Net income growth rate	1.21%-2.80%	2.66%-2.80%
Cost of equity capital	4.98%	6.07%
Price-book ratio	0.41-2.70	0.70-2.75
Discount for lack of marketability	20%-30%	20%-30%
Discount for minority interest	35%	35%
Price-sales revenue ratio	0.22-2.88	0.22-3.51
Price-EBIT ratio	17.47	17.38
Price-EBITDA ratio	6.42-24.13	7.11-22.31
Price-earnings ratio	14.47-17.81	13.01-17.40
Option adjusted spread	0-6bps	0-5bps

In order to reflect the influence of significant unobservable inputs, assuming all other variables were held constant, the market value would increase (decrease) as follows:

December 31, 2019

Risk Factors	Difference (+/-)	Effective Value
Net income growth rate	-10%	\$ (63,797)
Cost of equity capital	+10%	(130,539)
Price-book ratio	-10%	(12,145)
Discount for lack of marketability	+10%	(109,299)
Discount for minority interest	+10%	(16,372)
Price-sales revenue ratio	-10%	(20,717)
Price-EBIT ratio	-10%	(5,427)
Price-EBITDA ratio	-10%	(8,907)
Price-earnings ratio	-10%	(8,245)
Option adjusted spread	+50bps	(23,255)

December 31, 2018

Risk Factors	Difference (+/-)	Effective Value
Net income growth rate	-10%	\$ (57,767)
Cost of equity capital	+10%	(143,763)
Price-book ratio	-10%	(13,653)
Discount for lack of marketability	+10%	(110,270)
Discount for minority interest	+10%	(20,424)
Price-sales revenue ratio	-10%	(21,628)
Price-EBIT ratio	-10%	(5,237)
Price-EBITDA ratio	-10%	(8,847)
Price-earnings ratio	-10%	(13,270)
Option adjusted spread	+50bps	(30,257)

TSKCB and its subsidiaries

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

Financial Instruments	Valuation Techniques and Inputs
Unlisted equity securities - ROC	<p>Net assets. Based on the company's net worth as the fair value.</p> <p>Market multiple. Considering the comparable transaction price of the stock in the active market, the corresponding net value multiplier and the liquidity discount ratio 30% is used to evaluate the fair value.</p>

b) Sensitivity analysis of fair value hierarchy classified as Level 3 fair value measurement

The fair value measurement of financial instruments is reasonable, although the use of different valuation models or parameters may lead to different results. For financial instruments classified as Level 3, if the liquidity discount ratio changes by 10%, the effects on profit or loss or other comprehensive income for the current period are as follows:

	Changes in Fair Value Are Reflected in Other Comprehensive Income for the Current Period	
	Favorable Changes	Adverse Changes
2019		
Fair value through other comprehensive income		
Stock investments	\$ 18,478	\$ (18,478)
	Changes in Fair Value Are Reflected in Other Comprehensive Income for the Current Period	
	Favorable Changes	Adverse Changes
2018		
Fair value through other comprehensive income		
Stock investments	\$ 14,813	\$ (14,813)

The favorable and unfavorable changes of the Group refer to the fluctuation of fair value, and the fair value refers to the calculation of the technical calculation based on the unobservable input parameters of different degrees. If the fair value of a financial instrument is affected by more than one input parameter, the above table only reflects the impact of changes in a single input parameter, and does not take into account the correlation and variability between input parameters.

MLSC and its subsidiaries

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

The major unobservable inputs applied for fair value measurement of the assets at fair value on a recurring basis classified as Level 3 held by MLSC and its subsidiaries were as follows:

2019	Valuation Techniques	Major Unobservable Inputs	Quantitative Indicators	Relationship Between Inputs and Fair Value	Relationship Between Inputs and Value of Sensitivity Analysis Related to Fair Value
Financial assets Equity instruments in financial assets at FVTPL Stock investments	Market approach	Lack of liquidity reduction	30%	The higher the reduction, the lower the fair value	When the percentage of reduction increases/decreases 1%, the profit of loss of the Group would decrease/increase \$989 thousand.
Financial assets at FVOCI Stock investments	Market approach/ net adjustment approach	Lack of liquidity reduction	30%	The higher the reduction, the lower the fair value	When the percentage of reduction increases/decreases 1%, the profit of loss of the Group would decrease/increase \$32,241 thousand.
		Minority interest reduction	20%		

2018	Valuation Techniques	Major Unobservable Inputs	Quantitative Indicators	Relationship Between Inputs and Fair Value	Relationship Between Inputs and Value of Sensitivity Analysis Related to Fair Value
Financial assets Equity instruments in financial assets at FVTPL Stock investments	Market approach	Lack of liquidity reduction	30%	The higher the reduction, the lower the fair value	When the percentage of reduction increases/decreases 1%, the profit of loss of the Group would decrease/increase \$3,258 thousand.
Financial assets at FVOCI Stock investments	Market approach/ net adjustment approach	Lack of liquidity reduction	30%	The higher the reduction, the lower the fair value	When the percentage of reduction increases/decreases 1%, the profit of loss of the Group would decrease/increase \$23,552 thousand.
		Minority interest reduction	20%		

b) Valuation procedures for Level 3 fair value measurement

The risk management office is responsible for verification of the fair value with independent sources of information to ensure that the valuation results would be similar to the market, to ensure the sources of information would be independent, reliable, consistent with other resources and representable for the executable price, and to confirm the reasonableness of the valuation results by analyzing changes in assets and liabilities which should be remeasured or reevaluated in accordance with MLSC's accounting policies on every financial statement reporting date.

c. Categories of financial instruments

	December 31	
	2019	2018
<u>Financial assets</u>		
Fair value through profit or loss	\$ 476,321,145	\$ 388,623,506
Financial assets at fair value through other comprehensive income		
Equity instruments	213,103,195	220,487,308
Debt instruments	135,966,335	173,621,113
Loans and receivables		
Cash and cash equivalents	201,897,933	51,679,250
Due from Central Bank and other bank	51,801,518	38,818,698
Financial assets at amortized cost	1,802,686,194	1,714,648,273
Bond issued under repurchase agreement	10,736,713	9,657,198
Loans	754,966,218	725,435,818
Accounts receivable	72,698,862	76,657,778
Miscellaneous financial assets	6,484,770	7,467,229
Refundable deposits	<u>18,993,464</u>	<u>17,551,027</u>
	<u>2,920,265,672</u>	<u>2,641,915,271</u>
<u>Financial liabilities</u>		
Fair value through profit or loss	5,503,637	8,552,203
Amortized cost		
Commercial papers	-	-
Due from Central Bank and other bank	8,493,819	8,705,068
Bond issued under repurchase agreement	40,823,365	42,654,744
Bonds payable	60,762,248	59,697,196
Other loans	1,176,770	592,771
Accrued expense	7,823,258	7,472,618
Other payable	28,112,050	38,191,793
Deposits and remittances	772,279,330	707,967,035
Deposits received	<u>9,110,731</u>	<u>4,228,688</u>
	<u>928,581,571</u>	<u>869,509,913</u>

d. Financial risk management objectives and policies

1) SKFHC's financial risk information

a) Market risk

The Company's debt investments mainly consist of fixed interest rate bonds; accordingly, the fair value of these investments would be affected by changes in market interest rate.

b) Credit risk

Credit risk represents the potential loss that would be incurred by the Company if the counterparty breached contracts, affecting the credit risk concentration, components and contract amounts. As of December 31, 2019 and 2018, the credit risk amounted to zero, which was evaluated based on the financial instruments with positive values at the balance sheet date.

c) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations in the scheduled time. The foreign exchange forward contracts the Company engaged in were only for hedging exchange rates and settled in net amount, which did not result in a large cash outflow; therefore, the cash flow risk was not significant.

2) Risk management and hedging strategies

Risk management system

The Group is mainly engaged in finance-related business, and thus the industry and the relevant regulations affect the Group's risk management and hedge strategies. To meet the authorities' requirements, the Company adopted the overall risk management system to identify, measure, monitor and control the market risk, credit risk (including concentration of risk), liquidity risk and other risks.

The Group established the position of chief risk-management officer to execute the Group's risk management policy and integrate the Group's risk management resources to increase the efficiency. The chief risk-management officer prepares a management report to the board of directors periodically to enable them to understand the Group's circumstances of risk management.

To execute risk management, the Group established risk-management committee, as well as convened meetings quarterly to understand the overall report of its subsidiaries and the modified acts and related current news made by the risk-management department. The committee makes its consensus and policy for the risk exposure of subsidiaries, and the risk-management department will transact it.

The risk-management department of the Company is in charge of the Group's risk control and executes varied risk management mechanism in accordance with the regulations. Risk-management department is also the executive organization to implement the risk-management committee's consensus and policy.

The Group firmly believes that the key factor of building risk-management culture and popularizing risk-management system is from the support of administrators. Therefore, the risk-management committee is composed of high-level managers of subsidiaries to make the risk exposures known by the administrators.

Hedging strategies

The Group is mainly engaged in finance-related business, and therefore the investing target is restricted by the authorities. As a result, the Group makes its hedging strategies with sustaining appropriate liquidity in consideration of relevant acts, economic circumstances, competitive conditions and market prices.

The Group's hedge activities are mainly for the avoidance of market price risk and cash flow risk, and the main risk factors are interest rate and currency fluctuations.

To hedge interest rate risk, a large part of the Group's financial instruments are fixed-interest-rate instruments. The Group also transferred the transactions linked to monetary market to that with fixed rate. Interest rate swap contracts are the prime hedging instruments against interest rate fluctuations. In addition, cross currency swaps, swap options, interest rate caps and floors, and other derivatives may be used as hedging instruments.

3) Financial risk management objectives and policies of SKLIC

SKLIC's major financial instruments include equity and debt investments, derivatives, accounts receivable, accounts payable and bonds payable. SKLIC's corporate treasury function provides services to the business, coordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the SKLIC through internal risk reports which analyze exposures by degree and magnitude of risks. These risks include market risk (including currency risk, interest rate risk and other price risk), credit risk and liquidity risk.

SKLIC sought to minimize the effects of these risks by using derivative financial instruments to hedge risk exposures. The use of financial derivatives was governed by SKLIC's policies approved by the board of directors, which provided written principles on foreign exchange risk, interest rate risk, credit risk and the use of financial derivatives.

The corporate treasury function reports quarterly to SKLIC's risk management committee which subordinated to the board of director an independent body that monitors risks and policies implemented to mitigate risk exposures.

a) Market risk

SKLIC's activities exposed it primarily to the financial risks of changes in foreign currency exchange rates (see (iii) below), interest rates (see (iv) below) and price fluctuations (see (v) below). SKLIC entered into a variety of derivative financial instruments to manage its exposure to foreign currency risk, interest rate risk and risk of price fluctuation, including:

- Forward foreign exchange contracts and interest rate swap to hedge the exchange rate risk arising on foreign currency assets and liabilities; and
- Index Futures and options to mitigate the price fluctuation of equity securities.

There had been no change to SKLIC's exposure to market risks or the manner in which these risks were managed and measured.

Market risk exposures were measured using value-at-risk (VaR) and stress test and were supplemented by sensitivity analysis.

i. Value at Risk (VaR) analysis

The VaR measures estimate the potential loss resulted market risks on investment portfolio in over a given holding period for a specified confidence level. SKLIC adopts two-week 99% VaR number as measures indicators.

ii. Stress test

Besides the module of VaR, SKLIC and its subsidiaries adopted stress test periodically to measure potential risk of an extremely extraordinary event.

The investment positions were measured using stress test by simple sensitivity analysis and scenario analysis. This test covered position losses caused by changes in risk factors in various historical scenarios.

Simple sensitivity

Simple sensitivity is a method to measure the changes in value of investment portfolio resulted from changes in specific risk factors.

Scenario analysis

Scenario analysis is a method to measure the changes in value of an investment portfolio in a stressful event, of which two methods are as follows:

- Historical scenario

Select a prior period of a historical event, take the fluctuations of risk factors into consideration and calculate the losses of the investment portfolio occurred for the event.

- Hypothetical scenario

Set assumptions for possible extreme market variations in the future based on reasonable expectation, take the fluctuations in risk factors into consideration and calculate the losses of the investment portfolio occurred for the event.

The corporate treasury function regularly reports historical scenario and hypothetical scenario to SKLIC's risk management committee as the basis of risk analysis, risk early - warning system and operation management.

Stress Test Table 2019

(In Thousands of New Taiwan Dollars)

Risk Factors	Exchange Difference (+/-)	Effective Value
Equity risk (stock index)	-10%	\$ (24,852,205)
Interest risk (yield curve)	+20bps	(1,920,018)
Foreign currency risk (foreign exchange)	N.T. dollar devalued \$1 against U.S. dollar	(17,959,671)
Commodity risk (commodity price)	-10%	-

Stress Test Table 2018

(In Thousands of New Taiwan Dollars)

Risk Factors	Exchange Difference (+/-)	Effective Value
Equity risk (stock index)	-10%	\$ (26,979,742)
Interest risk (yield curve)	+20bps	(3,963,815)
Foreign currency risk (foreign exchange)	N.T. dollar devalued \$1 against U.S. dollar	(10,335,212)
Commodity risk (commodity price)	-10%	-

iii. Foreign currency risk

SKLIC and its subsidiaries managed exchange rate exposures to the extent policy approved by forward foreign exchange contracts and foreign exchange swap contracts.

The carrying amounts of SKLIC and its subsidiaries' foreign currency denominated monetary assets and monetary liabilities as well as non-monetary assets and liabilities at the end of the reporting period were as follows:

December 31, 2019

	Foreign Currency	Exchange Rate	N.T. Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 58,357,176	30.1060	\$ 1,756,901,153
HKD	3,944,798	21.1013	83,240,339
CNH	15,672,524	4.3231	67,753,737
CNY	3,341,126	4.3219	14,440,050
BRL	93,599	7.4896	701,021
KRW	21,959,600	0.0260	571,677
Non-monetary items			
USD	2,067,083	30.1060	62,231,588
EUR	91,451	33.7488	3,086,374
HKD	676,093	3.8661	2,613,834
JPY	2,278,280	0.2771	631,350
AUD	13,722	21.1013	289,550
CHF	9,004	31.0563	279,630
Equity investments			
CNY	87,466	4.3219	378,021
<u>Financial liabilities</u>			
Non-monetary items			
USD	5,383	30.1060	162,057

December 31, 2018

	Foreign Currency	Exchange Rate	N.T. Dollars
<u>Financial assets</u>			
Monetary items			
USD	\$ 51,609,105	30.7330	\$ 1,586,102,636
CNH	18,829,820	4.4742	84,247,613
AUD	3,248,264	21.6791	70,419,307
CNY	3,909,966	4.4851	17,536,445
BRL	93,163	7.9342	739,174
KRW	21,002,784	0.0275	578,489
Non-monetary items			
USD	2,927,709	30.7330	89,977,296
HKD	1,220,811	3.9240	4,790,439
EUR	51,132	35.2047	1,800,081
JPY	2,327,449	0.2784	647,883
IDR	254,918,662	0.0021	538,078
AUD	12,925	21.6791	280,192
Equity investments			
CNY	114,085	4.4851	511,677
<u>Financial liabilities</u>			
Non-monetary items			
USD	118,663	30.7330	3,646,870
Monetary items			
USD	3,469	30.7330	106,609
HKD	11,289	3.9240	44,298

As of December 31, 2019 and 2018, SKLIC and its subsidiaries used foreign exchange forward contracts and foreign exchange swap contracts to mitigate exchange rate exposure, whose total nominal principal amounted to \$1,047,899,542 thousand and \$1,281,473,901 thousand, respectively. SKLIC negotiated the terms of the hedge derivatives to match the terms of the hedged item to maximize hedge effectiveness.

Sensitivity analysis

SKLIC and its subsidiaries were mainly exposed to the USD.

The following table details SKLIC's sensitivity to a 1% increase and decrease in the New Taiwan dollar (the functional currency) against the USD 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in post-tax profit associated with the New Taiwan dollar strengthening 1% against the USD. For a 1% weakening of the New Taiwan dollar against the USD, there would be an equal and opposite impact on post-tax profit and the balances below would be negative.

	USD Impact	
	For the Year Ended December 31	
	2019	2018
Profit or loss	\$ 5,406,939	\$ 3,176,321

The impacts in the table above were net effects of exchange fluctuation risk by considering the foreign currency monetary assets and related hedging financial derivative instruments.

iv. Interest rate risk

SKLIC and its subsidiaries were exposed to interest rate risk because of investments in both of fixed-rate financial assets and floating financial assets. SKLIC and its subsidiaries managed the risk by maintaining an appropriate mix of fixed and floating rate borrowings. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The carrying amount of SKLIC and its subsidiaries financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows:

	December 31	
	2019	2018
Fair value interest rate risk		
Financial assets	\$ 1,794,957,930	\$ 1,775,365,994
Cash flow interest rate risk		
Financial assets	42,640,846	50,829,923

Sensitivity analysis

The sensitivity analyses below were determined based on SKLIC's exposure to interest rates for both derivatives and non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis was prepared assuming the amount of the liability outstanding at the end of the reporting period was outstanding for the whole year. A basis point increase or decrease was used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

A positive number below indicates an increase in income before tax and pre-tax other comprehensive income associated with 1 basis point decrease in interest rate. If interest rates had been 1 basis point higher, there would be an equal and opposite impact on income before tax and pre-tax other comprehensive income and the balance below would be negative.

	USD Impact	
	For the Year Ended December 31	
	2019	2018
Income before tax	\$ 61,975	\$ 78,779
Pre-tax other comprehensive profit or loss	34,025	119,412

The changes in the fair value of debt instruments at fair value through profit or loss and at fair value through other comprehensive income were the main reasons for the changes in pre-tax profit or loss and pre-tax other comprehensive profit or loss.

v. Other price risk

SKLIC and its subsidiaries were exposed to equity price risk through investments in listed equity securities. Equity investments are held for strategic associated with the assets and liability management rather than trading purposes. SKLIC and its subsidiaries' equity price risk was mainly concentrated on equity instruments operating in electronics industry sector quoted in the Taiwan Stock Exchange. In addition, SKLIC and its subsidiaries had appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

A positive number below indicated an increase in income before tax, pre-tax other comprehensive income due to the changes in the fair value of held-for-trading investments and the changes in fair value of available-for-sale shares associated with 1% increase in equity securities and beneficiary certificate prices. If equity securities and beneficiary certificate prices had been 1% lower, there would be an equal and opposite impact on income before tax, pre-tax other comprehensive income due to the changes in the fair value of held-for-trading investments and changes in fair value of available-for-sale shares.

	Effects	
	2019	2018
Income before tax	\$ 105,969	\$ 106,015
Pre-tax other comprehensive income	4,496,142	3,921,951

b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to SKLIC and its subsidiaries. As at the end of the reporting period, the maximum exposure to credit risk which will cause a financial loss to SKLIC and its subsidiaries due to failure of counterparties to discharge an obligation could arise from the carrying amount of the respective recognized financial assets as stated in the balance sheets.

SKLIC and its subsidiaries' investment objects spread in various industry sectors and geographical locations. Ongoing credit evaluation is performed on financial condition of investment object and credit risk exposure is controlled under risk management strategy.

Apart from Golden Sacks Assets Management Co., Ltd. the largest customers, SKLIC and its subsidiaries did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. SKLIC and its subsidiaries define counterparties as having similar characteristics if they are related entities. Concentration of credit risk related to Golden Sacks Assets Management Co., Ltd. did not exceed 3% of capital employed at any time during the years ended 2019 and 2018. Concentration of credit risk to any other counterparty did not exceed 3% of capital employed at any time during the years ended 2019 and 2018.

SKLIC and its subsidiaries' concentration of credit risk by geographical locations was mainly in US, which accounted for 26.63% and 28.07% of the total foreign investments as of December 31, 2019 and 2018, respectively.

SKLIC and its subsidiaries' concentration of credit risk of 10.49% and 11.18% in total transaction amounts as of December 31, 2019 and 2018, respectively, was related to SKLIC and its subsidiaries' five largest customer.

The credit risks of SKLIC resulted from financial instrument transactions in operating activities, including debt investment and loan. The possibility of large losses to investment portfolio caused by a single event of credit risk due to significant concentration was lowered by regular statistics and monitoring of concentrations as follows:

i. The amount of exposure to credit risk - industry sector

December 31, 2019

	Government	Finance	Energy	Commodity	Industry	MSCI	CPI	Technology	Telecommunication	Public Utility	Total
Financial assets at fair value through profit or loss	\$ 306,300	\$ 35,947,492	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,253,792
Financial assets at fair value through other comprehensive income	8,507,511	13,291,510	4,679,747	-	-	-	-	-	-	-	26,478,768
Financial assets at amortized cost	450,046,569	894,331,587	66,216,399	34,012,104	5,939,512	41,601,928	13,319,938	13,547,700	166,716,365	89,134,114	1,774,866,216
Total	458,860,380	943,570,589	70,896,146	34,012,104	5,939,512	41,601,928	13,319,938	13,547,700	166,716,365	89,134,114	1,837,598,776
% of total	24.97%	51.35%	3.86%	1.85%	0.32%	2.26%	0.73%	0.74%	9.07%	4.85%	100.00%

December 31, 2018

	Government	Finance	Energy	Commodity	Industry	MSCI	CPI	Technology	Telecommunication	Public Utility	Total
Financial assets at fair value through profit or loss	\$ 292,822	\$ 44,607,551	\$ -	\$ -	\$ 1,899,475	\$ -	\$ 83,832	\$ -	\$ -	\$ 4,321,060	\$ 51,204,740
Financial assets at fair value through other comprehensive income	42,679,459	33,918,587	4,803,603	-	-	-	-	-	1,816,831	2,251,894	85,470,374
Financial assets at amortized cost	416,176,554	826,769,098	58,632,415	35,018,038	7,555,127	47,581,278	13,207,563	22,896,085	179,715,701	81,968,944	1,689,520,803
Total	459,148,835	905,295,236	63,436,018	35,018,038	9,454,602	47,581,278	13,291,395	22,896,085	181,532,532	88,541,898	1,826,195,917
% of total	25.14%	49.57%	3.47%	1.92%	0.52%	2.61%	0.73%	1.25%	9.94%	4.85%	100.00%

ii. The amount of exposure to credit risk - geographical location

December 31, 2019

Financial Assets	Taiwan	North America	Eurozone	Non-EU Europe	Asia	Latin America	Middle East/Africa	Global	Total
Financial assets at fair value through profit or loss	\$ 29,874,028	\$ 818,806	\$ 3,342,763	\$ -	\$ 2,218,195	\$ -	\$ -	\$ -	\$ 36,253,792
Financial assets at fair value through other comprehensive income	16,950,298	-	543,750	4,004,249	681,999	669,190	3,629,282	-	26,478,768
Financial assets at amortized cost	52,515,147	708,839,079	209,152,024	343,753,831	199,352,684	57,730,287	200,626,694	2,896,470	1,774,866,216
Total	99,339,473	709,657,885	213,038,537	347,758,080	202,252,878	58,399,477	204,255,976	2,896,470	1,837,598,776
% of total	5.40%	38.62%	11.59%	18.92%	11.01%	3.18%	11.12%	0.16%	100.00%

December 31, 2018

Financial Assets	Taiwan	North America	Eurozone	Non-EU Europe	Asia	Latin America	Middle East/Africa	Global	Total
Financial assets at fair value through profit or loss	\$ 30,498,559	\$ 866,947	\$ 11,320,377	\$ 345,012	\$ 8,173,845	\$ -	\$ -	\$ -	\$ 51,204,740
Financial assets at fair value through other comprehensive income	17,061,998	13,099,481	6,592,147	19,014,034	5,617,220	705,454	23,380,040	-	85,470,374
Financial assets at amortized cost	80,125,235	666,145,227	213,671,524	291,946,128	191,861,662	61,278,742	177,485,870	7,006,415	1,689,520,803
Total	127,685,792	680,111,655	231,584,048	311,305,174	205,652,727	61,984,196	200,865,910	7,006,415	1,826,195,917
% of total	6.99%	37.24%	12.68%	17.05%	11.26%	3.40%	11.00%	0.38%	100.00%

Regarding credit quality, SKLIC regularly tracked credit ratings by each credit rating agency for normal assets that were neither past due nor impaired, which were classified into low credit risk, medium credit risk and high credit risk according to their credit ratings. The definition of each level of risk is as follows:

Low credit risk

Meaning the Company has adequate capacity to meet financial commitment. Even in adverse economic conditions or negative situations, they still have strong capacity to deal with.

Medium credit risk

Meaning the Company has moderate capacity to meet financial commitment. Adverse economic conditions or negative situations may weaken their financial conditions, resulting in a sign of impairment or losses to SKLIC.

High credit risk

Meaning the Company is remote to meet financial commitment. Adverse economic conditions or negative situations will reduce their capacity and willingness to meet financial commitment.

Impaired

The company failed to fulfill its obligations in accordance with the contract, and SKLIC has reached the standard of impairment based on the potential loss estimates.

SKLIC provided impairment losses regarding each financial asset in accordance with IFRSs, and the carry amounts after impairment can properly reflect the current value of the asset in the principle of conservative estimates. Credit quality information of financial assets, was as follows:

Credit Quality of Financial Asset Analysis

December 31, 2019

	Stage 1				Stage 2				Stage 3			Allowance for Losses	Total
	Low Credit Risk	Medium Credit Risk	High Credit Risk	Total	Low Credit Risk	Medium Credit Risk	High Credit Risk	Total	Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	Total		
Financial assets at fair value through other comprehensive income	\$ 18,176,047	\$ 3,629,282	\$ 4,673,439	\$ 26,478,768	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 26,478,768
Financial assets at amortized cost	1,619,920,516	109,021,233	45,924,467	1,774,866,216	-	-	-	-	-	-	-	(646,259)	1,774,219,957
Total	1,638,096,563	112,650,515	50,597,906	1,801,344,984	-	-	-	-	-	-	-	(646,259)	1,800,698,725
% of total	90.97%	6.26%	2.81%	100.04%	-	-	-	-	-	-	-	(0.04%)	100.00%

December 31, 2018

	Stage 1				Stage 2				Stage 3			Allowance for Losses	Total
	Low Credit Risk	Medium Credit Risk	High Credit Risk	Total	Low Credit Risk	Medium Credit Risk	High Credit Risk	Total	Credit-impaired Financial Assets	Purchased or Originated Credit-impaired Financial Assets	Total		
Financial assets at fair value through other comprehensive income	\$ 76,694,210	\$ 4,306,455	\$ 4,469,709	\$ 85,470,374	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 85,470,374
Financial assets at amortized cost	1,564,720,418	80,725,196	40,146,382	1,685,591,996	-	-	3,928,807	3,928,807	-	-	-	(941,226)	1,688,579,577
Total	1,641,414,628	85,031,651	44,616,091	1,771,062,370	-	-	3,928,807	3,928,807	-	-	-	(941,226)	1,774,049,951
% of total	92.52%	4.79%	2.52%	99.83%	-	-	0.22%	0.22%	-	-	-	(0.05%)	100.00%

Note 1: Normal assets and impaired items included debt instruments but excluded funds and stocks. The amounts of impaired items were the gross amounts of impaired assets (before net of accumulated impairment).

Note 2: The credit rating for normal assets was simultaneously considered all the ratings declared by S&P, Moody's, Fitch and Taiwan Rating, and was chosen by the middle of the first three ratings or the lower of two ratings.

Note 3: Lower credit risk means that the credit rating is BBB or above.

Note 4: Medium credit risk means that credit rating is between BBB- or below and BB+ or above.

Note 5: High credit risk means that credit rating is below BB or no credit rating.

**Loan Arrangements by Geographical Location
(Excluding Policy Loans and Premium Loans)**

December 31, 2019

	Northern Region	Central Region	Southern Region	Eastern Region	Total
Secured loans	\$ 25,820,251	\$ 8,904,562	\$ 8,957,467	\$ 389,196	\$ 44,071,476
Overdue loans	404,880	1,759	2,077	108	408,824
Total	26,225,131	8,906,321	8,959,544	389,304	44,480,300
% of total	58.96%	20.02%	20.14%	0.88%	100.00%

December 31, 2018

	Northern Region	Central Region	Southern Region	Eastern Region	Total
Secured loans	\$ 29,584,083	\$ 10,806,719	\$ 9,972,296	\$ 454,231	\$ 50,817,329
Overdue loans	4,499,176	15,329	6,563	120	4,521,188
Total	34,083,259	10,822,048	9,978,859	454,351	55,338,517
% of total	61.59%	19.56%	18.03%	0.82%	100.00%

c) Liquidity risk

SKLIC and its subsidiaries had sufficient working capital to meet financial commitment; therefore, there was no liquidity risk due to the shortage of capital in response to performing contract obligations.

Majority of debt investments and stocks of SKLIC and its subsidiaries with active market and, therefore, are expected to be easily disposed in markets rapidly at the price near fair values. The foreign exchange forward contracts and currency swap contracts SKLIC and its subsidiaries entered into were fixed and for hedging, and these contracts were to be settled in net or gross and did not require huge cash position, resulting in no material cash flow risk.

Liquidity and interest risk rate tables

The following table details the SKLIC and its subsidiaries' remaining contractual maturity for non-derivative financial liabilities with agreed repayment periods. The tables had been drawn up based on the undiscounted cash flows of financial liabilities from the earliest date on which SKLIC and its subsidiaries can be required to pay. The tables included both interest and principal cash flows.

December 31, 2019

	On Demand or Less than 3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 8,316,589	\$ 413,501	\$ 823,347	\$ 55,566
Fixed interest rate liabilities	-	871,500	8,151,000	20,828,000
Reserve for outstanding loss	292,929	88,931	122,557	40,638
Lease liabilities	96,252	232,183	1,057,108	7,357,956

December 31, 2018

	On Demand or Less than 3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial liabilities</u>				
Non-interest bearing	\$ 10,781,120	\$ 286,975	\$ 654,089	\$ 52,141
Fixed interest rate liabilities	-	871,500	8,318,500	21,532,000
Reserve for outstanding loss	306,047	76,311	138,675	30,502

The following table details SKLIC and its subsidiaries' expected maturity for some of non-derivative financial assets. The tables below had been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand SKLIC and its subsidiaries' liquidity risk management as the liquidity is managed on a net asset and liability basis.

December 31, 2019

	On Demand or Less than 3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial assets</u>				
Domestic	\$ 2,742,070	\$ 6,516,615	\$ 10,232,948	\$ 116,283,197
Abroad	18,820,324	44,730,028	348,710,567	4,059,587,069

December 31, 2018

	On Demand or Less than 3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Non-derivative financial assets</u>				
Domestic	\$ 1,418,383	\$ 2,750,345	\$ 19,823,698	\$ 154,658,326
Abroad	17,685,830	52,156,520	305,861,732	3,951,429,812

The amounts included above for variable interest rate instruments for both non-derivative financial assets and liabilities was subject to change if changes in variable interest rates differ from those estimates of interest rates determined at the end of the reporting period.

The following table detailed SKLIC and its subsidiaries' liquidity analysis for derivative financial instruments. The table was based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves at the end of the reporting period.

December 31, 2019

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Net settled</u>					
Foreign exchange forward contracts	<u>\$ 1,729,392</u>	<u>\$ 1,919,730</u>	<u>\$ 80,082</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Gross settled</u>					
Exchange rate swaps					
Inflows	\$ 3,652,604	\$ 3,832,454	\$ 2,139,162	\$ -	\$ -
Outflows	-	-	(65,865)	-	-
Foreign exchange forward contracts					
Inflows	586,112	51,849	-	-	-
Outflows	-	-	-	-	-
	<u>\$ 4,238,716</u>	<u>\$ 3,884,303</u>	<u>\$ 2,073,297</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2018

	On Demand or Less than 1 Month	1-3 Months	3 Months to 1 Year	1-5 Years	5+ Years
<u>Net settled</u>					
Foreign exchange forward contracts	<u>\$ (1,525,351)</u>	<u>\$ (564,114)</u>	<u>\$ 146,370</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Gross settled</u>					
Exchange rate swaps					
Inflows	\$ 119,386	\$ 331,158	\$ 396,784	\$ -	\$ -
Outflows	(636,727)	(114,753)	(44,073)	-	-
Foreign exchange forward contracts					
Inflows	310,208	66,665	-	-	-
Outflows	(1,092)	(1,187)	-	-	-
	<u>\$ (208,225)</u>	<u>\$ 281,883</u>	<u>\$ 352,711</u>	<u>\$ -</u>	<u>\$ -</u>

d) Transfer of financial assets

The transferred financial assets of SKLIC and its subsidiaries are mainly securities under repurchase agreements or equity securities under lending agreements. SKLIC and its subsidiaries cannot sell or pledge these transferred financial assets during the valid transaction period. Therefore, SKLIC and its subsidiaries do not completely derecognize the transferred assets. The table below discloses the information of financial assets that are not completely derecognized and the associated financial liabilities.

December 31, 2019

Type of Financial Assets	Carrying Amount of the Transferred Financial Assets	Carrying Amount of Relevant Financial Liabilities	Fair Value of the Transferred Financial Assets	Fair Value of Relevant Financial Liabilities	Fair Value Net Position
Security lease agreements - financial assets at FVTPL	\$ 587,790	\$ -	\$ 587,790	\$ -	\$ 587,790
Security lease agreements - financial assets at FVTOCI	1,388,424	-	1,388,424	-	1,388,424

December 31, 2018

Type of Financial Assets	Carrying Amount of the Transferred Financial Assets	Carrying Amount of Relevant Financial Liabilities	Fair Value of the Transferred Financial Assets	Fair Value of Relevant Financial Liabilities	Fair Value Net Position
Security lease agreements - financial assets at FVTPL	\$ 1,189,102	\$ -	\$ 1,189,102	\$ -	\$ 1,189,102
Security lease agreements - financial assets at FVTOCI	7,396,253	-	7,396,253	-	7,396,253

e) Offsetting financial assets and financial liabilities

The derivatives held by SKLIC and its subsidiaries did not meet the offsetting criteria pursuant to IFRS, but was covered by enforceable master netting arrangements or similar agreements signed with counterparties. Derivatives under enforceable master netting arrangements or similar agreements can be settled on a net basis of financial assets and financial liabilities if two parties decide to settle on net basis, or if not, settle on gross basis. If one party defaults, the other party can choose to settle on net basis.

The tables below present the information on financial assets and financial liabilities that have been offset.

December 31, 2019

Financial Assets That Have Been Offset or That Are Covered by Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet (b)	Net Amounts of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivative	\$ 14,087,576	\$ -	\$ 14,087,576	\$ -	\$ 6,219,297	\$ 7,868,279

Financial Liabilities That Have Been Offset or That Are Covered by Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet (b)	Net Amounts of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivative	\$ 162,057	\$ -	\$ 162,057	\$ -	\$ -	\$ 162,057

Note: Included master netting arrangements and non-cash financial collateral.

December 31, 2018

Financial Assets That Have Been Offset or That Are Covered by Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet (b)	Net Amounts of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivative	\$ 2,130,144	\$ -	\$ 2,130,144	\$ -	\$ 22,435	\$ 2,107,709

Financial Liabilities That Have Been Offset or That Are Covered by Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet (b)	Net Amounts of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivative	\$ 3,646,870	\$ -	\$ 3,646,870	\$ -	\$ 2,963,891	\$ 682,979

Note: Included master netting arrangements and non-cash financial collateral.

e. Structured entities

- 1) SKLIC and its subsidiaries held the equity of the following non-controlling structured entities. SKLIC and its subsidiaries did not provide financial or other support to these structured entities, and the maximum risk amount for these entities is the book value of assets held by SKLIC and its subsidiaries:

The Type of Structured Units	Nature and Purpose	Equity Held by SKLIC
Private equity investment	Invest in private funds issued by external third-party fund companies in order to obtain investment benefits.	Invest in units or limited partnership interests issued by the fund.
Asset securitization commodity	Invest in asset securitization commodities in order to obtain investment benefits.	Invest in asset-based securities issued by these entities.

- 2) As of December 31, 2019 and 2018, the book value of assets related to the equity of non-controlling structured entities is as follows:

	For the Year Ended December 31, 2019	
	Private Equity Investment	Asset Securitization Commodity
Financial assets at fair value through profit or loss	\$ 6,020,499	\$ 6,162,260
Financial assets at amortized cost	<u>-</u>	<u>12,701,303</u>
	<u>\$ 6,020,499</u>	<u>\$ 18,863,563</u>
	For the Year Ended December 31, 2018	
	Private Equity Investment	Asset Securitization Commodity
Financial assets at fair value through profit or loss	\$ 3,496,250	\$ 4,941,457
Financial assets at amortized cost	<u>-</u>	<u>13,227,729</u>
	<u>\$ 3,496,250</u>	<u>\$ 18,169,186</u>

- 3) Financial risk information of TSKCB

The risk management objectives of TSKCB are business performance objectives, overall risk appetite and external legal restrictions in order to achieve the goal of balancing risk and reward. The main risks faced by TSKCB and its subsidiaries' operations include various credit risks, market risks (including interest rates, exchange rates, equity securities) and liquidity risks of on- and off-balance sheet businesses.

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

a) Market risk

The financial instruments held or issued by TSKCB and its subsidiaries are affected by market risk factors such as interest rate (including credit risk spread), exchange rate, securities' price, product price and its volatility, interaction correlation and market liquidity that had an adverse impact on surplus, capital, value or operating capacity.

The market risk comes from the trading book and the bank book portfolio. The trading book portfolio refers to various financial products (including commodities) transactions that are undertaken for the purpose of the transaction, or those who intend to make profits from short-term price fluctuations, such as self-operated business, market-making transactions, etc. A bank book portfolio was established for long-lasting purposes and not for the purpose of earning capital gains.

i. Market risk management policy

i) Identifying market risk

The risk management unit shall clearly identify the source of the market risk of each type of transaction before the transaction is undertaken, and shall be stated in the relevant product guidelines document, and the market risk management unit shall independently perform the identification procedure.

ii) Measuring market risk

Market risk management units use appropriate and consistent measurement methods to cover key sources of risk based on business characteristics and sources of risk. Risk measurement is closely integrated with daily risk management and serves as a reference for planning, monitoring and controlling market risk conditions.

The evaluation method and market price information shall be determined by the market risk management unit to calculate the profit and loss, risk factor sensitivity, risk value and stress test.

iii) Monitoring

Market risk authority is a tool used to authorize and monitor the market risk assumed by TSKCB and its subsidiaries to ensure that market risk is in line with TSKCB and its subsidiaries' risk appetite. The establishment of authorization, approval, exception and overpass shall be subject to the relevant regulations of market risk management.

iv) Reporting

The market risk report is a risk communication tool. The market risk management unit reports risk management information to senior managers on a daily basis, and regularly reports the overall market risk status of TSKCB and its subsidiaries to the senior management and the board of directors. The risk strategy will be adjusted based on the market risk report.

ii. Market risk measurement

The board of directors determines the capital adequacy ratio and annual earnings target annually, and the expectation of market volatility to measure whether the risk and remuneration ratio is acceptable, and whether the risk assumed is in line with TSKCB and its subsidiaries' risk appetite. Besides, the Board of Directors approve the market risk operation authority that all transactions made by the trading unit are conducted within the approved guidelines. TSKCB and its subsidiaries use market risk factor sensitivity as a tool of market risk control.

i) Market risk management of trading book

Market risk sensitivity refers to the change in value of a unit due to a change in a specific market risk factor. Market risk factors are divided into interest rates, exchange rates, and prices of equity securities. TSKCB and its subsidiaries disclose the market risk arising from the trading positions of TSKCB by market risk sensitivity.

Risk factor sensitivity

- Foreign exchange rate factor sensitivity, FX Delta

The net amount of the risk component of each currency at the balance sheet date, that is, the change in the present value of the currency when the change in the exchange rate of each currency is increased by 1%. The exchange rate risk component stated in the following table is not only directly generated from the foreign exchange derivative commodity, but also integrated into the spot foreign exchange trading position for the purpose of hedging and the spot location of each foreign currency.

- Interest rate factor sensitivity

When the interest rate term structure of each evaluation yield curve moves up by 0.01% (1 basis point), the relative impact on the present value of future cash flows of interest rate spot trading positions and interest rate derivative commodity trading positions (DV01 or PVBP) will be made.

- Factor sensitivity of equity securities

The impact of changes in the value of the commodity portion when the spot price of the equity securities changes by 1%. Equity securities held by TSKCB and its subsidiaries include shares, ETFs, etc.

Market Risk	Currency	2019	2018
Foreign exchange rate factor sensitivity (exchange rate increase by 1%)	EUR	\$ 24	\$ 718
	JPY	(71)	(40)
	USD	1,796	91
	Other (Note)	(1,668)	(204)
Interest rate factor sensitivity DV01 (+1bp)	TWD	205	291
	USD	(200)	(291)
	AUD	(2)	1
	ZAR	(3)	(4)
	HKD	-	2
	Other (Note)	1	-
Equity securities factor sensitivity (stock price increase 1%)	TWD	-	-

Note: Other foreign currency is refers to NTD.

Stress testing

Set extreme risk events or situations to make a significant change at a specific or a range of risk factors, volatility, or correlations to measure the potential significant impact on a portfolio or location. This is the way to redeem the risk values which cannot measure the tail risk.

ii) Interest rate risk of banking book, IRRBB

The interest rate risk source of the bank book includes the interest rate risk arising from the transactions of the business units, such as deposits and lending transactions, as well as the debts held by the business units which manage the liquidity risk of TSKCB and its subsidiaries, the spot parts of the tickets and their hedging position. The interest rate risk position is transferred to the centralized management of the bank book management unit under the Bank's internal transfer pricing system (Fund Transfer Pricing, FTP). The risk management unit prepares risk reports regularly which includes interest rate sensitivity analysis, stress test results and limit usage analysis, and then reports to the Asset and Liability Management Committee and the Board of Directors. Management tools set are as below.

Repricing Gap Report

Measures the amount and the duration of re-pricing assets and liabilities at each point in time to understand the allocation of interest rate risk.

Risk sensitivity of interest rate

- Mismatch risk of asset liability interest rate

The impact of a benchmark (0.01%) of interest rate changes on future net interest income is shown by 1 bp Δ NII. The net interest income (1bp Δ NII) analysis focuses on changes in interest payments over the next year.

- Financial product interest rate risk

The DV01 measures the impact of a basis point of interest rate changes on the value of the site, and evaluates the market value of financial products to ensure that their impact on earnings or shareholders' equity is in line with TSKCB TSKCB and its subsidiaries' risk appetite.

Stress testing

Evaluates the impact of the overall bank book position on the net economic value, in the context of large changes in interest rates. And compares the results with the capital to examine the allowable risk.

iii) Bank book equity securities risk

Bank Book Equity Securities Risk Definition refers to the impact of changes in the value of the commodity portion when the spot price of the equity securities for non-trading purposes changes by 1%. The market value of the financial product is evaluated to ensure its impact on earnings or shareholders' equity conforms to TSKCB's risk appetite.

Market Risk	Currency	2019	2018
Interest rate factor sensitivity DV01 (+1bp)	TWD	\$ (48,256)	\$ (34,115)
	USD	(20,088)	(23,074)
	AUD	(340)	(503)
	ZAR	(978)	(816)
	Other (Note)	(1,249)	(301)
Equity securities factor sensitivity (stock price increase 1%)	TWD	21,820	7,219

Note: Other foreign currency refers to NTD

b) Credit risk

Credit risk may be caused by counterparties' failure to perform their obligations associated with financial assets held by the bank. The bank follows a strict credit policy to assess and approve all credit lines and guarantees. The secured loans constituted 71.66% of the total loans on December 31, 2019. The percentage of guarantees and issuance of letters of credit secured by collateral were 26.67%. The collateral for loans, financing guarantees and letters of credit guarantees are cash, inventories, securities, plants and other assets. If the customers default on their loans, the Bank will execute its rights on the collateral in accordance with the terms of the contracts.

In order to ensure that the credit risk control is within the tolerable range, the merged company has relevant risk management policies, and has relevant business management methods or operation points and risk management mechanisms for the goods provided and the business it performs.

i. Credit risk management program

The measurement and management of credit risks from TSKCB and its subsidiaries' main businesses are as follows:

i) Loans business

The Company adopts the 12-month ECL model to evaluate the loss allowance of financial instruments whose credit risk do not increase significantly since initial recognition, and adopts the lifetime ECL model to evaluate the loss allowance of financial instruments whose credit risk has increased significantly since initial recognition or that are credit-impaired. The credit quality of the bank that determines the discount and loan is as follows:

Assessment of credit risk that has increased significantly since initial recognition

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

Quantitative indicators

- Changes in external TCRI credit ratings

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

- Information on overdue status

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

Qualitative indicators

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

Definition of default and credit impairment of financial assets

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

Quantitative indicators

- When the contract amount is overdue for a certain number of days.
- The credit amount of the debtor has been regarded as a delinquent loan.

Qualitative indicators

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

- The debtor has gone bankrupt or may have called for bankruptcy or financial restructuring.
- Due to the economic or contractual reasons associated with the debtor's financial difficulties, the debtor's creditors give the borrower an unconfirmed concession and report the overdue loan.
- It is known from external information that the debtor has experienced financial difficulties and needs to bargain with the Bank.
- The debtor is clearly insolvent.

Evaluation of expected credit losses

TSKCB and its subsidiaries classify the loans into the following categories according to the characteristics of the loans:

Group	Evaluation	Classification		Application
1	Combined classification	Corporate finance	Sufficient collateral	Loan case other than Group 2
			Non-sufficient collateral or	
		Consumer finance	Fiduciary loan	
			Auto loan	
			Mortgage	
Credit card				
2	Case evaluation	Corporate finance	Special collaterals	Note
		Consumer finance		

Note: Loans are classified as Group 2 if they obtain special collateral. Group 2 is assessed on the basis of a significant increase in credit risk or default and credit impairment, and the rest is assessed in accordance with Group 1.

For the classification criteria of loans, the expected credit losses are assessed at each stage of each portfolio classification:

Impairment for expected credit loss (Probability of Default (PD) × Loss Given Default (LGD) × Exposure at default (EAD)), the application of PD is described as follows:

- Stage 1: TSKCB and its subsidiaries evaluate the loss allowance of financial assets, which credit risk did not significantly increase after initial recognition, based on 12 months PD to evaluate expected credit losses.
- Stage 2: TSKCB and its subsidiaries evaluate the loss allowance of financial assets, which credit risk significantly increased after initial recognition, based on lifetime expected credit losses, and calculates PD at each lifetime. If the cash flow of the contract in the future period (i.e., the default exposure amount of each period) can be assessed, the cash flow method is used to assess the expected credit losses. If the cash flow of each period cannot be assessed, then the expected credit losses are calculated using the current mark-to-market method.
- Stage 3: TSKCB and its subsidiaries evaluate the loss allowance of financial assets, which credit risk will be regarded as default, and the probability of default is regarded as 100%. PD at each lifetime will not be considered. Recoverable amount will be applied to assess expected credit losses.

Consideration of forward - looking estimate

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

ii) Debt instrument investments

In order to reduce the credit risk of debt instrument investments, TSKCB and its subsidiaries' management team assigned a dedicated team to establish a credit rating database to assess the default risk of debt instrument investments. In addition to the information on the evaluation of the independent rating agencies, the credit rating information is also given appropriate internal ratings from the publicly available financial information for projects without external rating information.

TSKCB and its subsidiaries consider the historical default loss rate provided by the external rating agencies and the current financial status of the debtor to calculate 12 month and lifetime ECLs of financing commitments in debt instrument investments.

Expected credit losses are recognized on the securities held by TSKCB and its subsidiaries according to the expected credit losses and lifetime ECLs of financing commitments. The credit quality of TSKCB and its subsidiaries' judgment securities is as follows:

Assessment of credit risk that has increased significantly since initial recognition.

TSKCB and its subsidiaries assess the change in the probability of default of debt instrument investment during the lifetime on each reporting date to determine if the credit risk has increased significantly since the initial recognition. In order to make this assessment, TSKCB and its subsidiaries considerations show the reasonable and

supportable information that the credit risk has increased significantly since the initial recognition. The main considerations include:

Quantitative indicators

- Debt instrument investments on the initial recognition date, of which the issuer's credit rating is below non-investment grade and the credit rating of the investments from the reporting date has not changed.
- When the issuer's credit rating is non-investment grade, the reported daily credit rating is reduced to a certain extent.

Quantitative indicators

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

Definition of default and credit impaired financial assets

If the debt instrument investment meets one or more of the following conditions, the financial asset is determined to have defaulted and credit impaired.

Qualitative indicators

- Debt instrument investment is a credit impaired bond when purchased.
- The credit rating of the issuer or debt instrument investment is at a default level on the reporting date.

Quantitative indicators

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

Measurement of expected credit losses

- Debt instrument investment is classified in a group of similar type, TSKCB and its subsidiaries then assess the expected credit loss of each group by the regulation of Calculation of Bank of International Settlement ratio.
- Comparing the risk of default on the debt instrument on the reporting date with the default risk at the time of initial recognition, and considering the reasonable and corroborative information showing a significant increase in credit risk since initial recognition, to determine whether the financial instrument's credit risk since initial recognition has increased significantly.
- TSKCB and its subsidiaries evaluate the loss allowance of financial assets, which credit risk did not significantly increase after initial recognition, based on 12 month PD to evaluate expected credit losses.

- TSKCB and its subsidiaries evaluate the loss allowance of financial assets, which credit risk significantly increased after initial recognition, based on lifetime expected credit losses, and calculates PD at each lifetime. If the cash flow of the contract in the future period (i.e., the default exposure amount of each period) can be assessed, the cash flow method is used to assess the expected credit losses. If the cash flow of each period cannot be assessed, then the expected credit losses are calculated using the current mark-to-market method.
- TSKCB and its subsidiaries evaluate the loss allowance of financial assets, which credit risk will be regarded as default, and the probability of default is regarded as 100%. PD at each lifetime will not be considered. Recoverable amount will be applied to assess expected credit losses.
- Debt instrument investments' default probability is based on the value published by external credit rating agencies, and has been manually adjusted to imply the possibility of future market fluctuations, so no additional consideration is required.

ii. Credit risk hedging or mitigation policies

i) Collateral

TSKCB and its subsidiaries have a series of measures for credit granting to reduce credit risks. One of the procedures is requesting collateral from the borrowers. To secure the loans, TSKCB and its subsidiaries manage and assess the collaterals following the procedures that suggest the scope of collateralization and valuation of collaterals and the process of disposal. In credit contracts, TSKCB and its subsidiaries stipulate the security mechanism for loans and the conditions and terms for collaterals and offsetting to state clearly that TSKCB and its subsidiaries reserve the right to reduce granted limit, to reduce the repayment period, to demand immediate settlement or to offset the debt of the borrowers with their deposits in the Bank in order to reduce the credit risks.

The requirements for collateral for other non-credit businesses depend on the nature of the financial instruments. Asset-backed securities and similar financial instruments are required to provide a pool of underlying financial assets as collateral.

TSKCB and its subsidiaries observe the value of the collateral of the financial instrument and considers the financial assets that are credit impaired. On December 31, 2019, the credit impaired financial assets and the value of collateral to mitigate potential losses were as follows:

	Total Book Value	Allowance for Impairment	Exposure (Amortized Cost)	Fair Value of Collateral
<u>Credit-impaired financial assets</u>				
Discounts and loans Receivable	\$ 9,194,036	\$ (2,671,030)	\$ 6,523,006	\$ 15,318,980
Credit card	40,698	(28,359)	12,339	-
Others	3,113,256	(2,084,688)	1,028,568	28,114
Other financial assets	<u>28,360</u>	<u>(18,509)</u>	<u>9,851</u>	<u>4,051</u>
	<u>\$ 12,376,350</u>	<u>\$ (4,802,586)</u>	<u>\$ 7,573,764</u>	<u>\$ 15,351,145</u>

The collateral is land and buildings obtained by TCSKB and its subsidiaries that have been written off and recognized as foreclosed collateral as of December 31, 2019. The collateral will be sold when it is available for sale. The collateral is classified as other assets in the balance sheet. The difference between the price and the carrying amount is recognized as a net gain (loss) on the sale of foreclosed collateral under net income.

ii) Credit risk concentration limits and control

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

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

In addition, to manage the concentration risk on the financial assets, TSKCB and its subsidiaries have set credit limits by industry, conglomerate, country and transactions collateralized by stocks, and integrated within one system to supervise concentration of credit risk in these categories. TSKCB and its subsidiaries monitor concentration of each asset and control various types of credit risk concentration in a single transaction counterparty, group, associate, industry or nation.

iii) Other credit enhancements

To reduce credit risk, TSKCB and its subsidiaries stipulates in its credit contracts the terms for offsetting to state clearly that TSKCB and its subsidiaries reserve the right to offset the borrowers' debt against their deposits in TSKCB and its subsidiaries.

iii. Objects of assessing credit risks include positive fair value of contracts on balance sheet and off-balance sheet commitments. Maximum exposure to credit risk of all financial instruments is the same as book value.

i) Items excluded

Financial Instrument	December 31	
	2019	2018
Guarantees	\$ 12,233,770	\$ 12,405,929
Letters of credit	2,308,079	3,632,076
Loan commitments (excluding credit card)	187,312,541	187,713,260
Loan commitments - credit card	1,993,492	2,067,850

ii) Risk concentration

When the counterparty to the financial instruments consist of a single individual, or a group of entities with similar commercial activities, they may have similar abilities to fulfill their credit obligations. Such situation does not apply to TSKCB and its subsidiaries. TSKCB and its subsidiaries' credit exposure related to loans on December 31, 2019 was classified as follows:

December 31, 2019

Industry	Contract Amount	Maximum Exposure of Credit Risk
Individuals	\$ 377,025,463	\$ 377,025,463
Finance and insurance	280,134,780	280,134,780
Manufacturing	88,532,279	88,532,279
Real estate and leasing	56,581,699	56,581,699
Wholesale and retail	32,259,510	32,259,510
Servicing	15,135,250	15,135,250
Utilities	19,311,173	19,311,173
Others	<u>26,960,960</u>	<u>26,960,960</u>
	<u>\$ 895,941,114</u>	<u>\$ 895,941,114</u>
Region	Contract Amount	Maximum Exposure of Credit Risk
Domestic	\$ 769,901,626	\$ 769,901,626
North America	49,714,073	49,714,073
Europe	19,747,278	19,747,278
Asia	44,206,043	44,206,043
Oceania	11,143,264	11,143,264
Africa	<u>1,228,830</u>	<u>1,228,830</u>
	<u>\$ 895,941,114</u>	<u>\$ 895,941,114</u>

iv. Credit quality of financial assets and non-performing impairment analysis

Part of the financial assets held by TSKCB and its subsidiaries, such as cash and cash equivalents, financial assets at fair value through profit or loss are exposed to low credit risk because the counterparties have rather high credit ratings. Except for those mentioned above, the credit qualities of TSKCB and its subsidiaries' remaining financial assets were analyzed as follows:

December 31, 2019

i) Credit quality analysis of loans and receivables (including delinquent loans reclassified from other items)

	Notes Discounted and Loans			Difference in Impairment Loss under Regulations	Total
	Stage 1 2-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs		
Category					
Consumer loans	\$ 313,367,529	\$ 9,450,675	\$ 6,243,669	\$ -	\$ 329,061,873
Enterprise loans	257,838,374	15,145,880	2,950,367	-	275,934,621
Total book value	571,205,903	24,596,555	9,194,036	-	604,996,494
Allowance for impairment loss	(1,478,599)	(1,013,620)	(2,671,030)	-	(5,163,249)
Difference in impairment loss under regulations	-	-	-	(2,404,880)	(2,404,880)
	<u>\$ 569,727,304</u>	<u>\$ 23,582,935</u>	<u>\$ 6,523,006</u>	<u>\$ (2,404,880)</u>	<u>\$ 597,428,365</u>
	Receivables and Other Financial Assets			Difference in Impairment Loss under Regulations	Total
	Stage 1 2-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs		
Category					
Credit card	\$ 7,893,714	\$ 617,922	\$ 40,698	\$ -	\$ 8,552,334
Others	63,729,072	50,750	3,141,616	-	66,921,438
Total book value	71,622,786	668,672	3,182,314	-	75,473,772
Allowance for impairment loss	(24,431)	(39,269)	(2,131,556)	-	(2,195,256)
Difference in impairment loss under regulations	-	-	-	(25,438)	(25,438)
	<u>\$ 71,598,355</u>	<u>\$ 629,403</u>	<u>\$ 1,050,758</u>	<u>\$ (25,438)</u>	<u>\$ 73,253,078</u>
	Loan Commitments			Difference in Impairment Loss under Regulations	Total
	Stage 1 2-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs		
Category					
Guarantees	\$ 12,233,770	\$ -	\$ -	\$ -	\$ 12,233,770
Letters of credit	2,308,079	-	-	-	2,308,079
Others	4,382,769	98,178	-	-	4,480,947
Total book value	18,924,618	98,178	-	-	19,022,796
Allowance for impairment loss	(51,187)	(1,350)	-	-	(52,537)
Difference in impairment loss under regulations	-	-	-	(226,524)	(226,524)
	<u>\$ 18,873,431</u>	<u>\$ 96,828</u>	<u>\$ -</u>	<u>\$ (226,524)</u>	<u>\$ 18,743,735</u>

December 31, 2018

i) Credit quality analysis of loans and receivables (including delinquent loans reclassified from other items)

Notes Discounted and Loans									
	Stage 1		Stage 2		Stage 3	Difference in		Difference in	
	2-month		Lifetime ECLs		Lifetime ECLs	Loss under		Regulations	Total
	ECLs					Regulations			
Category									
Consumer loans	\$ 290,880,497	\$ 13,327,273	\$ 5,504,326	\$ -	\$ 309,715,096				
Enterprise loans	<u>242,748,090</u>	<u>11,425,048</u>	<u>2,429,903</u>	<u>-</u>	<u>256,603,041</u>				
Total book value	533,628,587	24,752,321	7,937,229	-	566,318,137				
Allowance for impairment loss	(4,749,554)	(917,558)	(2,198,052)	-	(4,535,164)				
Difference in impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,762,001)</u>	<u>(2,762,001)</u>				
	<u>\$ 532,209,033</u>	<u>\$ 23,834,763</u>	<u>\$ 5,739,177</u>	<u>\$ (2,762,001)</u>	<u>\$ 559,020,972</u>				
Receivables and Other Financial Assets									
	Stage 1		Stage 2		Stage 3	Difference in		Difference in	
	2-month		Lifetime ECLs		Lifetime ECLs	Loss under		Regulations	Total
	ECLs					Regulations			
Category									
Credit card	\$ 7,171,928	\$ 636,701	\$ 49,547	\$ -	\$ 7,858,176				
Others	<u>53,368,304</u>	<u>111,761</u>	<u>3,241,272</u>	<u>-</u>	<u>56,721,337</u>				
Total book value	60,540,232	748,462	3,290,819	-	64,579,513				
Allowance for impairment loss	(14,758)	(48,927)	(2,237,451)	-	(2,301,136)				
Difference in impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>				
	<u>\$ 60,525,474</u>	<u>\$ 699,535</u>	<u>\$ 1,053,368</u>	<u>\$ -</u>	<u>\$ 62,278,377</u>				
Loan Commitments									
	Stage 1		Stage 2		Stage 3	Difference in		Difference in	
	2-month		Lifetime ECLs		Lifetime ECLs	Loss under		Regulations	Total
	ECLs					Regulations			
Category									
Guarantees	\$ 12,405,929	\$ -	\$ -	\$ -	\$ 12,405,929				
Letters of credit	3,600,320	31,756	-	-	3,632,076				
Others	<u>4,587,994</u>	<u>81,155</u>	<u>-</u>	<u>-</u>	<u>4,669,149</u>				
Total book value	20,594,242	112,911	-	-	20,707,154				
Allowance for impairment loss	(56,496)	(1,508)	-	-	(58,004)				
Difference in impairment loss under regulations	<u>-</u>	<u>-</u>	<u>-</u>	<u>(216,777)</u>	<u>(216,777)</u>				
	<u>\$ 20,537,747</u>	<u>\$ 111,403</u>	<u>\$ -</u>	<u>\$ (216,777)</u>	<u>\$ 20,432,373</u>				

ii) Credit quality analysis of stock investments

Credit quality analysis of debt instruments

The breakdown below shows the debt instruments classified as FVTPL, FVTOCI and financial assets at amortized cost.

December 31, 2019

	Financial Asset at Fair Value Through Profit or Loss	Financial Asset at Fair Value Through Other Comprehensive Income	Financial Assets at Amortized Cost
Total book value	\$ 4,902,868	\$ 113,984,235	\$ 33,395,099
Allowance loss	<u>-</u>	<u>(26,629)</u>	<u>(15,333)</u>
Amortized cost	4,902,868	113,957,606	33,379,766
Fair value adjustment	<u>4,257</u>	<u>1,064,908</u>	<u>-</u>
	<u>\$ 4,907,125</u>	<u>\$ 115,022,514</u>	<u>\$ 33,379,766</u>

December 31, 2018

	Financial Asset at Fair Value Through Profit or Loss	Financial Asset at Fair Value Through Other Comprehensive Income	Financial Assets at Amortized Cost
Total book value	\$ 4,185,170	\$ 87,732,646	\$ 33,504,183
Allowance loss	<u>-</u>	<u>(25,941)</u>	<u>(15,216)</u>
Amortized cost	4,185,170	87,706,705	33,488,967
Fair value adjustment	<u>(9,076)</u>	<u>444,034</u>	<u>-</u>
	<u>\$ 4,176,094</u>	<u>\$ 88,150,739</u>	<u>\$ 33,488,967</u>

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

December 31, 2019

Credit Rating	Definition	Recognition basis	Expected credit loss	Total Book Value
Normal (Stage 1)	The debtor has a low credit risk and is fully capable of paying off contractual cash flows	12-month expected credit losses	0.00%-0.44%	\$ 152,282,202
Abnormal (Stage 2)	Credit risk has increased significantly since initial recognition	Lifetime expected credit losses (not credit impaired)		-
Default (Stage 3)	There is evidence that credit is impaired.	Lifetime expected credit (credit impaired)		-
Charge off	There is evidence that the debtor is facing serious financial difficulties and TSKCB and its subsidiaries cannot reasonably expect to recover, such as overdue for more than Z days.	Write off		-

December 31, 2018

Credit Rating	Definition	Recognition basis	Expected credit loss	Total Book Value
Normal (Stage 1)	The debtor has a low credit risk and is fully capable of paying off contractual cash flows	12-month expected credit losses	0.00%-0.44%	\$ 125,421,999
Abnormal (Stage 2)	Credit risk has increased significantly since initial recognition	Lifetime expected credit losses (not credit impaired)		-
Default (Stage 3)	There is evidence that credit is impaired.	Lifetime expected credit (credit impaired)		-
Charge off	There is evidence that the debtor is facing serious financial difficulties and TSKCB and its subsidiaries cannot reasonably expect to recover, such as overdue for more than Z days.	Write off		-

Credit quality analysis of debt instruments is as follows:

December 31, 2019

Category	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Difference in Impairment Loss under Regulations	Total
Domestic bonds					
Investment grade	\$ 87,694,046	\$ -	\$ -	\$ -	\$ 87,694,046
Non-investment grade	3,582,491	-	-	-	3,582,491
No rating	631,095	-	-	-	631,095
Foreign bonds					
Investment grade	60,873,714	-	-	-	60,873,714
No rating	570,021	-	-	-	570,021
Total book value	153,351,367	-	-	-	153,351,367
Allowance for impairment loss	(41,962)	-	-	-	(41,962)
Difference in impairment loss under regulations	-	-	-	-	-
	<u>\$ 153,309,405</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 153,309,405</u>

December 31, 2018

Category	Stage 1 12-month ECLs	Stage 2 Lifetime ECLs	Stage 3 Lifetime ECLs	Difference in Impairment Loss under Regulations	Total
Domestic bonds					
Investment grade	\$ 65,086,170	\$ -	\$ -	\$ -	\$ 65,086,170
Non-investment grade	3,077,641	-	-	-	3,077,641
No rating	261,921	-	-	-	261,921
Foreign bonds					
Investment grade	56,445,244	-	-	-	56,445,244
No rating	985,981	-	-	-	985,981
Total book value	125,856,957	-	-	-	125,856,957
Allowance for impairment loss	(41,157)	-	-	-	(41,157)
Difference in Impairment Loss under Regulations	-	-	-	-	-
	<u>\$ 125,815,800</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,815,800</u>

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

December 31, 2019

The Allowance Information Summarized According to the Credit Risk Rating	Credit Rating		
	Normal (12-month Expected Credit Losses)	Abnormal (Lifetime ECLs and Not Credit Impaired)	Default (Lifetime ECLs and Credit Impaired)
Balance, beginning of year	\$ 41,157	\$ -	\$ -
Change in credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to charge off	-	-	-
Purchase of new debt instruments	41,785	-	-
Disposal	(41,157)	-	-
Model/risk parameter changes	-	-	-
Exchange rate and other changes	<u>177</u>	<u>-</u>	<u>-</u>
Allowance loss, end of year	<u>\$ 41,962</u>	<u>\$ -</u>	<u>\$ -</u>

December 31, 2018

The Allowance Information Summarized According to the Credit Risk Rating	Credit Rating		
	Normal (12-month Expected Credit Losses)	Abnormal (Lifetime ECLs and Not Credit Impaired)	Default (Lifetime ECLs and Credit Impaired)
Balance, beginning of year	\$ 42,586	\$ -	\$ -
Change in credit rating			
Normal turned to abnormal	-	-	-
Abnormal turned to default	-	-	-
Default turned to charge off	-	-	-
Purchase of new debt instruments	5,540	-	-
Disposal	(2,724)	-	-
Model/risk parameter changes	-	-	-
Exchange rate and other changes	<u>(4,245)</u>	<u>-</u>	<u>-</u>
Allowance loss, end of year	<u>\$ 41,157</u>	<u>\$ -</u>	<u>\$ -</u>

c) Liquidity risk

Ratios of liquidity reserves of the TSKCB and its subsidiaries were 23% and 22% on December 31, 2019 and 2018, respectively.

Liquidity risk means the risk that TSKCB and its subsidiaries could not provide enough capital to deal with either the increase in assets or payment of obligation upon maturity. TSKCB and its subsidiaries classifies the factor into the following classification according to the cause of the risk:

i. Founding Liquidity risk

Refers to the risk that TSKCB and its subsidiaries will be unable to monetize assets or obtain sufficient funds for dealing with the payment of obligation upon maturity.

ii. Market Liquidity risk

Refers to the lack of market depth or presence of market disorder, which causes TSKCB and its subsidiaries to face the risk of a significant decline in market prices when selling or offsetting the positions. Especially when market liquidity freezes, it is very likely that actual losses will be much greater than expected losses.

Management purpose and principle of liquidity risk

If the elimination of liquidity risks is relatively costly, the purpose of liquidity management is to achieve a balance between surplus and risk within a tolerable range. TSKCB and its subsidiaries clearly defined the rights and responsibilities of each unit in accordance with relevant regulations on liquidity risk management, and through the procedures of identification, measurement, monitoring, and reporting as a mechanism for the liquidity risk management of TSKCB and its subsidiaries. The principles of management of liquidity risk for TSKCB and its subsidiaries are as follows:

i. Principle of diversification

TSKCB and its subsidiaries should avoid excessive concentration of funds on the same maturity date, scheduling tool, region, and source of funds or counterparties.

ii. Principle of stability

TSKCB and its subsidiaries should develop a strategy to obtain stable funding.

iii. Market liquidity

Each book value of assets should maintain proper market liquidity as the positions of market liquidity will indirectly affect the funding liquidity.

iv. Matching of the expiry date of assets and liabilities

Set the relevant indicators for monitoring the suitability of short-term and long-term objectives.

v. Management of financing source

Reduce reliance on unstable financing sources such as large deposits and interbank lending.

vi. Management of financing needs

Control of payment commitments derived from loans business.

Measurement of liquidity risk

TSKCB and its subsidiaries formulates liquidity management indicators and management mechanisms for each major currency, mainly covering the following:

- i. Current ratio
- ii. Analysis of funding gap
- iii. Structure of asset and liability
- iv. Concentration of funding sources

In addition, TSKCB and its subsidiaries standardize management principles for fund requirements of off-balance-sheet transactions, large-capital notification mechanisms, early warning mechanisms, and formulate emergency plans for liquidity risks and liquid assets for financial asset positions held by TSKCB and its subsidiaries, as well as set allocation proportion and order of disposal according to liquidity attributes.

Stress testing

The stress test of liquidity risk is used to detect the ability of TSKCB and its subsidiaries to meet the funding gap under extreme adverse market conditions to ensure that TSKCB and its subsidiaries can withstand sudden events. The survival horizon and stress scenario of TSKCB and its subsidiaries' stress test contain at least:

- i. General market pressure scenarios
- ii. Possible stress situations unique to the Bank

Further, TSKCB and its subsidiaries are to estimate the remaining funds during the survival horizon in each stress situation. If there is a negative funding gap or a significant liquidity slowdown during the survival horizon, it should be investigated in a timely manner, including capital injection and other means to increase the cash flow coverage ratio.

The maturity analysis of non-derivative financial liabilities

The analysis of cash outflows of non-derivative financial liabilities was presented by the residual maturities as of the balance sheet dates. Since the amounts of cash outflows were based on contractual cash flows, certain items may not correspond to related amounts in the consolidated balance sheets.

December 31, 2019	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Due to the Central Bank and other banks	\$ 8,202,481	\$ 18,106	\$ 193,531	\$ 78,182	\$ 1,519	\$ 8,493,819
Notes and bonds issued under repurchase agreements	-	608,031	-	-	-	608,031
Payables	8,570,824	422,879	749,794	281,369	435,426	10,460,292
Deposits and remittances	162,847,341	111,913,732	79,873,153	203,052,710	257,326,161	815,013,097
Bank debentures	-	-	-	-	22,500,000	22,500,000
Lease liability	39,840	78,470	105,106	154,966	3,887,317	4,265,699
Other items of cash outflow on maturity	1,982,883	825,444	1,223,266	1,600,685	5,016,424	10,648,702

December 31, 2018	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Due to the Central Bank and other banks	\$ 6,733,343	\$ 1,708,449	\$ 193,556	\$ 68,166	\$ 1,554	\$ 8,705,068
Notes and bonds issued under repurchase agreements	1,506,875	1,816,912	206,362	-	-	3,530,149
Payables	19,380,500	487,209	762,891	247,320	565,613	21,443,533
Deposits and remittances	155,226,053	94,941,733	80,304,061	178,603,943	232,594,639	741,670,429
Bank debentures	-	-	-	1,000,000	20,500,000	21,500,000
Other items of cash outflow on maturity	954,492	1,222,779	1,426,186	2,786,367	5,071,712	11,461,536

The maturity analysis of derivative financial liabilities

i. Derivative instruments that settle on a net basis

The derivative instruments that settle on a net basis include:

Foreign exchange derivative: Non Principal Delivery Forward Contract (NDF)

Interest rate derivative: Interest Rate Swap (IRS)

The basic element to realize the derivative financial instruments shown in the consolidated balance sheets is to assess the maturities of contracts. Since the amounts in the maturity analyses of derivative financial liabilities were based on contractual cash flows, certain items may not correspond to related amounts in the consolidated balance sheets. The maturity analysis of derivative financial liabilities was as follows:

(In Thousands of New Taiwan Dollars)

Financial Instruments Item	December 31, 2019					
	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss Foreign currency derivative	\$ (13,159)	\$ (1,084)	\$ (254)	\$ (1,277)	\$ 6,846	\$ (8,929)

(In Thousands of New Taiwan Dollars)

Financial Instruments Item	December 31, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Derivative financial liabilities at fair value through profit or loss Foreign currency derivative	\$ (3,126)	\$ (62,600)	\$ -	\$ -	\$ -	\$ (65,726)

ii. Derivative instruments that settle on a gross basis

The derivative instruments that settle on a gross basis include:

Foreign exchange derivative: Foreign Exchange Forward Contracts

Interest rate derivative: Foreign Exchange Swaps (FX Swaps)

The Bank conducted maturity analysis of off-balance sheet items based on the residual maturities as of the balance sheet dates. For the financial guarantee contracts issued, the maximum amounts of the guarantees are included in the earliest periods that the guarantee obligation might have been required to be fulfilled. The amounts used in the maturity analysis of off-balance sheet items are based on contractual cash flows, so some of these amounts may not correspond to those shown in the balance sheets.

Item	December 31, 2019					
	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	\$ 14,075,489	\$ 25,854,695	\$ 15,327,197	\$ 3,530,725	\$ -	\$ 58,788,106
Inflows	13,927,611	25,536,769	15,280,762	3,535,802	-	58,280,944
Net flows	\$ (147,878)	\$ (317,926)	\$ (46,435)	\$ 5,077	\$ -	\$ (507,162)

Item	December 31, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Foreign currency derivative instruments						
Outflows	\$ 26,066,770	\$ 22,011,847	\$ 14,183,963	\$ 3,722,562	\$ -	\$ 65,985,142
Inflows	25,931,194	22,022,261	14,200,366	3,775,507	-	65,929,328
Net flows	\$ (135,576)	\$ 10,414	\$ 16,403	\$ 52,945	\$ -	\$ (55,814)

d) The maturity analysis of off-balance sheet items

The analysis of maturities of off-balance sheet items was based on the residual maturities as of the consolidated balance sheet dates. For the financial guarantee contracts issued, the maximum amounts of the guarantees were included in the earliest periods when the guarantees were required to be performed. The amounts in the maturity analysis of off-balance sheet items were based on contractual cash flows, certain items may not correspond to related amounts shown in the consolidated balance sheets.

Item	December 31, 2019					
	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Developed and irrevocable loan commitments	\$ -	\$ -	\$ -	\$ 671,833	\$ 1,815,621	\$ 2,487,454
Irrevocable credit	778	2,441	75,980	68,716	1,845,577	1,993,492
Letters of credit	673,048	1,386,507	218,775	29,749	-	2,308,079
Guarantees	2,505,956	2,973,708	999,600	2,375,782	3,378,724	12,233,770
Total	\$ 3,179,782	\$ 4,362,656	\$ 1,294,355	\$ 3,146,080	\$ 7,039,922	\$ 19,022,795

Item	December 31, 2018					
	0-30 Days	31-90 Days	91-180 Days	181 Days - 1 Year	Over 1 Year	Total
Developed and irrevocable loan commitments	\$ -	\$ -	\$ -	\$ 137	\$ 2,601,163	\$ 2,601,300
Irrevocable credit	328	876	41,443	109,331	1,915,872	2,067,850
Letters of credit	842,475	2,513,957	266,250	9,394	-	3,632,076
Guarantees	3,563,036	2,545,895	1,127,864	2,346,421	2,822,713	12,405,929
Total	\$ 4,405,839	\$ 5,060,728	\$ 1,435,557	\$ 2,465,283	\$ 7,339,748	\$ 20,707,155

e) Cash flow interest rate risk

The floating-rate assets/liabilities held by the Bank may take risks of future cash inflow/outflow. The Bank mitigates the cash outflow risks by controlling the interest sensitivity gap.

f) Offsetting financial assets and financial liabilities

TSKCB was not eligible to present certain financial assets and financial liabilities on a net basis on the balance sheet since the offsetting criteria of financial instruments under IAS No. 32, paragraph 42 were not met. TSKCB did not meet the offsetting criteria pursuant to IAS, but had enforceable master netting arrangements or similar agreements signed with counterparties. Thus, financial instruments under above agreements can be settled on a net basis of financial assets and financial liabilities if two parties decide to settle on net basis, or if not, settle in gross basis. If one party defaults, the other party can choose to settle on net basis.

The tables below present the information on financial assets and financial liabilities that have been offset.

December 31, 2019						
Financial Assets That Have Been Offset or That Are Covered By Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet (b)	Net Amounts of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivatives	\$ 2,203,302	\$ -	\$ 2,203,302	\$ -	\$ 249,132	\$ 1,954,170

December 31, 2019						
Financial Liabilities That Have Been Offset or That Are Covered By Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet (b)	Net Amounts of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivatives	\$ 1,316,824	\$ -	\$ 1,316,824	\$ -	\$ 422,380	\$ 894,444
Repurchase agreements and loan of securities	605,125	-	605,125	600,494	-	4,631

December 31, 2018						
Financial Assets That Have Been Offset or That Are Covered By Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet (b)	Net Amounts of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivatives	\$ 2,463,826	\$ -	\$ 2,463,826	\$ -	\$ 134,382	\$ 2,329,444

December 31, 2018						
Financial Liabilities That Have Been Offset or That Are Covered By Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet (b)	Net Amounts of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivatives	\$ 1,075,064	\$ -	\$ 1,075,064	\$ -	\$ 903,236	\$ 171,828
Repurchase agreements and loan of securities	3,509,187	-	3,509,187	3,588,990	-	(79,803)

Note: Included master netting arrangement and non-cash financial collateral.

5) TSKCB'S hedging strategy

The risk control activities and hedging strategy of TSKCB are affected by the client-service-driven banking industry and the regulatory environment; to fulfill its objectives, an overall risk management and control system was adopted to identify, evaluate, and control all risks.

The objective of market risk management of TSKCB is to achieve optimal risk position, maintain adequate liquidity position, and manage all market risk by considering the economic environment, competition, market risk, and impact on net interest income. In order to achieve this goal, TSKCB's hedging activities concentrate on two main control factors: Net future cash flow and market risk.

TSKCB uses two types of hedging relationship to manage the two factors: Cash flow hedge and fair value hedge. Cash flow hedge is used to avoid interest rate risk, and fair value hedge is used to reduce market value risk.

Fair value hedge involves transfer of fixed income or structured transaction to floating income. TSKCB uses fair value hedge to transfer non-monetary-linked bonds to become monetary-linked bonds following the current policy. TSKCB set up the strategy of fair value hedge of interest rate exposure to hedge certain loans, deposits, and fixed interest or structured liabilities. TSKCB primarily uses interest rate swaps to hedge fair value risk. In addition, cross-currency swaps, swap options, interest rate caps and floors, and other derivatives may be used as hedging instruments.

Two main goals of TSKCB's cash flow hedge are: (1) transferring monetary-linked transaction to become fixed interest transaction to minimize interest rate risk, and (2) avoiding exchange rate risk arising from forecast transaction. TSKCB primarily uses interest swap as a cash flow hedging instrument, and forward exchange contract to avoid risk arising from exchange rate. In addition, cross-currency swaps, swap options, interest rate caps and floors, and other derivatives may be used as cash flow hedging instruments.

6) Financial risk information of SKITC

a) Market risk

The main financial risks SKITC are exposed to are the risk of changes in foreign currency exchange rates (see (i) below) and the risk of changes in interest rates (see (ii) below).

There had been no change to SKITC's exposure to market risks or the manner in which these risks were managed and measured.

Market risk exposures were measured using value-at-risk (VaR) and stress test and were supplemented by sensitivity analysis.

Value at Risk (VaR) analysis

The VaR estimates the potential loss of profit before tax over a given holding period for a specified confidence level. The VaR analysis method is a statistical method based on probability, which considers volatility and the effect of risk diversification achieved by offsetting financial instrument and the correlation between products and the market. SKITC calculates the VaR for one day at 99% confidence level, which means that there is a 99% chance that daily losses due to market risk will not exceed the reported risk value.

Stress test - historical scenario analysis

Besides the module of VaR, SKITC adopted stress test periodically to measure potential risk of an extremely extraordinary event.

Historical scenario analysis is performed by selecting a prior period of a historical event, taking the fluctuations of risk factors into consideration and calculating the losses of the investment portfolio occurred for the event.

i. Foreign currency risk

SKITC had service revenue denominated in foreign currencies and consulting fees paid to overseas entities, and, therefore, SKITC exposed to foreign currency risk. The above transactions generated 15% of annual sales of SKITC.

The carrying amounts of SKITC's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period were as follows:

	December 31	
	2019	2018
<u>Assets</u>		
USD	\$ 16,603	\$ 12,807
EUR	795	814
CNY	552	7,526
AUD	62	47,131
<u>Liabilities</u>		
USD	226	922

Sensitivity analysis

SKITC was mainly exposed to the USD, EUR and CNY.

The following table details SKITC's sensitivity to a 1% increase and decrease in the New Taiwan dollar (the functional currency) against the relevant foreign currencies. 1% is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis included only outstanding foreign currency denominated monetary items and foreign currency forward contracts designated as cash flow hedges, and adjusts their translation at the end of the reporting period for a 1% change in foreign currency rates. A positive number below indicates an increase in post-tax net income associated with the New Taiwan dollar strengthening 1% against the relevant currency. For a 1% weakening of the New Taiwan dollar against the relevant currency, there would be an equal and opposite impact on net income and the balances below would be negative.

	<u>USD Impact</u>		<u>AUD Impact</u>		<u>CNY Impact</u>	
	<u>For the Year Ended</u>		<u>For the Year Ended</u>		<u>For the Year Ended</u>	
	<u>December 31</u>		<u>December 31</u>		<u>December 31</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Profit or loss	\$ 131	\$ 95	\$ 6	\$ 7	\$ 4	\$ 60

ii. Interest rate risk

The carrying amounts of SKITC's financial assets and financial liabilities with exposure to interest rates at the end of the reporting period were as follows.

	<u>December 31</u>	
	<u>2019</u>	<u>2018</u>
Fair value interest rate risk		
Financial assets	\$ 557,000	\$ 552,000
Financial liabilities	48,331	-

Sensitivity analysis

SKITC's exposure to fair value interest rate risk for financial assets mainly concentrated on time deposits (including those with maturity more than 3 months) operating deposits and after deposits. Financial liabilities are mainly concentrated on lease liability. Since the interest rates of these financial assets were fixed as undertaking and were not affected by changes in interest rates, these financial assets were not included in the sensitivity analysis.

b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to SKITC. As at the end of the reporting period, SKITC's maximum exposure to credit risk which will cause a financial loss to SKITC due to failure of counterparties to discharge an obligation.

SKITC adopted a policy of only dealing with creditworthy counterparties and supervising credit risk exposure and credit ratings, where appropriate, as a means of mitigating the risk of financial loss from defaults. Further, SKITC's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

SKITC's management income was based on the funds SKITC managed, calculated and accumulated according to their net asset values, and received monthly. SKITC did not have significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. When the counterparty of consulting income was a related party, SKITC identified it as a counterparty having similar characteristics.

c) Liquidity risk

SKITC manages liquidity risk by monitoring and maintaining a level of cash and cash equivalents deemed adequate to finance the SKITC's operations and mitigate the effects of fluctuations in cash flow. SKITC's operating funds are deemed sufficient to meet the cash flow demand, therefore, liquidity risk is not considered to be significant.

7) MLSC's financial risk information

a) Financial risk management objectives and policies

i. Risk management policies

Under an acceptable risk level, MLSC progressively engaged in several businesses and enhanced the quality and quantity of revenues.

For establishing the width and depth of risk management, the width was based on eight major risks developed into a three-level risk-control structure, and the depth was built up through self-evaluation and monitoring to ensure management of the eight major risks and to pursue systematization, computerization, and disciplines.

Business departments should effectively control their involved risks for event, regulation, liquidity, market, model, credit, operation, and systems. Risk-monitoring units should continuously monitor business activities and make timely feedback, and the auditing office should perform audits responsive to the risks.

ii. Risk management system

MLSC and its subsidiaries aggregated risk management policies, structure and segregation of duties of risk management organization and risk control procedures into "Risk Managements Requirements." The requirements, which was drafted by Risk Management Office and approved by the board of directors, is the foundation for MLSC and its subsidiaries' risk management and regulation of MLSC and its subsidiaries' significant risk management items, such as risk management organizations and duties, risk management policies, and control procedures.

The risk management system of MLSC and its subsidiaries covered all kinds of risks faced in operating process, including risks for event, market, credit, liquidity, model, regulation, operation and system, risk-monitoring units should continuously monitor business activities and make timely feedback, and auditing office should perform audits responsive to the risks.

iii. Risk management organizations

i) Risk management organizations included the board of directors, Risk Management Committee, risk management office, business departments and other relevant departments (Legal Office, Compliance Office, Auditing Office), and were responsible for monitoring, planning and performing.

- ii) MLSC and its subsidiaries set up Risk Management Committee, which is under the board of directors and responsible for planning risk management and monitoring its effectiveness, and the committee holds meeting at least every two months.
- iii) Risk Management Office was responsible for evaluating risks and monitoring the performing of affairs and subordinate to general manager.

iv. Risk control procedures

Risk control procedures of MLSC and its subsidiaries included risk identification, risk evaluation, monitoring of risk, reporting of risk and response to risk. The impacts and responses to all kinds of risks are as follows:

i) Event risk management

To avoid the situations that major natural disasters and accidents result in obstacles to the order of normal business operation or losses, MLSC and its subsidiaries established “Crisis Management Procedures” to rapidly respond to major natural disasters and accidents and to maintain the order of normal business operation.

ii) Regulation risk management

To avoid the situations that government regulations and contracts are not complied due to null contracts, exceeding authority, omission of conditions, incomprehensive requirements, and etc. and losses incurred.

Legal office is responsible for the review of contracts or other documents related to the company’s profit, and handles suspected non-litigations and lawsuits of MLSC and its subsidiaries.

Compliance office is responsible for the propaganda and consultation of laws and regulations, while confirming that the operations are in compliance with the laws, and supervising the units and branches for compliance with the laws.

iii) Liquidity risk management

- To respond to market liquidity risk and significant changes in market prices when processing or offsetting positions due to insufficient depth or disorder of market, MLSC and its subsidiaries established liquidity risk management procedures with detailed requirement of risk management for each business to control the risk by limiting holding positions under a certain percentage of average trade value after considering the concentration of holding positions and market trades.
- To respond to capital liquidity risk due to settlement obligation or contract responsibility not performed caused by failing to acquire sufficient funds or to realize assets, MLSC and its subsidiaries control cash flows every day as well as established several financial targets, such as loan stability target, and loan liquidity target, and emergency liquidity provision.

iv) Market risk management

- To avoid losses due to fluctuations of market prices, including stock prices, interest rates, and foreign exchange rates, the authorized limits, pre-warning of losses, risk appetite, stop loss limit, risk indicator limit (such as Greeks and DV01), risk values, market risk limit and limit for stress test of market risk are established for an individual position and overall positions according to the properties of different commodities.
- For the model of risk value measurement, MLSC and its subsidiaries adopted variance-covariance method to calculate the VaR for one day at 99% confidence level, and performed retrospective testing periodically to ensure the effectiveness of the model.
- To evaluate the impact to value of investment portfolio due to abnormal significant market changes, stress test is performed by hypothetical scenario, historical scenario, and sensitivity analysis.

v) Model risk management

To maintain the operation and management of model, strengthen the risk management of derivative instruments, and lower the model risk that results from inappropriate assumptions of model, inputs, or evaluation, MLSC and its subsidiaries established operating procedures for model development, verification, custody, and modifications and validated prices before issue, confirmed after transactions, checked monthly evaluation, and verified gain or loss upon maturity and early termination to avoid model risk.

vi) Credit risk management

To avoid the financial and business losses because counterparties, including issuers of securities, counterparties of contracts, and debtors, were unable to perform contract obligations, MLSC and its subsidiaries established procedures for authorizations, notifications, monitoring of limits, and exception management, set up lines of credit according to counterparties and their credit ratings by different levels, examined the credit ratings and exposures of counterparties and issuers, and developed forecasting models for credit defaults, such as KMV and Z-score.

vii) Operation risk management

To avoid losses directly or indirectly caused by lapses in internal process, personnel, or system, or external events, each operation of MLSC and its subsidiaries is performed in conformity with procedures and control points of internal control and audited regularly or irregularly by Auditing Office according to internal audit implementation rules.

viii) System risk management

To avoid the situations that management systems cannot work due to system gaps resulting in obstacles to achievement of target, systems cannot ensure that company governance and business are performed properly, or organizations are regulated precisely, or authority or systems are not modified to keep up with changes in laws and regulations or company policies, the business departments set up and follow the rules for business or the regulations, and monitored by Risk Management Office, Compliance Office, and Auditing Office to implement system risk management.

b) Market risk

Market risk is the risk that losses would occur to investment portfolio of MLSC and its subsidiaries due to changes in risk factors, such as market price, interest rate and foreign exchange rate. MLSC and its subsidiaries adopted market risk management tools, such as sensitivity test, Value-at-Risk and stress test, to calculate quantitative information of each kind of financial instruments every day in order to realize the exposures to market risks of the whole company and completely and efficaciously identify, evaluate, monitor and control market risk.

i. Sensitivity analysis

Sensitivity analysis is a measure of how investment portfolio will fluctuate as risk factors change, such as stock price, interest rate and volatility. Risk factors can be divided into equity type and interest rate type according to their nature. MLSC and its subsidiaries used the following sensitivity tests to evaluate and monitor exposures to such risks:

Equity type

- i) Delta: The impact to price of commodity as a result of one unit changes in target price.
- ii) Gamma: The impact to Delta of commodity as a result of one unit changes in target price.
- iii) Theta: The impact to price of commodity as a result of one unit changes in maturity.
- iv) Rho: The impact to price of commodity as a result of one unit changes in market interest rate.

Interest rate type

- i) Price Value of Basic Point (PVBP): The impact to price of commodity as a result of 1BP (0.01%) change in interest rate.
- ii) Convexity: The impact of PVBP (or DV01) of commodity as a result of 1BP change in interest rate.

ii. Value-at-Risk

Value-at-Risk is a quantitative presentation of risk to measure the maximum losses to investment portfolio during a specific interval at a certain confidence level due to the worst event occurring in the market. MLSC and its subsidiaries calculate Value-at-Risk for next one day at 99% confidence level.

To effectively measure the maximum potential losses of financial instruments and investment portfolios and use these data in market risk management, MLSC and its subsidiaries continuously perform model verification and periodic retrospective test to validate the accuracy of quantitative model, ensuring the soundness, reasonableness, and completeness of the model.

VaR Statistic for One-day Operating Activities

December 31, 2019	Amount
End of the year	\$ 56,912
Average	65,143
Lowest	37,352
Highest	82,645
December 31, 2018	Amount
End of the year	\$ 63,942
Average	101,268
Lowest	63,942
Highest	149,296

VaR Statistics for Risk Factors of Operating Activities

2019	Equity	Interest Rate	Foreign Exchange Rate	Total
December 31, 2019	\$ 44,493	\$ 29,870	\$ 1,640	\$ 56,912
Average	45,875	34,763	906	65,143
Lowest	25,721	20,725	348	37,352
Highest	57,478	50,018	1,650	82,645
2018	Equity	Interest Rate	Foreign Exchange Rate	Total
December 31, 2018	\$ 43,159	\$ 31,173	\$ 1,029	\$ 63,942
Average	80,605	31,894	2,434	101,268
Lowest	43,159	26,144	1,029	63,942
Highest	121,143	38,596	5,225	149,296

iii. Stress test

Value-at-Risk is an estimate of maximum losses at a specific confidence level, but it cannot forecast the potential risk exposure of all investment portfolios as a result of an extraordinary change in financial market; therefore, MLSC and its subsidiaries evaluated the losses of all investment portfolios at extraordinary scenarios through stress test. For the basis of risk analysis, risk pre-warning, and business management, MLSC and its subsidiaries periodically summarize results of sensitivity test, hypothetical scenario and historical scenario as a stress test report as follows:

Historical scenario

How the values of investment portfolio would fluctuate was evaluated according to variations of risk factors during specific extraordinary events in the past financial markets, including 921 earthquake, 911 terrorist attack, 319 shooting, 915 Lehman financial crisis, 311 Japan earthquake and tsunami and 806 S&P's downgrade of U.S. Treasuries, and 1011 US stocks plunged due to US-China trade war.

Hypothetical scenario

The variations of the values of investment portfolio were evaluated under specific stress events for extreme measurement assumptions, including 50 bps increase in yield curve, 15% decrease in stock index, 30% decrease in stock index, 15% increase in a share market index change in volatility and 5% appreciate in NTD.

Sensitivity analysis

Sensitivity test is a measure of how investment portfolio fluctuates as a result of changes in specific risk factors. The changes in values of investment portfolios were evaluated in various scenarios of equity type and interest rate type, of which the scenarios were set with the following TAIEX and government bond yield rate: In order to have comprehensive scenario covered by each risk factor, the measurement of Vega risk (a share market index change in volatility) combined with foreign exchange risk (depreciation/appreciation in NTD) is added into risk categories since second quarter in 2015.

Type	Factors	Scenario Contents						
Equity	TAIEX (%)	(30)	(20)	(10)	0	10	20	30
Interest rate	Government bond yield rate (bps)	-	50	25	-	(25)	(50)	-

Stress Test Table

December 31, 2019			
Risk factors	Risk price	Difference	Profit or Loss on Investment Positions
Equity risk	Stock index	-30%	\$ (1,619,070)
Interest risk	Yield curve	+50 bps	(760,708)
Vega risk	A share market index change in volatility	+15%	(303,284)
Foreign exchange risk	Foreign exchange rate	+5%	(13,175)

December 31, 2018			
Risk factors	Risk price	Difference	Profit or Loss on Investment Positions
Equity risk	Stock index	-30%	\$ (1,493,908)
Interest risk	Yield curve	+50 bps	(736,920)
Vega risk	A share market index change in volatility	+15%	(993,254)
Foreign exchange risk	Foreign exchange rate	+5%	(2,574)

c) Credit risk management

i. Credit risk management system

To avoid financial and business loss because counterparties, including issuers of securities and counterparties of contracts and debtors, were unable to perform contract obligations, MLSC and its subsidiaries established procedures for authorizations, notifications, monitoring of limits and exception management in rules of risk management, ensuring the completeness of credit risk management system, and measuring and monitoring of credit risk limits in daily reports as implementation of control system of credit risk management. The credit risk management system is as follows:

i) Authorization and notification

The authorization and notification for credit risk of each business were regulated in the rules of business risk management for business departments to comply and implement control.

ii) Credit assessment before the transaction

To control credit risk, credit of counterparties should be cautiously assessed before closing transaction and compliance of transactions should be monitored.

iii) Credit level management

To control credit risk, MLSC and its subsidiaries established rules of credit level management for counterparties with different credit levels and the rules of business risk management for business departments required to set up lines of credit and control by different levels.

iv) Credit monitoring after the transaction

Credits of the counterparties of positions are periodically examined after transaction and the rules of credit monitoring are established for credit risk control, periodical assessment and monitoring. Business department issued evaluations on credit levels of counterparties for juristic-person clients every month, which are reviewed by the management of departments and preserved by Risk Management Office.

v) Quantification techniques for credit risk

The quantification techniques for credit risk are divided into counterparties and transaction objects as follows:

- Counterparties: Risk exposure limits are evaluated at different levels by industry or by TCRI rating, and the credit risk exposures are monitored and examined against limits every day.

- Transaction objects: To evaluate the credit risk of transaction objects, besides TCRI rating and Z-Score model, KMV credit module was developed to calculate the possibility of default according to daily stock price information and credit levels are compared with TCRI ratings and divided into levels to minimize Type I error and Type II error.

- KMV model

MLSC and its subsidiaries developed KMV model as internal rating module for listed stocks and emerging stocks, which produced the distance of default (DD) and possibility of default (PD), and, according to the actual defaults of listed companies and emerging stock companies in Taiwan, they formulated the table of possibilities of default for the securities issued by listed companies and emerging stock companies, including stocks, corporate bonds and convertible bonds as the criteria to convert KMV model possibilities of default and internal credit ratings. Possibilities of default and credit ratings of listed companies and emerging market companies are summarized in Risk Management Information System (Risk MIS) as a reference of credit for investing and controlling margin loan and stock loan.

- Z-Score and TCRI

Introduction of Altman Z-Score and TCRI in Taiwan Economic Journal and development of examination criteria for credit risk levels helped identify the credit risk levels of investment object and monitor the changes in credit risk.

ii. Credit risk for financial instruments

MLSC and its subsidiaries held financial assets with potential credit risk, including cash in banks, debt securities, over-the-counter derivatives, bonds and notes purchased under resale agreements, margin loans and short sales, guarantee deposits, deposits for futures, other deposits and accounts receivable.

i) Cash and cash equivalents

Cash and cash equivalents include time deposits, demand deposits, checking accounts and commercial papers, and MLSC and its subsidiaries engaged in these transactions with domestic financial institutions.

ii) Financial assets at FVTPL - current

- Debt securities

Debt securities include bonds, convertible bonds and bond funds.

- Domestic bonds

Domestic bonds held by MLSC and its subsidiaries primarily comprised of domestic government bonds (central and local) and corporate bonds (including bank debentures and international bonds), and the corporate bonds were grouped and managed by secured and unsecured bonds. Of all secured and unsecured corporate bonds, the issuers ratings were twBBB or above, and holding positions with ratings twA- or below should not exceed 20% of total authorized limits. Therefore, the credit risk of bonds was not material.

- Foreign bonds

Foreign bonds held by MLSC and its subsidiaries primarily comprised foreign government bonds and corporate bonds (including bank debentures and other bonds). The issuers' ratings of the bonds were required to be above a certain standard, and bonds with no ratings or that were below the standard should not exceed 10% of total equity.

- Convertible bonds

Convertible bonds held by MLSC and its subsidiaries were primarily issued by domestic legal entities and grouped and managed by secured and unsecured convertible bonds. For convertible bonds, the issuers ratings were twBBB or above; for unsecured convertible bonds, the issuers' ratings should be twBBB- or above, and credit linked note and assets swap were issued to transfer the credit risks to external investors and lower the retained credit risks from issuers.

- Bond funds

Bond funds held by MLSC and its subsidiaries were primarily money market funds and were not material to total bonds.

- Over-the-counter (OTC) derivatives

Before transaction of OTC derivatives, MLSC and its subsidiaries should sign ISDA contracts with legal entity counterparties as agreements of such transactions for both parties, and the agreements are the main contract for each OTC derivative transaction. If any party defaults or early terminates contract, all covered open interest should be closed-out-netting under the requirements of the agreements.

OTC derivatives engaged by MLSC and its subsidiaries included interest rate swap, bond option, asset swap of convertible bonds, structured instrument, stock option and foreign exchange forward, and the primary counterparties were domestic institutions.

- Deposits for futures

When engaged in futures in secondary markets, MLSC and its subsidiaries should provide deposits to margin accounts appointed by futures companies as guarantee funds for performing contract obligations. These transactions are mainly processed by MLSC's subsidiaries, and, accordingly, such credit risks were low.

- Bonds purchased under resale agreements

When engaged in bonds or notes purchased under resale agreements, MLSC and its subsidiaries should agree the amounts, interests and periods of the transactions, and provide agreed amounts to counterparties, which are guaranteed by the target bonds or notes, and credit risk on counterparties could be lowered effectively. The bonds or notes are sold back to the counterparties upon maturity at agreed prices, and MLSC and its subsidiaries assume the credit risks during the transactions.

- Margin loans and short sales

For margin loans and short sales, MLSC and its subsidiaries assume credit risks from counterparties; such risks exist in both transactions. Credit risks from counterparties could be lowered by obtaining collaterals and were not material because the counterparties were financial institutions with high credit ratings.

- Other current assets

Other current assets represented cash provided by MLSC and its subsidiaries as collaterals or for restricted purposes, whose custodians were domestic financial institutions with high credit ratings.

- Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income held by MLSC and its subsidiaries were mainly domestic unlisted stock.

- Other deposits

Other deposits were mainly operation guarantee deposits, clearing and settlement fund and other guarantee deposits. Operation guarantee deposits are kept in domestic bank with high credit ratings, and clearing and settlement fund is provided to Taiwan Stock Exchange for use when one of market transaction counterparties do not perform delivery or payment of obligation; the credit risks from these deposits' custodians are not material; other guarantee deposits represented cash or other assets provided as guarantee, which were deposited to large number of entities with insignificant amounts, and, accordingly, the credit risks were diversified and no significant exposure to credit risk existed.

iii. Measurement of expected credit losses

i) Assessment of credit risk that has increased significantly since initial recognition

- MLSC and its subsidiaries assess the change in the probability of default of every financial instruments which applied IFRS 9 impairment requirements on each reporting date to determine if the credit risk has increased significantly since initial recognition. In order to make this assessment, MLSC and its subsidiaries take into consideration the reasonable and supportable information that credit risk has increased significantly since initial recognition (including forward-looking information). The main considerations include: Internal/external credit rating, information on overdue status, credit spread, and other market information related to the borrower, issuer or counterparty, credit risk of other financial instruments from the same borrower has increased significantly, etc.
- Low credit risk: If the credit risk of a financial instrument at the reporting date is low, it can be assumed that the credit risk of the financial instrument has not increased significantly since the initial recognition date.

ii) Definition of default and credit impairment of financial assets

- The definition of financial asset default is the same as that of financial asset credit impairment. If one or more of the following conditions are met, MLSC and its subsidiaries determine that the financial asset has defaulted and is credit impaired:
 - Quantitative indicators: When trade receivables fail to fulfill delivery obligations or other overdue receivables for more than 90 days. MLSC and its subsidiaries determine that the financial asset has defaulted and is credit impaired
 - Qualitative indicators: If there is evidence that the issuer or counterparty will not be able to repay the contract, or that the issuer or counterparty has significant financial difficulties, such as:
 - o The issuer or counterparty has gone bankrupt or may have called for bankruptcy or financial restructuring.
 - o Other financial instrument contracts of the issuer or counterparty have defaulted.
 - o The active market for the financial asset has disappeared due to the financial difficulties of the issuer or counterparty.
 - o Purchase or initiate financial assets at a significant discount reflecting credit losses that have occurred.
 - The definitions of default and credit impairment apply to all financial assets held by MLSC and its subsidiaries, and are consistent with the internal credit risk management, and are applied simultaneously through internal and external rating related impairment assessment models.
 - If a financial asset no longer meets the definition of default and credit impairment for six months, it is determined to be out of default and is no longer considered a financial asset that has defaulted and credit impairment.

iii) Measurement of expected credit losses

- Methods and assumptions

MLSC and its subsidiaries have measured the allowance loss of financial instruments in which credit risk has not increased significantly since the original recognition according to the expected credit loss for the 12 months, financial instruments whose credit risk has significantly increased or the credit has been impaired since the original recognition, and receivables that are measured based on the expected credit losses during the lifetime.

To measure the expected credit losses, MLSC and its subsidiaries consider the Probability of default (“PD”) of financial asset or issuer or counterparty in the next 12 months or lifetime, and include the Loss of default (“LGD”) then multiply by the Exposure at default (“EAD”), and consider the time value of the currency to calculate the expected credit loss for 12 months and the lifetime expected credit loss.

MLSC and its subsidiaries measures EAD by the amortized cost of financial assets.

There were no significant changes in the estimation techniques or significant assumptions used to assess expected credit losses as of December 31, 2019.

- Consideration of forward - looking estimate

MLSC and its subsidiaries takes forward-looking information into consideration when determining whether the credit risk of a financial asset has increased significantly since its original recognition and when measuring expected credit losses.

The PD and LGD which MLSC and its subsidiaries used to measure the expected credit losses include forward-looking overall economic information released regularly by international credit rating agencies (S&P and Moody's) after readjusting forward-looking factors such as economic growth predictability for the probability of default and loss rate.

- The expected credit losses of accounts receivable of MLSC and its subsidiaries were measured based on the lifetime expected credit losses. The explanations for assessing allowance losses on December 31, 2019 are as follows:

Historical experience of credit losses of accounts receivable showed that there was no significant difference between different customer groups. Therefore, the customer group was not further distinguished during the evaluation, and the allowance loss was measured by the expected credit loss rate of receivables from 0.001137% to 0.078735%.

iv. Management of credit risk quality by levels

Internal credit ratings evaluated by MLSC and its subsidiaries were classified into low credit risk, medium credit risk, high credit risk and default (impaired), explained as follows:

- Low credit risk: Entities have adequate capacity to meet financial commitments; even if facing significant uncertainties or adverse conditions, they still have stable capacity to deal with the creditor.
- Medium credit risk: Entities have moderate capacity to meet financial commitments; adverse economic conditions or changes in environments may weaken their capacity to meet financial commitments.
- High credit risk: Entities have weak capacity to meet financial commitments; exposure to long-term significant uncertain factors or adverse business, financial or economic conditions may weaken their capacity to meet financial commitments.
- Default (impaired): Entities that have no capacity to meet financial commitments in current situations or did not fulfill contract obligations and potential losses were estimated according to exposure.

The internal and external credit ratings are presented in the following table:

Internal Credit Risk Level	Credit Rating from Taiwan	TCRI Indicator of Taiwan Economic Journal
Low credit risk	twAAA - twBBB-	1-4
Medium credit risk	twBB+ - twBB	5-6
High credit risk	twBB+ - twC and without rating	7-9 and without TCRI
Default (impaired)	D	D

d) Liquidity management

MLSC and its subsidiaries managed capital by the use of bank loans, bonds purchased under resale agreements, and bills to achieve a flexible use of capital and capital stability. The derivatives engaged in by MLSC and its subsidiaries were traded in secondary markets and did not result in a material risk; the liquidity risk from OTC derivatives were under control since MLSC and its subsidiaries were the main market players.

The maturity analysis of financial liabilities was as follows:

December 31, 2019

	Payment Term					Total
	Up to One Month	1-3 Months	3-12 Months	1-5 Years	More Than 5 Years	
Short-term borrowings	\$ 248,245	\$ -	\$ -	\$ -	\$ -	\$ 248,245
Bonds issued under repurchase agreements	25,636,508	6,097,596	7,536,551	-	-	39,270,655
Bills issued under repurchase agreements	1,097,586	-	-	-	-	1,097,586
Financial liabilities at FVTPL	84,681	175,582	2,279,930	1,895,130	-	4,435,323
Non-derivative financial liabilities	-	-	572,119	-	-	572,119
Derivative financial liabilities	84,681	175,582	1,707,811	1,890,346	-	3,858,420
Others	-	-	-	4,784	-	4,784
Deposits received for securities loan	-	-	1,434,815	-	-	1,434,815
Guarantee payable for securities loans	-	-	1,600,443	-	-	1,600,443
Deposits for securities borrowing	-	-	361,332	-	-	361,332
Notes/accounts payable	12,907,157	-	-	-	-	12,907,157
Other payable	453,419	76,355	90,589	70,860	129,720	820,943
Other financial liabilities - current	-	9,515,624	356,366	-	-	9,871,990
Lease liabilities - current	-	-	164,610	-	-	164,610
Others	65,764	16,462	58,220	54,215	-	194,661
	<u>\$ 40,493,360</u>	<u>\$ 15,881,619</u>	<u>\$ 13,882,856</u>	<u>\$ 2,020,205</u>	<u>\$ 129,720</u>	<u>\$ 72,407,760</u>

December 31, 2018

	Payment Term					Total
	Up to One Month	1-3 Months	3-12 Months	1-5 Years	More Than 5 Years	
Bonds issued under repurchase agreements	\$ 30,940,931	\$ 2,131,578	\$ 5,474,532	\$ -	\$ -	\$ 38,547,041
Bills issued under repurchase agreements	798,517	-	-	-	-	798,517
Financial liabilities at FVTPL	403,214	113,586	1,670,197	1,622,097	-	3,809,094
Non-derivative financial liabilities	-	-	1,146,952	-	-	1,146,952
Derivative financial liabilities	403,214	113,586	523,245	1,622,097	-	2,662,142
Deposits received for securities loan	-	-	1,543,260	-	-	1,543,260
Guarantee payable for securities loans	-	-	1,752,342	-	-	1,752,342
Deposits for securities borrowing	-	-	485,304	-	-	485,304
Notes/accounts payable	9,687,637	92	414	138	-	9,688,281
Other payable	182,728	239,410	70,182	85,934	120,307	698,561
Other financial liabilities - current	5,730,661	5,416,146	59,298	-	-	11,206,105
Others	62,717	25,731	59,421	53,450	-	201,319
	<u>\$ 47,806,405</u>	<u>\$ 7,926,543</u>	<u>\$ 11,114,950</u>	<u>\$ 1,761,619</u>	<u>\$ 120,307</u>	<u>\$ 68,729,824</u>

e) Transfers of financial assets

i. Derecognition of a financial asset other than in its entirety

The transferred financial assets of MLSC and its subsidiary, which were not eligible to derecognition in its entirety, were mainly the debt securities that were available for counterparties as pledges under repurchase agreements and the equity securities that were lent under security lending agreement. The transaction in fact is secured pledge loans, the related liability occurs since MLSC and its subsidiary has responsibility to buyback transferred financial asset at the fixed price in the future. For this type of transactions, MLSC and its subsidiaries cannot use, sell or pledge transferred financial assets within the valid period, but is exposed to interest risk and credit risk; thus transferred financial assets are not derecognized in entirety.

Financial assets that are not derecognized in entirety and related financial liability were as follow:

As of December 31, 2019					
Category of Financial Asset	Carrying Amount of Transferred Financial Asset	Carrying Amount of Related Financial Liability	Fair Value of Transferred Financial Asset	Fair Value of Related Financial Liability	Fair Value of Net Positions
Financial assets at fair value through profit or loss					
Repurchase agreements	\$ 39,591,954	\$ 39,270,655	\$ 39,591,954	\$ 39,270,655	\$ 321,299
Bonds transaction	803,958	572,119	803,958	572,119	231,839

As of December 31, 2018					
Category of Financial Asset	Carrying Amount of Transferred Financial Asset	Carrying Amount of Related Financial Liability	Fair Value of Transferred Financial Asset	Fair Value of Related Financial Liability	Fair Value of Net Positions
Financial assets at fair value through profit or loss					
Repurchase agreements	\$ 38,805,333	\$ 38,547,041	\$ 38,805,333	\$ 38,547,041	\$ 258,292
Bonds transaction	1,601,963	1,146,952	1,601,963	1,146,952	455,011

ii. Derecognition of a transferred financial asset in its entirety

MLSC and its subsidiaries entered into Asset Swap, and its trading purpose was to sell the convertible corporate bonds that were acquired through brokering or underwriting. Payments were received when selling to counterparties and during the contract period, the seller exchanged agreed interests with counterparties for fixed coupons and interest compensation while retaining the right to buy back convertible corporate bonds from counterparties at any time before contractual maturities. Transferred financial assets were derecognized as MLSC and its subsidiaries lost control over them since the counterparties had the right to sell their financial assets to third parties without having additional restrictions. However, MLSC and its subsidiaries still had the right to buy back the transferred asset. The maximum exposure to loss would be the carrying amount. Transferred assets and the related financial liabilities under the criteria for derecognition in entirety were analyzed as follows:

As of December 31, 2019					
Type of Continuing Involvement	Cash Outflows to Repurchase Transferred (Derecognized) Financial Assets	Carrying Amount of Continuing Involvement in the Balance Sheet	Fair Value of Continuing Involvement		Maximum Exposure to Loss
		Financial Assets at Fair Value Through Profit or Loss	Assets	Liabilities	
Purchased call options	\$ 9,651,700	\$ 987,854	\$ 987,854	\$ -	\$ 987,854

As of December 31, 2018					
Type of Continuing Involvement	Cash Outflows to Repurchase Transferred (Derecognized) Financial Assets	Carrying Amount of Continuing Involvement in the Balance Sheet	Fair Value of Continuing Involvement		Maximum Exposure to Loss
		Financial Assets at Fair Value Through Profit or Loss	Assets	Liabilities	
Purchased call options	\$ 11,254,800	\$ 583,267	\$ 583,267	\$ -	\$ 583,267

The table below had been drawn up based on the undiscounted cash flows of financial assets to be transferred (derecognized) upon buy-back on maturity. The information of cash flows is disclosed according to expected maturity from end of reporting period.

As of December 31, 2019							
Type of Continuing Involvement	Less Than 1 Month	1-3 Months	3-6 Months	6 Months -1 Year	1-3 Years	More Than 3 Years	Total
Purchased call options	\$ 70,000	\$ 70,100	\$ 847,500	\$ 2,244,900	\$ 6,178,200	\$ 241,000	\$ 9,651,700

As of December 31, 2018							
Type of Continuing Involvement	Less Than 1 Month	1-3 Months	3-6 Months	6 Months -1 Year	1-3 Years	More Than 3 Years	Total
Purchased call options	\$ 134,300	\$ 63,000	\$ 304,900	\$ 2,728,700	\$ 7,821,200	\$ 202,700	\$ 11,254,800

The table below had been drawn up based on gain or loss recognized on transfer date as well as income and expenses from continuing involvement recognized in the current period and recognized cumulatively by type of continuing involvement - purchased call options.

As of December 31, 2019			
Type of Continuing Involvement	Gain or Loss Recognized at Transfer Date	Gain/(Loss) from Continuing Involvement Recognized in the Current Period	Gain/(Loss) from Continuing Involvement Recognized Cumulatively
Purchased call options	\$ (3,698)	\$ 283,033	\$ 283,033

As of December 31, 2018			
Type of Continuing Involvement	Gain or Loss Recognized at Transfer Date	Gain/(Loss) from Continuing Involvement Recognized in the Current Period	Gain/(Loss) from Continuing Involvement Recognized Cumulatively
Purchased call options	\$ (56,649)	\$ 19,110	\$ 19,110

f) Offsetting financial assets and financial liabilities

The derivatives and bonds issued under repurchase agreements of MLSC and its subsidiaries did not meet the offsetting criteria pursuant to IFRS, but was covered by enforceable master netting arrangements or similar agreements signed with counterparties. Derivatives under enforceable master netting arrangements or similar agreements can be settled on a net basis of financial assets and financial liabilities if two parties decide to settle on net basis, or if not, settle on gross basis. If one party defaults, the other party can choose to settle on net basis.

The tables below present the information on financial assets and financial liabilities that have been offset.

As of December 31, 2019

Financial Assets That Have Been Offset or That Are Covered by Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet (b)	Net Amounts of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivatives	\$ 144,883	\$ -	\$ 144,883	\$ 144,883	\$ -	\$ -
Repurchase agreements	2,102,233	-	2,102,233	2,102,233	-	-
Total	\$ 2,247,116	\$ -	\$ 2,247,116	\$ 2,247,116	\$ -	\$ -

Financial Liabilities That Have Been Offset or That Are Covered By Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet (b)	Net Amounts of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivatives	\$ 265,814	\$ -	\$ 265,814	\$ 265,814	\$ -	\$ -
Repurchase agreements	39,270,655	-	39,270,655	39,270,655	-	-
Total	\$ 39,536,469	\$ -	\$ 39,536,469	\$ 39,536,469	\$ -	\$ -

Note: Included master netting arrangements and non-cash financial collateral.

As of December 31, 2018

Financial Assets That Have Been Offset or That Are Covered by Enforceable Master Netting Arrangements or Similar Agreements						
Financial Assets	Gross Amounts of Recognized Financial Assets (a)	Gross Amounts of Recognized Financial Liabilities Set Off in the Balance Sheet (b)	Net Amounts of Financial Assets Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivatives	\$ 201,221	\$ -	\$ 201,221	\$ 201,221	\$ -	\$ -
Repurchase agreements	5,592,694	-	5,592,694	5,592,694	-	-
Total	\$ 5,793,915	\$ -	\$ 5,793,915	\$ 5,793,915	\$ -	\$ -

Financial Liabilities That Have Been Offset or That Are Covered By Enforceable Master Netting Arrangements or Similar Agreements						
Financial Liabilities	Gross Amounts of Recognized Financial Liabilities (a)	Gross Amounts of Recognized Financial Assets Set Off in the Balance Sheet (b)	Net Amounts of Financial Liabilities Presented in the Balance Sheet (c)=(a)-(b)	Related Amounts Not Set Off in the Balance Sheet (d)		Net Amount (e)=(c)-(d)
				Financial Instruments (Note)	Cash Collateral Received	
Derivatives	\$ 324,958	\$ -	\$ 324,958	\$ 324,958	\$ -	\$ -
Repurchase agreements	38,547,041	-	38,547,041	38,547,041	-	-
Total	\$ 38,871,999	\$ -	\$ 38,871,999	\$ 38,871,999	\$ -	\$ -

Note: Included master netting arrangements and non-cash financial collateral.

8) The property and coverage of risk of insurance contract:

a) Risk management

i. The policies of risk management

According to related laws and business needs, SKLIC's board of directors passed a resolution of "SKLIC's risk management policies", which clearly regulated the objectives and strategies of risk management, risk appetite and limit, the organization and responsibility of risk management, and the category and management of business management risk.

ii. The objectives of risk management

The objectives of SKLIC's risk management are to protect assets, ensure the adequacy of risk-based capital (RBC), increase stockholders' value and conform with related laws, and under the premise of the balance between risk and return, to promote the sound operation and development.

iii. The principles of risk management

SKLIC manages risks strategically. When making decisions, SKLIC takes risks into consideration, and through qualitative and quantitative management, carries out risk identification, evaluation, response, monitoring and controlling, keeping every risk it might encounter in operating activities endurable, in order to pursue stable operating policies and persist in the spirit of thorough implementation.

iv. Organization and responsibility

In order to effectively plan, supervise and implement risk management, SKLIC established “Risk Management Committee” under the board of directors and related units independent to business units. The risk management levels and responsibilities are as follows:

- The board of directors approves risk management policies.
- Audit committee controls the existing or potential risk.
- Risk Management Committee regularly evaluates risk tolerance.
- Risk management related units analyze and evaluate the change of risks.
- Business units implement risk management activities within the scope of jurisdiction.

v. The category and management of business operating risk

SKLIC’s business operating risks include insurance risk, market risk, credit risk, liquidity risk, concentration risk, operation risk, information security risk, asset - liability matching risk and other risks which are included in the resolutions of the parent company’s Risk Management Committee or SKLIC’s board of directors. In consideration of abovementioned business management risk, SKLIC complies with laws and regulations, builds adequate management system, and strictly implements policies.

b) Insurance risk information

i. Sensitivity of insurance risk

SKLIC’s sensitivity analysis of insurance risk are based on the effect of individual changes in current year’s financial revenues, operating expenses, insurance payments related to death or morbidity and termination fees (assuming other assumptions unchanged) on net income before tax and stockholder’s equity. The assumptions are illustrated as follows:

- Financial revenues include gains from lease of real estate, dividends and bonuses from financial assets and interest from fund application.
- Operating expenses include selling and administrative expenses and staff training expenses.
- Insurance payments related to death or morbidity are payments occurring due to insurance business and the insured’s death or morbidity.
- Termination fees are refunds due to termination or invalidity of insurance contracts.

**The Effects of Changes in Sensitivity Factors on
Income Before Tax and Shareholders’ Equity**

	2019		
	Changes in Assumptions	Changes in Income Before Tax	Changes in Stockholders’ Equity
Financial revenue	Decrease 5%	\$ (5,707,610)	\$ (4,566,088)
Operating expenses	Increase 5%	(1,424,635)	(1,139,708)
Insurance payments related to death or morbidity	Increase 5%	(1,374,948)	(1,099,959)
Termination fees	Increase 5%	94,986	75,989

Note: The abovementioned assumption factors and analysis are based on SKLIC and its subsidiaries’ financial information of 2019.

Supplemental:

- The result is not linear; therefore, it is unable to estimate the extent of influence by interpolation method or extrapolation method.
- Assumption factors may not change and there may be correlation between different changes.
- Sensitivity analysis will not take into consideration the factors and effects that market changes have on business, such as buying or selling positions, changing asset allocation and adjustment to declared interest of insurance contracts.
- The calculation of changes in stockholders' equity is based on the amount net of income tax.

ii. The illustration of insurance risk concentration

SKLIC's main insurance products are life insurance, annuity insurance, accident insurance and health insurance, and the business is mainly in the Republic of China. Also, there is no significant difference in insurance contracts between different regions.

SKLIC's premium income is mainly from individual life insurance, individual health insurance and individual accident insurance in order. The insurance payments are mainly for endowment payments, refund benefit payments, termination fees and health benefits.

According to Regulations Governing Calculation of Various Reserve for Operations, due to heavy reparations when there are catastrophes and in order to deal with unusual changes in loss rate of different insurance and insurance payments, SKLIC provides special reserve for catastrophe and for contingent claim. The aforementioned catastrophe is one the government declared as a severe disaster, and the cumulative net indemnities of all the insurance products for an individual company are up to \$30 million and the cumulative indemnities for all the life insurance companies are up to \$1 billion.

The provision above for special reserve for catastrophe and for contingent claim is recognized, net of tax as special reserve under stockholders' equity.

iii. Claims development

SKLIC provided reserve for claims, whether or not it is reported, for projected future payments and related costs. The provision for reserves is highly complicated since there are many uncertain causes, estimation and judgment. Some claim reports may be delayed to SKLIC, and the estimation is related to past claim experiences and subjective judgment when estimating possible payments for the claims not yet reported. The claim reserve per book is estimated on the basis of available information at present. Therefore, it is unable to make sure the claim reserve on the date of balance sheet is equal to the actual payments, which will deviate from original estimation as the claim goes on.

The following tables show the claims development (excluding the claims whose payment amount and payment date have already been known in one year). Every accident year means the year the accident happens, the horizontal axis is the year of development, and every slash is the cumulative payment incurring for every accident year in the end of the year. The cumulative payments include the claims whether or not it is sure to happen, and illustrate how SKLIC estimates payments for every accident year as time passes. The conditions and trends that influence SKLIC's reserve provision may not be the same when claims develop. Therefore, the projected payments may not actually happen.

- Claims development of direct business

Accident Year	Development Trend of Direct Business Indemnities					Claim Reserve
	1	2	3	4	5	
2015	\$ 8,906,580	\$ 10,525,853	\$ 10,662,543	\$ 10,693,171	\$ 10,697,628	\$ -
2016	9,187,347	10,917,734	11,084,882	11,120,246	11,125,012	4,766
2017	10,149,119	12,333,339	12,546,872	12,584,883	12,590,473	43,601
2018	10,986,543	13,332,858	13,537,412	13,578,134	13,584,329	251,471
2019	11,786,914	14,171,986	14,387,889	14,431,030	14,437,771	2,650,857
						\$ 2,950,695
						Add: Claim reserve for unreported which provided by other regulation
						5,806
						Add: Reported but unpaid claims
						540,828
						Claim reserve, balance
						\$ 3,497,329

- Claims development of retained business

Accident Year	Development Trend of Direct Business Indemnities					Claim Reserve
	1	2	3	4	5	
2015	\$ 8,852,161	\$ 10,462,684	\$ 10,594,928	\$ 10,625,544	\$ 10,630,002	\$ -
2016	9,123,625	10,844,977	11,012,059	11,032,411	11,037,138	4,727
2017	10,109,483	12,280,747	12,494,220	12,524,201	12,529,761	35,541
2018	10,884,849	13,194,458	13,396,422	13,428,820	13,434,931	240,473
2019	11,729,377	14,104,156	14,319,260	14,354,139	14,360,838	2,631,461
						\$ 2,912,202
						Add: Claim reserve for unreported which provided by other regulation
						5,806
						Add: Reported but unpaid claims
						540,828
						Claim reserve, balance
						\$ 3,458,836

c) The credit risk, liquidity risk and market risk of insurance contracts

i. Credit risk

SKLIC enacted Shin Kong Life Insurance Company's Credit Risk Management Policies and established risk limit and required regular credit examination to control credit risks of investment objectives and counterparties. Undertaking large insurance risks is the core business of the insurance industry, and SKLIC's business scale is large enough to undertake considerable insurance risks. However, if certain risks are over-concentrated or significantly uncertain, reinsurance will be used to decentralize risks and reinsurance companies' credit ratings should meet the related regulations. Therefore, compared to retained risk, SKLIC's reinsurance risk is not significant.

ii. Liquidity risk

SKLIC enacted Shin Kong Life Insurance Company's Liquidity Risk Control and Management Policies as the basis of controlling and managing fund liquidity risk and market liquidity risk. Also, SKLIC makes use of asset and liability matching model to project future assets and liabilities' cash flows, to ensure there are enough cash flows to satisfy project liability obligations, as the basis of a long-term controlling and managing measures of liquidity risk. Besides, based on the regulation of reserve provision, the book value of contracts are all higher than surrender value. Therefore, the liquidity risk from contract termination is not significant. In consideration of materiality principle, there will be no cash flow analysis disclosure on maturity date when policyholders execute options to lapse.

iii. Market risk

According to the Regulations Governing Calculation of Various Reserves for Operations and other rulings promulgated by regulators, SKLIC calculates and provides various reserves for life insurance liabilities of insurance products based on projected interest rate and undertaking rate regulated by regulatory authorities. Since projected interest rate is determined when selling insurance products, it will not fluctuate as market interest rate does. Regulatory authorities considered a long-term level when it regulated the interest rate, which will not change with present market risk variables in the same time, same way or at the same amount. If the result of liability adequacy test is inadequate, the insufficient amount should be provided as liability adequacy reserve. Otherwise, reasonably possible changes in market risks would not influence SKLIC's amount of liabilities of insurance products.

In addition, for the calculation of reserve for life insurance liability, it is not likely that regulatory authorities will change the projected interest rate from fixed interest rate to floating rate fluctuating with market interest rate. Therefore, it is unlikely that market risk will, through liabilities of insurance products, have a significant effect on net income.

51. EMPLOYEE SHARE OPTION PLAN OF THE COMPANY

According to the Company Act, SKFHC retains 15% of shares as provision for subscription by qualified employees when there is issuance of ordinary shares and special shares A for cash. On September 2, 2019, qualified employees were granted 51,000 thousand options and 11,250 thousand options. Each option entitles the holder with the right to subscribe for one ordinary share of the Company. The options were granted at an exercise price of \$8.6 and \$45, respectively.

Information on ordinary share options is as follows:

	For the Year Ended December 31, 2019	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Balance at January 1	-	\$ -
Options granted	51,000	8.6
Options forfeited	-	-
Options exercised	(42,384)	8.6
Options expired	<u>(8,616)</u>	8.6
Balance at December 31	<u>-</u>	
Options exercisable, end of the year	<u>-</u>	
Weighted-average fair value of options granted (\$)		<u>\$ 0.7075</u>

Information on Preferred Shares A options is as follows:

	For the Year Ended December 31, 2019	
	Number of Options (In Thousands of Units)	Weighted- average Exercise Price (\$)
Balance at January 1	-	\$ -
Options granted	11,250	45
Options forfeited	-	-
Options exercised	(4,294)	45
Options expired	<u>(6,956)</u>	45
Balance at December 31	<u>-</u>	
Options exercisable, end of the year	<u>-</u>	
Weighted-average fair value of options granted (\$)		<u>\$ 0.1906</u>

The options granted by SKFHC in September 2019 were priced using the Black-Scholes pricing model, and the inputs to the model are as follows:

	Ordinary Shares	Preferred Shares A
Acquisition date share price (NT\$)	\$9.3	\$45
Exercise price (NT\$)	\$8.6	\$45
Expected volatility	19.823%	4.683%
Option life (in years)	18 days	18 days
Dividend yield	0%	0%
Risk-free interest rate	0.368%	0.368%

Compensation cost recognized was \$38,227 thousand for the year ended December 31, 2019.

52. CAPITAL MANAGEMENT

a. Management objectives of capital adequacy

The Company manages the Group's owned capital to meet the requirements of regulations and achieve the minimum required Group capital adequacy ratio as the basis objective of capital management.

To ensure the Company owns sufficient capital to assume risks, the Company evaluates the risks according to the portfolio amount and characteristics. The Group's risk on capital is calculated according to requirements regulated by authorities.

b. Management procedures for capital adequacy

The Group's capital adequacy is summarized, calculated and controlled by the Company's Risk Management Department and reported to Risk Management Committee and board of directors quarterly in compliance with requirements of authorities and internal regulations, and delivered to authorities half-yearly.

The key points of management procedures for the Group's capital adequacy are as follows:

- 1) Calculations and control procedures should be in accordance with the Regulations Governing the Consolidated Capital Adequacy of Financial Holding Companies and the Regulations Governing the Capital Adequacy of SKFHC.
- 2) The Company sets the annual control objective of capital adequacy for the Group and primary subsidiaries at the beginning of the year, and reported to and approved by Risk Management Committee and board of directors, and responsible units manage capital adequacy periodically to comply with legal requirements and internal target.
- 3) The Company sets pre-warning value for above control objectives. When capital adequacy ratio decreases to pre-warning value, responsible units issues warning notice to require related units to propose corresponding improvement plan and perform these procedures.

c. Capital adequacy ratio as of December 31, 2019

The Group's audited capital adequacy ratio as of December 31, 2019 was 111.13%, which complied with authorities' requirements and internal control objectives.

53. FINANCIAL INFORMATION ON OPERATING SEGMENTS

a. General information on operating segments:

The Group's provides the information of assessing performance, which focusing on the nature of business operation and are divided into four reportable segments, including insurance segment, bank segment, securities segment and others. The accounting policies are the same as the summary of significant accounting policies in Note 4. The Group's segment profits are evaluated on the basis of operating profits before tax, excluding extraordinary gain or loss.

- b. The Group's reportable profit by segment for the years ended December 31, 2019 and 2018 is as follows:

2019						
	Insurance Segment	Bank Segment	Securities Segment	Others	Elimination Between Segments	Total
Total net profit of reportable segments	<u>\$ 256,445,472</u>	<u>\$ 16,605,634</u>	<u>\$ 5,405,944</u>	<u>\$ 829,039</u>	<u>\$ (2,100,868)</u>	<u>\$ 277,185,221</u>
Reportable segment profit	<u>\$ 7,212,534</u>	<u>\$ 6,691,870</u>	<u>\$ 1,672,396</u>	<u>\$ 141,459</u>		<u>\$ 15,718,259</u>
2018						
	Insurance Segment	Bank Segment	Securities Segment	Others	Elimination Between Segments	Total
Total net profit of reportable segments	<u>\$ 233,898,448</u>	<u>\$ 16,112,308</u>	<u>\$ 4,429,986</u>	<u>\$ 749,019</u>	<u>\$ (2,148,875)</u>	<u>\$ 253,040,886</u>
Reportable segment profit	<u>\$ 4,175,897</u>	<u>\$ 6,234,927</u>	<u>\$ 872,216</u>	<u>\$ 178,669</u>		<u>\$ 11,461,709</u>

- c. The reconciliation of segment revenues, profits, assets and liabilities:

	2019	2018
Total net profit of reportable segments	\$ 277,185,221	\$ 253,040,886
Other net loss	(104,873)	(118,406)
Elimination between segments	<u>(40,067)</u>	<u>(62,789)</u>
Total net profit	<u>\$ 277,040,281</u>	<u>\$ 252,859,691</u>
Total reportable segment profit before tax	\$ 15,718,259	\$ 11,461,709
Other loss	<u>(427,823)</u>	<u>(426,993)</u>
Total net profit (loss) before tax	<u>\$ 15,290,436</u>	<u>\$ 11,034,716</u>

December 31, 2019						
	Insurance Segment	Bank Segment	Securities Segment	Others	Elimination Between Segments	Total
Total reportable segment assets	\$ 2,976,634,118	\$ 939,841,614	\$ 104,445,134	\$ 3,641,844	\$ (47,218,843)	\$ 3,977,343,867
Non-allocable items						
Other assets	-	-	-	-	-	8,249,645
Elimination between segments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(4,459,693)</u>
Total assets	<u>\$ 2,976,634,118</u>	<u>\$ 939,841,614</u>	<u>\$ 104,445,134</u>	<u>\$ 3,641,844</u>	<u>\$ (47,218,396)</u>	<u>\$ 3,981,133,819</u>
Total reportable segment liabilities	\$ 2,861,814,755	\$ 874,719,910	\$ 80,018,658	\$ 1,387,208	\$ (46,746,804)	\$ 3,771,193,727
Non-allocable items						
Other liabilities	-	-	-	-	-	19,674,903
Elimination between segments	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(5,031,671)</u>
Total liabilities	<u>\$ 2,861,814,755</u>	<u>\$ 874,719,910</u>	<u>\$ 80,018,658</u>	<u>\$ 1,387,208</u>	<u>\$ (46,746,804)</u>	<u>\$ 3,785,836,959</u>

	December 31, 2018					
	Insurance Segment	Bank Segment	Securities Segment	Others	Elimination Between Segments	Total
Total reportable segment assets	\$ 2,705,818,479	\$ 871,072,384	\$ 100,025,647	\$ 3,142,894	\$ (35,497,606)	\$ 3,644,561,798
Non-allocable items						
Other assets	-	-	-	-	-	9,112,883
Elimination between segments	-	-	-	-	-	(5,207,429)
Total assets	<u>\$ 2,705,818,479</u>	<u>\$ 871,072,384</u>	<u>\$ 100,025,647</u>	<u>\$ 3,142,894</u>	<u>\$ (35,497,606)</u>	<u>\$ 3,648,467,252</u>
Total reportable segment liabilities	\$ 2,635,618,094	\$ 811,537,989	\$ 77,161,082	\$ 854,258	\$ (35,826,076)	\$ 3,489,345,347
Non-allocable items						
Other liabilities	-	-	-	-	-	19,451,864
Elimination between segments	-	-	-	-	-	(4,945,679)
Total liabilities	<u>\$ 2,635,618,094</u>	<u>\$ 811,537,989</u>	<u>\$ 77,161,082</u>	<u>\$ 854,258</u>	<u>\$ (35,826,076)</u>	<u>\$ 3,503,851,532</u>

54. NOTES DISCLOSED AS REQUIRED BY THE CONSOLIDATED REPORT ON OPERATIONS AND THE STANDARDS GOVERNING THE COMPILATION OF THE REPORT ON AFFILIATION AND OF THE CONSOLIDATED FINANCIAL STATEMENTS OF RELATED CORPORATIONS

- a. Summary of subsidiaries: Refer to Notes 1 and 16.
- b. Changes in the subsidiaries in the consolidated financial statements for this period: Refer to Notes 1 and 16.
- c. Subsidiaries excluded from the consolidated financial statements for this period: None.
- d. Adjustments and provisions dealing with different accounting fiscal years between the subsidiary and the controlling company: None.
- e. Adjustments and provisions dealing with different accounting policies between the subsidiary and the controlling company: None.
- f. Particular risks for the operation of foreign subsidiaries: None.
- g. Legal or contractual limitations imposed on the distribution of retained earnings of various affiliates:

1) SKLIC

Based on the Company Act of the ROC and the Articles of Incorporation of SKLIC, SKLIC's annual earnings, net of tax and any deficit, should be appropriated in the following order:

- a) A legal reserve and, if required, a special reserve based on relevant regulations;
- b) Annual dividends to SKLIC's Classes A and B preference shareholders.

The board of directors prepares an earnings distribution plan based on the residual distributable earnings and submits the plan to annual regular meeting of shareholders for approval.

According to Rule No. 10202501992 issued by the FSC on February 28, 2013, except for the appropriation of preference share liability, insurance companies that tended to appropriate earning by cash dividends declaration shall first notify their decision to the FSC. The agency would comprehensively examine their financial condition.

Further, based on Rule No. 910074195 issued by the Department of Insurance, any revenue arising from the contingent claim reserves in excess of 30% of the current year's retained premium should not be distributed as dividends or be used for any other purposes, unless there is prior approval by the authorities. The restricted amount should be appropriated as special reserve according to the resolution of the shareholders in the following year.

2) TSKCB

TSKCB's Articles of Incorporation provide that TSKCB's annual earnings shall be appropriated in the following order:

- a) Payment of taxes;
- b) Offset accumulated deficit, if any;
- c) 30% thereafter, if any, as legal reserve;
- d) Provision or reversal of special reserve, according to Securities and Exchange Act and authority's regulations;
- e) The board of directors prepares an earnings distribution plan based on the residual distributable earnings and submits the plan to annual regular meeting of stockholders for approval.

The appropriation of item (d) will be proposed and approved by the board of directors. However, the reversed amount distributed as employees' compensation in the past year should not be included.

The maximum of cash dividends should not exceed 15% of the amount of capital until reserve equals to the amount of capital. Cash or assets distribution should be restricted if the capital adequacy ratio doesn't reach the authority's requirement.

3) MLSC

MLSC's Articles of Incorporation provide that MLSC's annual earnings shall be appropriated in the following order:

- a) Payment of taxes;
- b) Offset accumulated deficit, if any;
- c) 10% thereafter, if any, as legal reserve;
- d) Provision or reversal of special reserve, according to Securities and Exchange Act and authority's regulations.
- e) The board of directors prepares an earnings distribution plan based on the residual distributable earnings and submits the plan to annual regular meeting of shareholders for approval.

h. Amortization method and period of consolidated debits (credits): None

- i. Individual disclosure items (subsidiaries with total assets and operating income exceeding 10% of those of the parent company)
- 1) Eliminated transactions: See Table 6.
 - 2) Capital financing: Not applicable.
 - 3) Endorsement/guarantee: None.
 - 4) Derivative financial instruments: Notes 8 and 50.
 - 5) Major contingent events: Note 41.
 - 6) Major subsequent events: None.
 - 7) Holding of securities and marketable securities

(In Thousands of New Taiwan Dollars, Except for Number of Shares)

Holding Company	Type/Name	Quantity	Cost	Market Price/Net Worth	Ownership Interest	Collateral	Highest Number of Shares Held During the Period
Shin Kong Holding Co., Ltd.	Common stock: SKLIC	6,053,658	\$ 96,316,410	\$ 114,471,136	100	Collateral 42,000 thousand shares	
	SKSC	-	-	77,298	-		
	SKITC	40,000	2,075,862	1,593,953	100		
	TSKCB	4,421,687	32,278,880	65,153,922	100		
	MLSC	1,609,610	19,223,684	24,590,626	100		
	SKVIC	155,000	1,550,000	1,496,889	100		
	SKPIA	1,000	7,724	93,427	100		

Note: No additional disclosure is required for insurance, banking, and securities subsidiaries.

- j. Others: None.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

ENDORSEMENTS/GUARANTEES PROVIDED
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

No.	Endorsement/ Guarantee Provider	Guaranteed Party		Limits on Endorsement/ Guarantee Amount Provided to Each Guaranteed Party (Note 2)	Maximum Balance for the Year	Outstanding Endorsement/ Guarantee at the End of the Period	Actual Borrowing Amount	Amount of Endorsement/ Guarantee Collateralized by Properties	Ratio of Accumulated Endorsement/ Guarantee to Net Equity Per Latest Financial Statements	Maximum Endorsement/ Guarantee Amount Allowable (Note 3)	Endorsement/ Guarantee Given by Parent on Behalf of Subsidiaries	Endorsement/ Guarantee Given by Subsidiaries on Behalf of Parent	Endorsement/ Guarantee Given on Behalf of Companies in Mainland China
		Company	Nature of Relationship										
1	SKVIC	SKLSC	Subsidiaries directly held over 50% equity	\$ 5,987,556	\$ 2,011,600	\$ 911,186	\$ 302,583	\$ -	-	\$ 7,484,445	Yes	No	Yes
2	MLSC	Muster Link (Hong Kong)	Subsidiaries directly held over 50% equity	4,792,687	600,000	600,000	-	-	-	9,585,373	Yes	No	No

Note 1: Parent company is number 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Limits on endorsement/guarantee amount provided to each guaranteed party, except for the subsidiaries whose voting right were 100% directly or indirectly owned by SKVIC. If the subsidiaries were set up in China, the limit on endorsement/guarantee amount is four times of the net value of SKVIC.

Note 3: Maximum endorsement/guarantee amount allowable: Not greater than five times the net value of SKVIC on December 31, 2019; $\$1,496,889 \times 5 = \$7,484,445$.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INFORMATION REGARDING INVESTEE COMPANIES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

Investor Company	Name of Investee (Note 1)	Location	Principal Business Activity	Ownership Interest (%), End of Period	Carrying Value, End of Period	Investment Gain (Loss)	Number of Shares Held by the Company and Related Parties (Note 1)				Remarks
							Number of Shares	Potential Number of Shares (Note 2)	Number of Shares	Ownership Interest (%)	
SKFHC	SKLIC	F-31, No. 66, Chung Hsiao West Road, Sec. 1, Taipei	Insurance	100.00	\$ 114,471,136	\$ 9,185,588	6,053,658		6,053,658	100.00	Note 3
	SKSC (Note 4)	F-4, No. 456, Sin Yi Road, Sec. 4, Taipei	Security	-	77,298	-	-		-	-	Note 3
	TSKCB	3F-1, 4F, 5F, 5F-1, 20F, 21F, No. 32, Songren Road, Taipei; 4F, 5F, 20F, 21F, No. 36, Songren Road, Taipei	Banking	100.00	65,153,922	5,555,655	4,421,687		4,421,687	100.00	Note 3
	SKITC	F-12, No. 123, Nan Chin East Road, Sec. 2, Taipei	Entrusted investments	100.00	1,593,953	44,925	40,000		40,000	100.00	Note 3
	MLSC	1-3F, No. 209, Fuxing South Road, Sec. 1, Taipei	Security brokerage, dealing and underwriting	100.00	24,590,626	1,544,451	1,609,610		1,609,610	100.00	Note 3
	SKVIC	F-38, No. 66, Chung Hsiao West Road, Sec. 1, Taipei	Venture capital	100.00	1,496,889	14,163	155,000		155,000	100.00	Note 3
	SKPIA	F-19, No. 66, Chung Hsiao West Road, Sec. 1, Taipei	Property insurance agency	100.00	93,427	59,081	1,000		1,000	100.00	Note 3

Note 1: All the owned shares and potential shares of investee company held by the Company, director, supervisors, general manager, vice general manager, and its related parties defined under the Company Act are included.

Note 2: a. The potential shares are those shares obtained through a transfer, on the assumption of share transfer, from equity securities purchased or derivative instrument contracts signed and 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 36, Item 2 and Article 37 of the ROC Company Law.

b. The equity securities mentioned above are referred to as the securities regulated by of Article 11, Item 1 of Securities and Exchange Act Enforcement Rules, for example, convertible bond and warrant.

c. The derivative instrument contracts mentioned above are specified as those derivative instruments defined by IAS 39, for example, stock option.

Note 3: The carrying amount and investment gain (loss) have been eliminated for the consolidation purpose.

Note 4: Shin Kong Securities Co., Ltd. was under liquidation as of December 31, 2019.

Note 5: Investment income recognized under equity method adjust to subsidiaries' profit before income tax:

	Investment Income Recognized under Equity Method	Adjustment of IFRS 16	Adjustment of PPE	Non-controlling Interests	Subsidiaries' Profit before Income Tax
SKLIC	\$ 9,185,588	\$ (74)	\$ (6,936)	\$ 68,157	\$ 9,246,735
TSKCB	5,555,655	(32,218)	-	-	5,523,437
SKITC	44,925	(470)	-	-	44,455
MLSC	1,544,451	(2,185)	-	-	1,542,266
SKVIC	14,163	-	-	-	14,163
SKPIA	59,081	(7)	-	-	59,074

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

MARKETABLE SECURITIES HELD

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars, Except for Number of Shares)

Holding Company	Type and Name of Marketable Securities	Issuer's Relationship to the Holding Company	Financial Statement Account	End of Year 2019				Note	
				Units/Shares ('000)	Carrying Value	Ownership Interest (%)	Market Price		
SKLRESC	<u>Listed shares</u>								
	Cheng Shin Rubber Ind. Co., Ltd.	None	Financial assets at fair value through profit or loss	258	\$ 10,784	0.01	\$ 10,784		
	Taiwan Secom Co., Ltd.	None	Financial assets at fair value through profit or loss	277	24,598	0.06	24,598		
	Shina Steel Co., Ltd.	None	Financial assets at fair value through profit or loss	376	8,986	-	8,986		
	Chunghwa Telecom Co., Ltd.	None	Financial assets at fair value through profit or loss	150	16,500	-	16,500		
	Mirle Automation Co., Ltd.	None	Financial assets at fair value through profit or loss	135	5,360	0.07	5,360		
	Hiwin Technologies Co., Ltd.	None	Financial assets at fair value through profit or loss	35	9,941	0.01	9,941		
	Holy Stone Enterprise Co., Ltd.	None	Financial assets at fair value through profit or loss	93	10,788	0.06	10,788		
	Ta Chen Stainless Pipe Co., Ltd.	None	Financial assets at fair value through profit or loss	140	4,487	-	4,487		
	The Great Taipei Gas Corp.	Affiliate	Financial assets at fair value through other comprehensive income	12,207	382,089	2.36	382,089		
	Shin Kong Synthetic Fibers Corp.	Affiliate	Financial assets at fair value through other comprehensive income	67	803	-	803		
	Taiwan-Sok Shin Kong Security Co., Ltd.	Affiliate	Financial assets at fair value through other comprehensive income	5,637	210,258	1.47	210,258		
	Shin Kong Spinning Co., Ltd.	Affiliate	Financial assets at fair value through other comprehensive income	589	24,561	0.20	24,561		
	Shin Kong Fire & Marine Insurance Co., Ltd.	Affiliate	Financial assets at fair value through other comprehensive income	796	30,726	0.25	30,726		
	O-Bank	None	Financial assets at fair value through other comprehensive income	5,000	39,050	0.21	39,050		
		<u>Unlisted shares</u>							
		Yi Kong Security	Affiliate	Financial assets at fair value through other comprehensive income	5,607	331,611	15.50	331,611	
		Lian-An Serve	Affiliate	Financial assets at fair value through other comprehensive income	5	70	0.20	70	
		Great Taipei Broadband Co., Ltd.	Affiliate	Financial assets at fair value through other comprehensive income	10,000	34,294	6.67	34,294	
		Yu Chi Venture Capital	None	Financial assets at fair value through other comprehensive income	675	3,665	2.50	3,665	
	<u>Beneficial certificates</u>								
	Shin Kong Chi-shin Money Market	Conglomerate	Financial assets at fair value through profit or loss	12,972	201,623	-	201,623		
	<u>Bonds</u>								
	Mercuries Life Insurance Co., Ltd.	None	Financial assets at amortized cost	-	40,000	-	40,000		

(Continued)

Holding Company	Type and Name of Marketable Securities	Issuer's Relationship to the Holding Company	Financial Statement Account	End of Year 2019				Note
				Units/Shares ('000)	Carrying Value	Ownership Interest (%)	Market Price	
SKSIC	<u>Beneficial certificates</u>							
	Shin Kong 6-Year Maturity Global Emerging Markets Bond Fund - USD	Conglomerate	Financial assets at fair value through profit or loss	70	\$ 22,389	-	\$ 22,389	
	Shin Kong 6-Year Maturity Global Emerging Markets Bond Fund - CNY	Conglomerate	Financial assets at fair value through profit or loss	200	10,181	-	10,181	
	Shin Kong Multi-Asset Fund	Conglomerate	Financial assets at fair value through profit or loss	223	2,005	-	2,005	
	Yuanta Daily CSI 300 Bull 2X ETF	None	Financial assets at fair value through profit or loss	223	4,255	-	4,255	
	Nomura Global Biotech & Health Care Fund - NTD	None	Financial assets at fair value through profit or loss	92	1,053	-	1,053	
	Shin Kong Chi-shin Money Market	Conglomerate	Financial assets at fair value through profit or loss	1,933	30,049	-	30,049	
	<u>Unlisted shares</u>							
	Victor Taichung Machinery Works Co., Ltd.	None	Financial assets at fair value through profit or loss	74	1,244	-	1,244	
	FundRich	None	Financial assets at fair value through other comprehensive income	294	2,731	-	2,731	
SKVIC	<u>Listed shares</u>							
	Aerospace Industrial Development Corporation	None	Financial assets at fair value through profit or loss	596	21,394	-	21,394	
	Wiwynn Corporation	None	Financial assets at fair value through profit or loss	25	15,875	-	15,875	
	Topkey Corporation	None	Financial assets at fair value through profit or loss	85	11,858	-	11,858	
	momo.com Inc.	None	Financial assets at fair value through profit or loss	19	5,510	-	5,510	
	The Shanghai Commercial & Savings Bank, Ltd.	None	Financial assets at fair value through other comprehensive income	298	15,504	-	15,504	
	WPG Holdings Limited	None	Financial assets at fair value through other comprehensive income	5	259	-	259	
	<u>OTC shares</u>							
	Zimmite	None	Financial assets at fair value through profit or loss	611	30,936	-	30,936	
	Chieftek Precision Co., Ltd.	None	Financial assets at fair value through profit or loss	121	11,362	-	11,362	
	Fuzetec Technology Co., Ltd.	None	Financial assets at fair value through profit or loss	52	1,877	-	1,877	
	TTFB Company Limited	None	Financial assets at fair value through other comprehensive income	31	8,479	-	8,479	
	<u>Emerging market shares</u>							
	SuperAlloy Industrial Co., Ltd.	None	Financial assets at fair value through profit or loss	195	11,326	-	11,326	
	Value Valves Co., Ltd.	None	Financial assets at fair value through profit or loss	24	2,777	-	2,777	
	PlexBio Co., Ltd.	None	Financial assets at fair value through other comprehensive income	67	1,215	-	1,215	
	Somnics, Inc.	None	Financial assets at fair value through other comprehensive income	276	3,475	-	3,475	
Ace Edulink	None	Financial assets at fair value through other comprehensive income	103	24,252	-	24,252		

(Continued)

Holding Company	Type and Name of Marketable Securities	Issuer's Relationship to the Holding Company	Financial Statement Account	End of Year 2019				Note
				Units/Shares ('000)	Carrying Value	Ownership Interest (%)	Market Price	
MasterLink Venture Capital Corp., Ltd.	<u>Domestic unlisted shares</u>							
	Dun-Yang Energy Co., Ltd.	None	Financial assets at fair value through other comprehensive income	546	\$ 11,681	-	\$ 11,681	
	Yung-Chang Energy Co., Ltd.	None	Financial assets at fair value through other comprehensive income	557	8,677	-	8,677	
	Sunshine Energy Co., Ltd.	None	Financial assets at fair value through other comprehensive income	566	11,236	-	11,236	
	DIT Startup	None	Financial assets at fair value through other comprehensive income	1,500	3,123	-	3,123	
	Aulisa Medical USA, Inc.	None	Financial assets at fair value through other comprehensive income	222	9,990	-	9,990	
	TECO Electric & Machinery Co., Ltd.	None	Financial assets at fair value through other comprehensive income	504	7,835	-	7,835	
	ACON Optics Communications Co., Ltd.	None	Financial assets at fair value through other comprehensive income	1,000	30,000	-	30,000	
	Sounds Great Co., Ltd.	None	Financial assets at fair value through other comprehensive income	5,000	10,000	-	10,000	
	<u>Foreign venture capital</u>							
	Mesh	None	Financial assets at fair value through other comprehensive income	-	12,745	-	12,745	
	Umbo Computer Vision Inc.	None	Financial assets at fair value through other comprehensive income	420	7,526	-	7,526	
	<u>Beneficial certificates</u>							
	Yuanta Asia Selected High Yield Bond Fund A TWD.	None	Financial assets at fair value through profit or loss	1,487	14,809	-	14,809	
	Schroder 2025 Maturity Emerging Market Bond Fund	None	Financial assets at fair value through profit or loss	1,450	14,471	-	14,471	
	Prudential Financial US Investment Grade Corporate Bond Fund Acc TWD	None	Financial assets at fair value through profit or loss	300	2,980	-	2,980	
	<u>Bonds</u>							
	Mercuries Life Insurance Co., Ltd.	None	Financial assets at amortized cost	-	231,790	-	231,790	
	<u>Listed shares</u>							
	Tanvex BioPharma, Inc.	None	Financial assets at fair value through profit or loss	543	24,308	-	24,308	
	Luo Lih-Fen Holding Co., Ltd.	None	Financial assets at fair value through profit or loss	165	29,123	-	29,123	
	<u>OTC shares</u>							
	TacBright Optronics Corp.	None	Financial assets at fair value through profit or loss	3,300	17,457	-	17,457	
Allied Biotech Corp.	None	Financial assets at fair value through profit or loss	940	16,431	-	16,431		
Tekho Marine Biotech Co., Ltd.	None	Financial assets at fair value through profit or loss	500	2,295	-	2,295		

Holding Company	Type and Name of Marketable Securities	Issuer's Relationship to the Holding Company	Financial Statement Account	End of Year 2019				Note
				Units/Shares ('000)	Carrying Value	Ownership Interest (%)	Market Price	
	<u>Unlisted shares</u>							
	Long Diann Marine Biotechnology Co., Ltd.	None	Financial assets at fair value through profit or loss	850	\$ 2,017	-	\$ 2,017	
	Amaran Biotechnology Inc.	None	Financial assets at fair value through profit or loss	883	34,880	-	34,880	
	Minima Technology Co., Ltd.	None	Financial assets at fair value through profit or loss	1,290	39,975	-	39,975	
	Excelsius Medical Co., Ltd.	None	Financial assets at fair value through profit or loss	1,761	44,016	-	44,016	
	Sing Ge Biotechnology Co., Ltd.	None	Financial assets at fair value through profit or loss	2,950	44,791	-	44,791	
	Grow Trend Biomedical Co., Ltd.	None	Financial assets at fair value through profit or loss	665	6,650	-	6,650	
	Pharmigene Inc.	None	Financial assets at fair value through profit or loss	500	4,446	-	4,446	
	Lattice Energy Technology Corporation	None	Financial assets at fair value through profit or loss	2,300	69,000	-	69,000	
	Image Match Design Inc.	None	Financial assets at fair value through profit or loss	1,000	48,000	-	48,000	
	Bright Ideas for Life Co., Ltd.	None	Financial assets at fair value through profit or loss	1,000	17,318	-	17,318	
	UBI Pharma Inc.	None	Financial assets at fair value through profit or loss	895	12,081	-	12,081	
	MIGO CORP.	None	Financial assets at fair value through other comprehensive income	2,301	3,095	-	3,095	
	Revlis Biotech Co., Ltd.	None	Financial assets at fair value through other comprehensive income	3,114	-	-	-	
	NanoMed	None	Financial assets at fair value through other comprehensive income	146	-	-	-	

(Concluded)

TABLE 4**SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES****PUBLIC ANNOUNCEMENTS IN COMPLIANCE WITH ARTICLE 46 OF THE FINANCIAL HOLDING COMPANY ACT****DECEMBER 31, 2019****(In Millions of New Taiwan Dollars, Unless Specified Otherwise)**

Name	Amount of Credit, Endorsement or Other Transactions	Percentage to the Financial Holding Company's Net Worth
1. The same natural person or juridical person		
United Mexican States	\$ 94,917	48.70
Kingdom of Saudi Arabia	94,764	48.62
Public Bonds of Central Government	90,280	46.32
Russian Federation	80,234	41.17
Central Bank of the Republic of China Department of Banking	72,620	37.26
Chunghwa Telecom Co., Ltd.	69,178	35.50
Goldman Sachs Group Inc.	65,138	33.42
Citigroup Inc.	59,620	30.59
Bank of America Corp.	59,089	30.32
AT&T Inc.	58,597	30.07
JPMorgan Chase & Co.	56,944	29.22
Barclays Bank PLC	55,357	28.40
Republic of Indonesia	54,908	28.17
Lloyds Bank PLC	54,213	27.82
Morgan Stanley	45,649	23.42
Deutsche Bank AG	45,257	23.22
Abu Dhabi Commercial Bank PJSC	40,990	21.03
Standard Chartered PLC	40,137	20.59
Taiwan Mobile Co., Ltd.	36,408	18.68
Electricite de France SA	32,766	16.81
Verizon Communications Inc.	32,156	16.50
HSBC Holdings PLC	31,404	16.11
Nomura International Funding Pte Ltd.	29,385	15.08
Societe Generale SA	28,777	14.77
Federative Republic of Brazil	26,171	13.43
Fubon Asset Management Co., Ltd.	25,747	13.21
Far Eastone Telecommunication Co., Ltd.	24,788	12.72
Cathay Securities Investment Trust Co., Ltd.	24,543	12.59
Capital Investment Trust Corporation	23,808	12.22
BNP Paribas SA	22,844	11.72
Republic of South Africa	22,268	11.43
First Abu Dhabi Bank PJSC	21,892	11.23
Wells Fargo & Co.	21,660	11.11
Yuanta Securities Investment Trust	20,865	10.71
Fuh Hwa Securities Investment Trust Co., Ltd.	19,267	9.89

(Continued)

Name	Amount of Credit, Endorsement or Other Transactions	Percentage to the Financial Holding Company's Net Worth
Halliburton Co.	\$ 18,871	9.68
KGI Investment Trust Co., Ltd.	18,782	9.64
Cathay Financial Holding Co., Ltd.	18,767	9.63
Comcast Corp.	18,412	9.45
Vodafone Group Plc	18,257	9.37
United States of America	18,096	9.28
Taiwan Power Company	17,599	9.03
Anheuser-Busch InBev SA/NV	16,925	8.68
Apple Inc.	16,420	8.43
Commonwealth Bank of Australia	16,253	8.34
Grupo Televisa Sab	16,227	8.33
Republic of Turkey	16,062	8.24
Taiwan Semiconductor Manufacturing Co., Ltd.	15,855	8.14
Natixis SA	14,930	7.66
Codelco Inc.	14,434	7.41
Comision Federal de Electricidad	14,334	7.35
State of Qatar	14,258	7.32
Credit Suisse AG	13,965	7.17
Bank of Nova Scotia	12,914	6.63
Fubon Financial Holding Co., Ltd.	12,649	6.49
KGI Bank Co., Ltd.	12,548	6.44
Hon Hai Precision Ind. Co., Ltd.	11,914	6.11
Southern Co.	11,843	6.08
BPCE SA	11,507	5.90
CTBC Investments	10,895	5.59
TransCanada Pipelines Ltd.	9,529	4.89
CTBC Bank Co., Ltd.	9,377	4.81
SKITC	9,360	4.80
SPDR Trust Series 1	9,345	4.79
Telefonica Emisiones Sau	8,801	4.52
UBS AG	8,788	4.51
Cooperatieve Rabobank UA	8,642	4.43
CVS Health Corp.	8,635	4.43
Royal Bank of Scotland	8,087	4.15
Credit Agricole Corporate and Investment Bank	7,917	4.06
Credit Suisse Group AG	7,799	4.00
Enel Finance International NV	7,797	4.00
MUFG Bank Ltd.	7,469	3.83
Ford Motor Co.	7,421	3.81
Formosa Chemicals and Fiber Corporation	7,240	3.71
Walt Disney Co/The	7,157	3.67
Chinatrust Financial Holding Co., Ltd.	7,151	3.67
Fannie Mae	7,133	3.66
Barrick Gold Corp.	7,102	3.64
America Movil Sab De Cv	7,074	3.63
E.SUN COMMERCIAL BANK	7,054	3.62

(Continued)

Name	Amount of Credit, Endorsement or Other Transactions	Percentage to the Financial Holding Company's Net Worth
Australia & New Zealand Banking Group	\$ 7,033	3.61
Conocophillips	6,699	3.44
Gilead Sciences Inc.	6,674	3.42
Cathay United Bank Co., Ltd.	6,537	3.35
Southern Copper Corp	6,503	3.34
Export-Import Bank of Korea	6,464	3.32
HSBC Bank Plc	6,445	3.31
Exelon Generation Co Llc	6,412	3.29
Far Easton New Century Corp.	6,407	3.29
China Development Bank	6,293	3.23
State Grid Corp of China	5,984	3.07
Royal Bank of Canada	5,789	2.97
Petroleo Brasileiro Sa	5,484	2.81
Cathay Life Insurance Co., Ltd.	5,300	2.72
Grand Bills Finance Corp.	5,268	2.70
Vale Sa	5,127	2.63
Bank of China Ltd	5,114	2.62
Abu Dhabi National Energy Co.	5,092	2.61
City of Chicago IL	5,022	2.58
Fubon Life Insurance Co., Ltd.	5,000	2.57
Nan Ya Plastics Corporation	4,986	2.56
Credit Agricole SA	4,947	2.54
Qatar National Bank	4,823	2.47
CNOOC Ltd.	4,801	2.46
Land Bank of Taiwan	4,727	2.43
Taiwan Cement Co., Ltd.	4,725	2.42
Reliance Industries Ltd.	4,696	2.41
National Australia Bank Ltd.	4,681	2.40
Dah Chung Bills Financial Corp.	4,529	2.32
Mega International Commercial Bank	4,511	2.31
Central American Bank for Economic Integration	4,246	2.18
Manulife Financial Corp.	4,226	2.17
Yuanta Commercial Bank Co., Ltd.	4,210	2.16
Quanta Computer Inc.	4,204	2.16
Kazakhstan Temir Zholy JSC	4,163	2.14
First Commercial Bank	4,072	2.09
Pension Funds	4,003	2.05
First Securities Investment Trust Co., Ltd.	3,972	2.04
China Construction Bank	3,955	2.03
Taiwan Plastics Industry Co., Ltd.	3,897	2.00
Freddie Mac	3,865	1.98
Amazon.com Inc.	3,852	1.98
Macquarie Group Ltd.	3,852	1.98
China Airlines Co., Ltd.	3,838	1.97
Taiwan Secom Co., Ltd.	3,825	1.96
Citibank NA	3,793	1.95

(Continued)

Name	Amount of Credit, Endorsement or Other Transactions	Percentage to the Financial Holding Company's Net Worth
Bed Bath & Beyond Inc.	\$ 3,788	1.94
Westpac Banking Corp.	3,786	1.94
China National Petroleum Corp.	3,752	1.93
Suncor Energy Inc.	3,735	1.92
Delta Electronics, Inc.	3,693	1.89
Bank of Montreal	3,628	1.86
Phillips 66	3,580	1.84
HSBC France SA	3,577	1.84
Taiwan Cooperative Bank	3,540	1.82
Malayan Banking Berhad	3,492	1.79
Industrial and Commercial Bank of China	3,492	1.79
Uni-President Co., Ltd.	3,389	1.74
CPC Corporation, Taiwan	3,312	1.70
Taiwan Business Bank	3,200	1.64
Anthem Inc.	3,196	1.64
GAZPROM (GAZ CAPITAL SA)	3,169	1.63
Centrica Plc	3,088	1.58
Mega Bills Finance Co., Ltd.	3,038	1.56
Total	2,426,737	1,245.15
2. The same related party		
Total	-	-
3. The same affiliate		
Republic of China government	162,900	83.58
Mexican government and state-owned enterprise	109,251	56.06
Saudi Arabia government and state-owned enterprise	94,874	48.68
Russian Federation and state-owned enterprise	83,403	42.79
Fubon Financial Holding Co., Ltd. and affiliates	80,769	41.44
Goldman Sachs Group Inc. and affiliates	65,284	33.50
Citigroup Inc. and affiliates	59,742	30.65
Bank of America Corp. and affiliates	59,249	30.40
JPMorgan Chase & Co. and affiliates	58,734	30.14
Barclays PLC and affiliates	55,411	28.43
Republic of Indonesia and state-owned enterprise	55,302	28.38
China government and state-owned enterprise	51,872	26.62
Cathay Financial Holding Co., Ltd. and affiliates	50,152	25.73
Morgan Stanley and affiliates	46,125	23.67
Deutsche Bank Ag and affiliates	45,973	23.59
United Arab Emirates and state-owned enterprise	43,859	22.50
HSBC Holdings Plc and affiliates	43,458	22.30
Standard Chartered PLC and affiliates	40,565	20.81
Far Easton New Century Corp. and affiliates	36,061	18.50
U.S. government and state-owned enterprise	31,011	15.91
Societe Generale and affiliates	29,428	15.10

(Continued)

Name	Amount of Credit, Endorsement or Other Transactions	Percentage to the Financial Holding Company's Net Worth
Nomura Holdings Inc. and affiliates	\$ 29,400	15.09
Groupe BPCE and affiliates	26,490	13.59
Yuanta Financial Holding and affiliates	25,471	13.07
BNP Paribas and affiliates	23,382	12.00
Credit Suisse Group Ag and affiliates	22,200	11.39
Qatar and state-owned enterprise	19,717	10.12
Formosa Plastic Corporation and affiliates	19,629	10.07
State Street Corp and affiliates	16,560	8.50
Chinatrust Financial Holding Co., Ltd. and affiliates	16,528	8.48
Credit Agricole Group and affiliates	13,605	6.98
China Development Financial Holding Corporation and affiliates	13,355	6.85
Hon Hai Precision Ind. Co., Ltd. and affiliates	12,114	6.22
Uni-President and affiliates	11,651	5.98
Mega Financial Holding Co., Ltd. and affiliates	10,821	5.55
UBS Group AG and affiliates	9,077	4.66
United Kingdom of Great Britain and state-owned enterprise	8,646	4.44
First Financial Holding Co., Ltd. and affiliates	8,353	4.29
Enel SpA and affiliates	7,813	4.01
Mitsubishi UFJ Financial Group and affiliates	7,708	3.95
Republic of Korea and state-owned enterprise	7,454	3.82
Australia & New Zealand Banking and affiliates	7,255	3.72
Taiwan Cooperative Financial Holding Co., Ltd. and affiliates	6,207	3.18
National Australia Bank Ltd and affiliates	6,125	3.14
Macquarie Group Ltd and affiliates	5,927	3.04
Shin Kong Financial Holding Co., Ltd. and affiliates	5,054	2.59
Highweath Construction Co., Ltd. and affiliates	4,059	2.08
United Microelectronics Corp. and affiliates	3,914	2.01
Ruentex Development Co., Ltd. and affiliates	3,676	1.89
China Steel Co., Ltd. and affiliates	3,465	1.78
Union Enterprise Construction Co., Ltd. and affiliates	3,455	1.77
BlackRock Inc. and affiliates	3,206	1.64
Jih Sun Financial Holding Co., Ltd. and affiliates	3,192	1.64
Sumitomo Mitsui Financial Group and affiliates	3,153	1.62
WPG Holdings and affiliates	3,104	1.59
Total	\$ 1,675,189	859.53

(Concluded)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INVESTMENTS IN MAINLAND CHINA
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars, Unless Specified Otherwise)

1. SKLIC

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital (CNY in Thousand)	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Investee Company's Earnings (Losses)	Percentage of Ownership (%)	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
					Outflow	Inflow						
DingCheng Life Insurance Co. (formerly known as SKHLIC)	Insurance	\$ 5,544,400 (CNY 1,250,000)	Invest China directly	\$ 1,934,075	\$ -	\$ 547,975	\$ 1,386,100	\$ (510,462)	25	\$ (127,616)	\$ 378,021	\$ 1,688,029

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
\$1,386,100	US\$12,642 thousand	\$68,650,566

Note 1: SKLIC was approved by the Ministry of Finance and Ministry of Economic Affairs Investment Commission to establish an insurance company in mainland China in its letter in 2003. SKLIC obtained the approval of the China Insurance Regulatory Commission (Ref. No. (96) Bao-Jian-Guo-Ji No. 1254), and SKLIC and HNA Group prepared to establish the Chinese and foreign joint venture life insurance company. SKLIC remitted the investment fund amount of CNY250,000 thousand, or the equivalent of US\$36,150 thousand, on June 6, 2008. SKHLIC started operation on April 27, 2009. SKLIC applied to increase its investment in mainland China by CNY187,500, or the equivalent of US\$28,310. This investment was approved by the Investment Commission, MOEA on September 25, 2018. The application for repatriation of CNY350,000 thousand (US\$51,818 thousand) which was raised by SKLIC from selling partial shares of SKHLIC had been reported to Investment Commission, MOEA on February 18, 2019.

Note 2: Accumulated outflow of investment from Taiwan and current investment inflow were the original investment amount.

Note 3: SKLIC obtained approval from the China Insurance Regulatory Commission to increase and transfer the capital of SKHLIC on September 29, 2018. SKLIC transferred \$838,125 thousand (CNY187,500 thousand) to the capital account held by SKHLIC as well as recognized a gain on disposal of investments of \$1,688,029 thousand as other gain or loss on investments in 2018. SKLIC reclassified 25% of their ownership for sale to assets classified as held for sale in the amount of \$6,130 thousand. After the capital of SKHLIC had been transferred, SKLIC derecognized assets classified as held for sale and equity related to assets classified as held for sale.

Note 4: On April 3, 2019, SKHLIC obtained the approval from the Bank of China Insurance Regulatory Commission to change its name to DingCheng Life Insurance Company.

Note 5: Location: Beijing, China.

Note 6: Status of capital funds and related income: As of December 31, 2019, SKHLIC's capital funds, which were deposited in banks or were invested in securities and policy loans, totaled \$4,414,862 thousand, and the investment income for the year then ended was \$73,941 thousand.

Note 7: Provision methodology and balances of insurance liability reserves:

	December 31, 2019
Reserve for unearned premiums	\$ 45
Reserve for claim payments	-
Reserve for life insurance liability	<u>2,389,671</u>
	<u>\$ 2,389,716</u>

(Continued)

- a. Reserve for unearned premiums for short-term insurance universal insurance and for risk premiums with individual terms of less than one year is provided by policy type in accordance with the risk for the remaining policy period.
- b. Reserve for claim payments is provided by insurance based on past claims experience and expenses in accordance with actuarial principle, and reserve for claim payments reported but not yet paid is provided by case based on actual data.
- c. Reserve for life insurance liability is provided according to modified standards stated by the Regulations Governing Calculation of Various Reserves for Operations. The calculation uses mortality table and projected interest rate of reserve regulations in China.

Note 8: Percentage of insurance income: 0.13%.

Note 9: Percentage of insurance benefits and claims: 0.31%.

2. SKVIC

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Investee Company's Earnings (Losses)	Percentage of Ownership (%)	Equity in the Earnings (Losses) (Note 2)	Carrying Value as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
					Outflow	Inflow						
SKLSC	Financial leasing	US\$ 30,000	Note	US\$ 30,000	\$ -	\$ -	US\$ 30,000	\$ 7,572	100	\$ 7,572	\$ 850,544	N/A

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
US\$30,000	US\$30,000	NT\$898,133

Note: The investment was approved by the Investment Commission, MOEA (Ref. No. (100) No. 10000274430) on August 3, 2011. SKVIC established Lion Investment (Samoa) Co., Ltd. - SKLSC which was approved on September 15, 2011, and the main business was financial leasing.

(Continued)

3. MLSC

Investee Company	Main Businesses and Products	Total Amount of Paid-in Capital	Method of Investment	Accumulated Outflow of Investment from Taiwan as of January 1, 2019	Investment Flows		Accumulated Outflow of Investment from Taiwan as of December 31, 2019	Investee Company's Earnings (Losses)	Percentage of Ownership (%)	Equity in the Earnings (Losses)	Carrying Value as of December 31, 2019	Accumulated Inward Remittance of Earnings as of December 31, 2019
					Outflow	Inflow						
Shanghai MasterLink Investment Advisory Corp. (Tianjin)	Securities investment consulting and training services	\$ 13,774	(Note 1)	\$ 13,774	\$ -	\$ -	\$ 13,774	\$ 876	100	\$ 869	\$ 24,973	\$ -
MasterLink Venture Management Corp. (Tianjin)	Management consulting, investment consulting	50,450	(Note 2)	50,450	-	-	50,450	241	100	241	53,075	-
MasterLink Venture Capital Corp. (Tianjin)	Venture capital consulting and management	504,500	(Note 3)	504,500	-	-	504,500	(1,069)	100	(1,069)	422,417	-

Accumulated Investment in Mainland China as of December 31, 2019	Investment Amounts Authorized by Investment Commission, MOEA	Limit on Investment
\$568,724	\$568,274	\$14,655,886

Note 1: The investment was approved board of director of MLSC and by the Investment Commission, MOEA (Ref. No. (85) No. 85020739) on December 30, 1996. MLSC established MasterLink Securities (B.V.I.) - MasterLink Investment Advisory Corp. which was approved on May 30, 1997, and the main business was securities investment consulting and training services. MLSC's name was altered to Shanghai MasterLink Investment Advisory Corp. through the MOEA on June 27, 1997, and it was approved by the MOEA which increased its authorized paid-in capital to US\$500 thousand on July 1997. Shanghai MasterLink Investment Advisory Corp.'s name was altered to Shanghai MasterLink Investment Advisory Corp. (Tianjin), which was approved by Rule No. 1050011978 issued by the FSC on April 14, 2016.

Note 2: Directly investing in China was approved by board of director of MLSC and by the Investment Commission, MOEA (No. 10300317070) on December 29, 2014. The operation license was acquired on February 15, 2015.

Note 3: Directly investing in China was approved by board of director of MLSC and by the Investment Commission, MOEA (No. 10300317060) on January 6, 2015. The operation license was acquired on February 15, 2015.

(Concluded)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

SUMMARY OF INTERCOMPANY TRANSACTIONS
FOR THE YEAR ENDED DECEMBER 31, 2019

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

Ref. No. (Note 1)	Name of Company	Name of Counterparty	Relationship (Note 2)	Transactions (Note 5)			% of Total Consolidated Operating Income or Total Consolidated Assets (Note 3)
				Account	Amount	Terms	
0	SKFHC	TSKCB SKLIC TSKCB	a a a	Cash and cash equivalents	\$ 3,577,026	Note 4	-
				Income tax payable for linked-tax	5,017,353	Note 4	-
				Income tax receivable for linked-tax	780,446	Note 4	-
1	SKLIC	SKLRESC TSKCB TSKCB TSKCB MLSC	c c c c c	Management expenses	375,467	Note 4	-
				Cash and cash equivalents	35,139,310	Note 4	1
				Rent revenue	262,536	Note 4	-
				Interest revenue	132,415	Note 4	-
				Bond purchase under resale agreement	3,138,541	Note 4	-
2	TSKCB	SKLIC SKLIC MLSC MasterLink Futures Co., Ltd. SKMC SKLIC SKHB	c c c c c c c	Processing fee income	1,475,720	Note 4	1
				Account receivable	123,052	Note 4	-
				Deposits and remittances	2,757,327	Note 4	-
				Deposits and remittances	675,441	Note 4	-
				Deposits and remittances	182,511	Note 4	-
				Deposits and remittances	109,549	Note 4	-
				Deposits and remittances	130,460	Note 4	-
3	MLSC	MasterLink Futures Co., Ltd. MasterLink Futures Co., Ltd.	c c	Customer guarantee account	757,058	Note 4	-
				Deposits for futures	174,921	Note 4	-

Note 1: Parent company is number 0; subsidiaries are sequentially numbered starting from 1.

Note 2: Categories of relationship:

- a. Parent company to subsidiary.
- b. Subsidiary to parent company.
- c. Between subsidiaries.

Note 3: Percentage of transaction amount to total consolidated operating income and assets is calculated as follows:

For balance sheet accounts: Transaction amount ÷ Total consolidated assets

For income statement accounts: Accumulated transaction amount ÷ Total consolidated profit from operations.

Note 4: Terms and conditions of related party transactions are made on arm's length basis.

Note 5: Minimum transaction amount of \$100 million.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**CASH AND CASH EQUIVALENTS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Item	Shipments (In Thousand Pieces)	Amount
Cash and cash equivalents		\$ 5,563,487
Checking accounts and demand deposits	Including (US\$1,802,061 thousand @30.1060; JPY898,200 thousand @0.2771; HK\$61,970 thousand @3.8661; EUR5,437 thousand @33.7488; CNY29,613 thousand @4.3219; CNH82,097 thousand @4.3231; AUD40,853 thousand @21.1013) etc.	62,994,803
Time deposits with original maturities of less than three months	Including (US\$2,974,900 thousand @30.1060; AUD27,000 thousand @21.1013; CNY59,508 thousand @4.3219; maturity dates are during 2020.01.02-2020.03.15, interest rates are from 0.07% to 2.33%)	131,154,635
Checks for clearing		1,024,574
Cash equivalents	Commercial paper	1,554,297
Less: Guarantee deposits	Pledged time deposits	<u>(393,863)</u>
		<u>\$ 201,897,933</u>

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2019

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

Financial Asset and Holder	Description	Shares (Thousands)	Fair Value (Dollars)	Gross Amount	Interest Rate (%)	Acquisition Cost	Fair Value		Changes in Fair Value Attributed to Changes in Credit Risk
							Unit Price/ Bond Price	Gross Amount	
Listed shares and emerging market shares									
SKLIC									
Others (Note)		712,662	10	\$ 7,126,620		\$ 45,676,354	12.05-615.00	\$ 47,487,351	\$ -
SKLRESC									
Others (Note)		1,464	10	14,640		94,030	23.90-281.00	91,444	-
MLSC									
Others (Note)		31,034	10	310,340		3,077,625	4.59-5,000	3,161,569	-
SKIVC									
Others (Note)		1,728	10	<u>17,280</u>		<u>102,183</u>	35.90-635	<u>112,914</u>	<u>-</u>
				<u>7,468,880</u>		<u>48,950,192</u>		<u>50,853,278</u>	<u>-</u>
Unlisted shares									
MLSC									
Others (Note)		14,239	10	142,390		370,405	0-48	323,174	-
SKITC									
Others (Note)		74	10	<u>740</u>		<u>1,546</u>	16.81	<u>1,244</u>	<u>-</u>
				<u>143,130</u>		<u>371,951</u>		<u>324,418</u>	<u>-</u>
Beneficiary certificates									
SKLIC									
Others (Note)		5,677,356	10-60	155,015,074		176,828,901	0-140,940,000	177,470,721	-
SKLRESC									
Others (Note)		12,972	10	129,720		200,000	15.54	201,623	-
TSKCB									
Others (Note)		21,254	10	212,540		268,006	13.81-42.29	320,913	-
MLSC									
Others (Note)		81,489	10-10.35	875,730		2,741,010	10-50	2,711,502	-
SKITC									
Others (Note)		1,238	10	12,380		46,365	9.00-19.08	69,932	-
SKIVC									
Others (Note)		3,237	10	<u>32,370</u>		<u>32,450</u>	9.93-9.98	<u>32,261</u>	<u>-</u>
				<u>156,277,814</u>		<u>180,116,732</u>		<u>180,806,952</u>	<u>-</u>
Corporate bonds and bank debentures									
SKLIC									
Others (Note)		210,600	100,000	21,060,000	2.15-4.10	21,060,000	100-106.01	21,594,877	-
TSKCB									
Others (Note)		37,000	100,000	3,700,000	0-1.32	3,700,854		3,706,010	-
MLSC									
Others (Note)		-	-	<u>-</u>		<u>29,454,092</u>		<u>29,405,862</u>	<u>-</u>
				<u>24,760,000</u>		<u>54,214,946</u>		<u>54,706,749</u>	<u>-</u>

(Continued)

Financial Asset and Holder	Description	Shares (Thousands)	Fair Value (Dollars)	Gross Amount	Interest Rate (%)	Acquisition Cost	Fair Value		Changes in Fair Value Attributed to Changes in Credit Risk
							Unit Price/ Bond Price	Gross Amount	
Government bonds									
MLSC									
Others (Note)		-		\$ -		\$ 4,420,909		\$ 4,449,369	\$ -
Derivative instrument									
SKLIC									
Others (Note)		-		-		-		9,601,883	-
TSKCB									
Others (Note)		-		-		-		1,053,274	-
MLSC									
Others (Note)		-		-		-		1,157,159	-
								11,812,316	-
Short-term bills									
TSKCB									
Negotiable time deposits		7,707,000	10	77,070,000	0.20-0.74	77,070,664		77,056,297	-
Commercial paper		1,161,400	10	11,614,000	0.13-2.31	11,603,040		11,602,387	-
				88,684,000		88,673,704		88,658,684	-
Lending securities									
MLSC									
Others (Note)		-		-		1,097,450		1,097,735	-
Foreign investments									
SKLIC									
Listed shares		-		-		21,216,319		22,753,536	-
Beneficiary certificates		-		-		29,395,766		30,655,498	-
Bonds		-		-		14,682,510		14,658,915	-
Foreign exchange forward contracts		-		-		-		4,057,928	-
TSKCB									
Bonds		-		-		301,060		297,717	-
Derivative instrument		-		-		-		1,150,028	-
MLSC									
Listed shares		-		-		415,874		373,351	-
Bonds		-		-		9,535,588		9,641,155	-
Structured time deposit		-		-		23,516		23,516	-
						75,570,633		83,611,644	-
				\$ 277,333,824		\$ 453,416,517		\$ 476,321,145	\$ -

(Concluded)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**NOTES AND BONDS PURCHASED UNDER RESALE AGREEMENTS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Title	Item	Face Value	Carrying Amount
SKLIC			
Others (Note)		\$ 8,283,500	\$ 8,280,601
SKLRESC			
Others (Note)		155,025	155,025
SKFHC			
Others (Note)		199,000	198,854
MLSC			
Others (Note)		<u>2,100,000</u>	<u>2,102,233</u>
		<u>\$ 10,737,525</u>	<u>\$ 10,736,713</u>

Note: Individual balances fail to reach 5% of the total balance.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**ACCOUNTS RECEIVABLE****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Item	Amount	Allowance for Impairment Loss	Net Value
Notes receivable	\$ 283,187	\$ (33,521)	\$ 249,666
Accounts receivable	11,116,697	(423)	11,116,274
Forward contracts receivable	4,319,952	-	4,319,952
Bank acceptance receivables	248,839	-	248,839
Interest receivables	25,505,535	-	25,505,535
Receivables transaction on securities	418,886	-	418,886
Receivables of margin trading	12,530,302	-	12,530,302
Receivables of trade	11,461,133	-	11,461,133
Earned revenue receivables	3,604,920	-	3,604,920
Others (Note)	<u>5,553,577</u>	<u>(2,310,222)</u>	<u>3,243,355</u>
	<u>\$ 75,043,028</u>	<u>\$ (2,344,166)</u>	<u>\$ 72,698,862</u>

Note: Individual balances fail to reach 5% of the total balance.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**LOANS****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Item	Amount	Allowance for Impairment Loss	Net Value
Policy loans	\$ 103,720,045	\$ -	\$ 103,720,045
Premium loans	10,019,433	-	10,019,433
Short-term loans	121,078,884	(11,219)	121,067,665
Mid-term loans	193,400,795	(221,252)	193,179,543
Long-term loans	333,670,974	(6,813,685)	326,857,289
Overdue loans	1,203,897	(1,203,897)	-
Add: Premium on loans	<u>122,243</u>	<u>-</u>	<u>122,243</u>
	<u>\$ 763,216,271</u>	<u>\$ (8,250,053)</u>	<u>\$ 754,966,218</u>

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2019

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

Financial Asset and Its Holder	Description	Shares (Thousands)	Fair Value (Dollars)	Gross Amount	Interest Rate (%)	Acquisition Cost	Allowance for Impairment Loss	Fair Value	
								Unit Price/ Bond Price	Gross Amount
Listed shares and emerging market shares									
SKLIC									
CHT		632,180	10	\$ 6,321,800		\$ 69,161,429	N/A	110.00	\$ 69,539,820
TWM		327,572	10	3,275,720		35,605,504	N/A	112.00	36,688,064
FET		320,638	10	3,206,380		23,787,919	N/A	72.10	23,118,000
Others (Note)		809,618	10	8,096,180		36,164,698	N/A	9.80-683.00	39,907,578
SKLRESC									
Others (Note)		24,296	10	242,960		532,212	N/A	7.81-41.70	687,487
TSKCB									
Others (Note)		24,225	10	242,250		1,628,977		37.50-99.80	1,468,620
MLSC									
Others (Note)		19,655	10	196,550		1,212,156	N/A	12.00-180.00	1,212,648
SKIVC									
Others (Note)		780	10	<u>7,800</u>		<u>49,958</u>	N/A	12.60-273.50	<u>53,185</u>
				<u>21,589,640</u>		<u>168,142,853</u>			<u>172,675,402</u>
Unlisted shares									
SKLIC									
Others (Note)		191,759	10	1,917,590		2,630,745	N/A	0.00-56.77	2,389,017
SKLRESC									
Others (Note)		16,287	10	162,870		122,925	N/A	3.43-59.14	369,640
TSKCB									
Others (Note)		17,232	8.22-15.7	169,135		169,135	N/A	8.94-43.35	433,693
MLSC									
Others (Note)		16,484	10	164,840		750,682	N/A	0.00-122.00	2,205,979
SKIVC									
Others (Note)		9,894	10	98,940		99,550	N/A	2.00-45.00	92,542
SKITC									
Others (Note)		294	10	<u>2,940</u>		<u>3,065</u>	N/A	9.29	<u>2,731</u>
				<u>2,516,315</u>		<u>3,776,102</u>			<u>5,493,602</u>
Preference shares									
SKLIC									
Others (Note)		552,441	1-10	<u>5,074</u>		<u>30,407,134</u>	N/A	0.50-66.20	<u>32,430,547</u>
Foreign investments									
SKLIC									
Listed shares				-		229,310	N/A		197,984
Preference shares				-		2,240,895	N/A		2,285,389
SKIVC									
Listed shares				-		<u>20,582</u>	N/A		<u>20,271</u>
				-		<u>2,490,787</u>			<u>2,503,644</u>

(Continued)

Financial Asset and Its Holder	Description	Shares (Thousands)	Fair Value (Dollars)	Gross Amount	Interest Rate (%)	Acquisition Cost	Allowance for Impairment Loss	Fair Value	
								Unit Price/ Bond Price	Gross Amount
Government bonds									
SKLIC									
Others (Note)		1,760	100,000	\$ 176,000	2.125-3.625	\$ 191,678	\$ -	106.03-132.13	\$ 204,790
TSKCB									
Others (Note)		460,500	100,000	<u>46,050,000</u>	0.63-5.00	<u>46,701,936</u>	-	99.50-116.38	<u>47,249,687</u>
Less: Guarantee deposits paid				<u>46,226,000</u>		<u>46,893,614</u>	-		<u>47,454,477</u>
TSKCB									
Others (Note)				(5,682,600)		-	-		<u>(5,682,600)</u>
Corporate bonds and bank debentures									
SKLIC									
Others (Note)		155,500	100,000	15,550,000	1.55-3.30	15,560,291	(6,392)	100.78-111.04	16,745,508
TSKCB									
Others (Note)		20,555	1,000,000- 10,000,000	<u>20,600,000</u>	0.82-1.70	<u>20,604,905</u>	(18,475)	98.36-103.28	<u>20,643,044</u>
				<u>36,150,000</u>		<u>36,165,196</u>	(24,867)		<u>37,388,552</u>
Foreign investments									
SKLIC									
Bonds				-		9,888,665	(15,477)		9,528,471
TSKCB									
Bonds				46,499,628	1.38-10.04	46,677,394	(8,154)	97.67-104.19	47,129,783
MLSC									
Bonds				<u>149,900</u>	1.75	<u>149,799</u>	-		<u>147,652</u>
				<u>46,649,528</u>		<u>56,715,858</u>	(23,631)		<u>56,805,906</u>
				<u>\$ 147,453,957</u>		<u>\$ 344,591,544</u>	(48,498)		<u>\$ 349,069,530</u>

Note: Individual balances fail to reach 5% of the total balance.

(Concluded)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INVESTMENTS IN DEBT INSTRUMENTS AT AMORTIZED COST

DECEMBER 31, 2019

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

Title	Description	Share	Fair Value (Dollars)	Gross Amount	Interest Rate (%)	Allowance for Impairment Loss	Unamortized Premium (Discount)	Carrying Amount	Note
Government bonds									
SKLIC									
Others (Note)		381,000	100,000	\$ 38,100,000	0.63-6.25	\$ -	\$ 834,648	\$ 38,934,648	
SKPIAC									
Others (Note)		20	100,000	<u>2,000</u>	1.63	<u>-</u>	<u>9</u>	<u>2,009</u>	
				<u>38,102,000</u>		<u>-</u>	<u>834,657</u>	<u>38,936,657</u>	
Corporate bonds and bank debentures									
SKLRESC									
Others (Note)		400	100,000	40,000	3.90	-	-	40,000	
TSKCB									
Others (Note)		18,490	1,000,000- 10,000,000	19,390,000	0.00-2.03	(8,737)	269,322	19,650,584	
SKIVC									
Others (Note)		2,320	100,000	<u>232,000</u>	4.00	<u>-</u>	<u>(3,818)</u>	<u>228,182</u>	
				<u>19,662,000</u>		<u>(8,737)</u>	<u>265,504</u>	<u>19,918,766</u>	
Time deposits with original maturities of more than three months									
SKLIC									
Others (Note)		-	-	3,500,000	0.16-0.63	-	-	3,500,000	
SKLRESC									
Others (Note)		-	-	85,333	0.72-1.01	-	-	85,333	
SKITC									
Others (Note)		-	-	<u>455,500</u>	0.14-1.04	<u>-</u>	<u>-</u>	<u>455,500</u>	
				<u>4,040,833</u>		<u>-</u>	<u>-</u>	<u>4,040,833</u>	
Less: Guarantee deposits paid									
SKLIC									
Others (Note)		-	-	(9,182,000)		-	-	(9,182,000)	
SKLRESC									
Others (Note)		-	-	(553)		-	-	(553)	
SKPIAC									
Others (Note)		-	-	<u>(2,000)</u>		<u>-</u>	<u>-</u>	<u>(2,000)</u>	
				<u>(9,184,553)</u>		<u>-</u>	<u>-</u>	<u>(9,184,553)</u>	

(Continued)

Title	Description	Share	Fair Value (Dollars)	Gross Amount	Interest Rate (%)	Allowance for Impairment Loss	Unamortized Premium (Discount)	Carrying Amount	Note
Foreign investments									
SKLIC									
Bonds		-	-	\$ 956,718,695		\$ (426,529)	\$ 68,839,277	\$ 1,025,131,443	
Callable bonds		-	-	635,038,931		(219,730)	62,593,362	697,412,563	
Others (Note)		-	-	12,769,287		-	(67,984)	12,701,303	
TSKCB									
Bonds		-	-	<u>11,719,201</u>		<u>(6,596)</u>	<u>2,016,561</u>	<u>13,729,182</u>	
				<u>1,616,246,114</u>		<u>(652,855)</u>	<u>133,381,216</u>	<u>1,748,974,491</u>	
				<u>\$ 1,668,866,394</u>		<u>\$ (661,592)</u>	<u>\$ 134,481,377</u>	<u>\$ 1,802,686,194</u>	

Note: Individual balances fail to reach 5% of the total balance.

(Concluded)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

RIGHT-OF-USE ASSETS

DECEMBER 31, 2019

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

Item	January 1, 2019	Increase in Current Year	Decrease in Current Year	Reclassification	December 31, 2019	Note
Land and building	\$ 5,138,048	\$ 635,186	\$ 27,950	\$ (82,129)	\$ 5,663,155	
Others	<u>52,885</u>	<u>76,206</u>	<u>2,713</u>	<u>-</u>	<u>126,378</u>	
	<u>\$ 5,190,933</u>	<u>\$ 711,392</u>	<u>\$ 30,663</u>	<u>\$ (82,129)</u>	<u>\$ 5,789,533</u>	

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

ACCUMULATED DEPRECIATION OF RIGHT-OF-USE ASSETS

DECEMBER 31, 2019

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

Item	January 1, 2019	Increase in Current Year	Decrease in Current Year	Reclassification	December 31, 2019	Note
Land and building	\$ -	\$ 601,268	\$ 16,805	\$ (1,461)	\$ 583,002	
Others	<u>-</u>	<u>39,393</u>	<u>1,208</u>	<u>-</u>	<u>38,185</u>	
	<u>\$ -</u>	<u>\$ 640,661</u>	<u>\$ 18,013</u>	<u>\$ (1,461)</u>	<u>\$ 621,187</u>	

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

FINANCIAL LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

DECEMBER 31, 2019

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

Financial Liabilities and Its Holder	Description	Share	Fair Value (Dollars)	Gross Amount	Interest Rate (%)	Acquisition Cost	Fair Value	
							Unit Price/ Bond Price	Gross Amount
Domestic investments								
SKLIC								
Currency swap contracts				\$ -		\$ -		\$ 43,528
SKFHC								
Bond options				-		-		17,199
TSKCB								
Currency swap contracts				-		-		282,460
Interest rate swap contracts				-		-		228,469
Currency options				-		-		294,435
Equity swap contracts				-		-		88,620
MLSC								
Share warrants liabilities, net				-		-		321,477
Short options liabilities - futures				-		-		35,332
Asset swap options				-		-		1,329,423
Borrowed securities payable - hedge				-		-		284,328
Borrowed securities payable - non-hedge				-		-		287,792
Others (Note)				-		-		673,550
								<u>3,886,613</u>
Foreign investments								
SKLIC								
Foreign exchange forward contracts				-		-		96,192
TSKCB								
Foreign exchange forward contracts				-		-		17,411
								<u>113,603</u>
Financial liabilities designated as at FVTPL								
MLSC								
Structured investment notes - credit-linked				-		-		1,503,421
								<u>\$ 5,503,637</u>

Note: Individual balances fail to reach 5% of the total balance.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

NOTES AND BONDS ISSUED UNDER REPURCHASE AGREEMENTS

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Title	Face Value	Carrying Amount
TSKCB		
Foreign bonds	\$ 605,125	\$ 605,125
MLSC		
Others (Note)	<u>39,576,564</u>	<u>40,218,240</u>
	<u>\$ 40,181,689</u>	<u>\$ 40,823,365</u>

Note: Individual balances fail to reach 5% of the total balance.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

DEPOSITS AND REMITTANCES

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Description	Amount
Saving account deposits	Demand savings deposits	\$ 193,512,849
	Round-amount savings deposits	40,678,008
	Withdrawals of interest savings deposits	130,111,835
	Others (Note)	2,087,335
Time deposits	Time deposits	212,932,169
	Time deposits FOREX	63,856,283
Demand deposits	Demand deposits	65,187,338
	Demand deposits FOREX	56,172,299
	Others (Note)	227,729
Checking account deposits	Checking account deposits	5,437,895
	Others (Note)	1,673,188
Negotiable time deposits		132,900
Due from banks		<u>269,502</u>
		<u>\$ 772,279,330</u>

Note: Individual balances fail to reach 5% of the total balance.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

BONDS PAYABLE
DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Title	Terms			Category	Bonds		Carrying Amount
	Issued Date	Maturity Date	Rate		Face Value		
Non-cumulative secondary financial debenture of 2010 without maturity - first issue	2010.06.30	N/A	There is a fixed interest rate of 3.50% from the issue date to the tenth year, if not redeemed by the Company, the fixed interest rate will be adjusted to 4.50% on the next day following the bond is issue date to the tenth year	Subordinate	\$ 10,000	\$ 3,000,000	
Secondary financial debenture of 2011 - second issue A bond	2011.09.26	2021.09.26	Fixed interest rate of 1.95%	Subordinate	10,000	1,500,000	
Secondary financial debenture of 2012 - first issue B bond	2012.12.28	2022.12.28	Fixed interest rate of 1.63%	Subordinate	10,000	3,000,000	
Secondary financial debenture of 2014 - second issue	2014.12.15	2024.12.15	Fixed interest rate of 2.10%	Subordinate	10,000	2,500,000	
Secondary financial debenture of 2016 - first issue A bond	2016.01.29	2023.01.29	Fixed interest rate of 1.60%	Subordinate	10,000	800,000	
Secondary financial debenture of 2016 - first issue B bond	2016.01.29	2026.01.29	Fixed interest rate of 1.80%	Subordinate	10,000	2,200,000	
Non-cumulative secondary financial debenture of 2018 without maturity - first issue	2018.03.30	N/A	Fixed interest rate of 3.40%	Subordinate	10,000	2,500,000	
Secondary financial debenture of 2018 - second issue	2018.06.28	2028.06.28	Fixed interest rate of 1.62%	Subordinate	10,000	2,500,000	
Non-cumulative secondary financial debenture of 2019 without maturity - first issue	2019.06.21	N/A	Fixed interest rate of 2.20%	Subordinate	10,000	4,500,000	
Cumulative secondary bond of 2012 without maturity -first issue	2012.12.10	N/A	3.35%, if not redeemed by the Company, the fixed interest rate will be adjusted to 4.35% on the day following the bond issue date to the tenth year	Subordinate	1,000	5,000,000	
Unsecured corporate bond of 2015 - first issue	2015.07.22	2020.07.22	Nominal interest rate of 1.42%	Unsecured	1,000	3,000,000	
Cumulative secondary bond of 2016 - without maturity - first issue	2016.10.31	N/A	3.80%, if not redeemed by the Company, 1% will be added to the fixed interest rate on the day following the bond issue date to the tenth year	Subordinate	1,000	13,000,000	
Unsecured convertible bond of 2017 - fourth issue	2017.08.22	2022.08.22	Nominal interest rate of 0%	Unsecured convertible	100	1,459,750	
Unsecured corporate bond of 2017 - first issue	2017.04.05	2022.04.05	Nominal interest rate of 1.25%	Unsecured	1,000	5,000,000	
Cumulative secondary bond of 2018 without maturity - fist issue	2018.06.29	N/A	3.50%, if not redeemed by the Company, 1% will be added to the fixed interest rate on the day following the bond issue date to the tenth year	Subordinate	1,000	6,000,000	
Unsecured convertible bond of 2018 - fourth issue	2018.12.17	2023.12.17	Nominal interest rate of 0%	Unsecured convertible	100	4,802,498	
							<u>\$ 60,762,248</u>

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

INSURANCE LIABILITY RESERVES
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)

Title	Balance (January 1, 2019)	Net Changes in the Current Period	Other Changes	Balance (December 31, 2019)
Reserve for unearned premiums				
Total				
Individual life insurance	\$ 779	\$ 130	\$ -	\$ 909
Individual accident insurance	3,596,090	289,849	-	3,885,939
Individual health insurance	3,712,553	319,820	-	4,032,373
Group insurance	1,255,078	(143,076)	-	1,112,002
Investment type insurance	<u>39,915</u>	<u>4,833</u>	-	<u>44,748</u>
	<u>8,604,415</u>	<u>471,556</u>	-	<u>9,075,971</u>
Ceded reserve:				
Individual life insurance	19,843	2,997	(32)	22,808
Individual accident insurance	332	(332)	-	-
Individual health insurance	56,966	13,282	1	70,249
Investment type insurance	<u>1</u>	<u>10</u>	-	<u>11</u>
	<u>77,142</u>	<u>15,957</u>	<u>(31)</u>	<u>93,068</u>
	<u>\$ 8,527,273</u>	<u>\$ 455,599</u>	<u>\$ 31</u>	<u>\$ 8,982,903</u>
Reserve for claim payments				
Total				
Individual life insurance	\$ 225,368	\$ 20,241	\$ (2,225)	\$ 243,384
Individual accident insurance	1,146,198	182,905	-	1,329,103
Individual health insurance	1,123,706	127,507	-	1,251,213
Group insurance	535,277	95,985	-	631,262
Investment type insurance	<u>27,640</u>	<u>14,727</u>	-	<u>42,367</u>
	<u>3,058,189</u>	<u>441,365</u>	<u>(2,225)</u>	<u>3,497,329</u>
Ceded reserve:	-	-	-	-
	<u>\$ 3,058,189</u>	<u>\$ 441,365</u>	<u>\$ (2,225)</u>	<u>\$ 3,497,329</u>
Reserve for life insurance liability				
Total				
Life insurance	\$ 2,269,987,023	\$ 213,567,356	\$ (10,333,804)	\$ 2,473,220,575
Health insurance	217,555,052	22,603,072	(3,045)	240,155,079
Annuity insurance	27,600,891	(1,466,173)	-	26,134,718
Investment type insurance	<u>227,425</u>	<u>(67,052)</u>	-	<u>160,373</u>
	<u>2,515,370,391</u>	<u>234,637,203</u>	<u>(10,336,849)</u>	<u>2,739,670,745</u>
Ceded reserve:	-	-	-	-
	<u>\$ 2,515,370,391</u>	<u>\$ 234,637,203</u>	<u>\$ (10,336,849)</u>	<u>\$ 2,739,670,745</u>

Reserve for life insurance liability plus
“Reserve for life insurance-pending
payments to insured” was
\$2,740,280,802 thousand at
December 31, 2019.

(Continued)

Title	Balance (January 1, 2019)	Net Changes in the Current Period	Other Changes	Balance (December 31, 2019)
Special reserve for life insurance				
Reserve for participating policy dividends	\$ 1,987,688	\$ (249,483)	\$ -	\$ 1,738,205
Surplus of fair value measurement of investment properties offset by the negative effect of transition to IFRSs	<u>3,974,960</u>	<u>-</u>	<u>-</u>	<u>3,974,960</u>
	<u>\$ 5,962,648</u>	<u>\$ (249,483)</u>	<u>\$ -</u>	<u>\$ 5,713,165</u>
Reserve for insufficient premiums				
Total				
Individual life insurance	\$ 6,455,048	\$ (533,346)	\$ (52,771)	\$ 5,868,931
Individual health insurance	<u>240,951</u>	<u>(31,779)</u>	<u>-</u>	<u>209,172</u>
	6,695,999	(565,125)	(52,771)	6,078,103
Ceded reserve:	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 6,695,999</u>	<u>\$ (565,125)</u>	<u>\$ (52,771)</u>	<u>\$ 6,078,103</u>
Reserve for insurance contract with the nature of financial products	<u>\$ -</u>	<u>\$ 103</u>	<u>\$ -</u>	<u>\$ 103</u>
Reserve for changes in foreign exchange valuation	<u>\$ 4,734,258</u>	<u>\$ (2,655,944)</u>	<u>\$ -</u>	<u>\$ 2,078,314</u>

(Concluded)

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

LEASE LIABILITIES

DECEMBER 31, 2019

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

Item	Description	Rental Period	Discount Rate	Amount	Note
Land and building	Land, superficies and building	2003.12.04-2157.10.11	1.02%-5.66%	\$ 6,966,087	
Others	Transportation equipment	2016.06.13-2025.07.31	1.02%-5.66%	<u>70,472</u>	
				<u>\$ 7,036,559</u>	

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**INTEREST INCOME****DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Item	Amount
Bonds	\$ 595,936
Foreign bonds	84,626,350
Loans	15,699,621
Life Insurance loans	5,757,101
Bond investment	3,232,490
Due from Central Bank of China and other banks	312,292
Others (Note)	<u>2,756,848</u>
	<u>\$ 112,980,638</u>

Note: Individual balances fail to reach 5% of the total balance.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

**INTEREST EXPENSE
FOR THE YEAR ENDED DECEMBER 31, 2019
(In Thousands of New Taiwan Dollars)**

Item	Amount
Deposits	\$ 5,242,557
Corporate bonds and bank debentures	1,572,549
Bonds issued under repurchase agreements	451,298
Others (Note)	<u>512,463</u>
	<u>\$ 7,778,867</u>

Note: Individual balances fail to reach 5% of the total balance.

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**NET PROCESSING FEE AND COMMISSION (LOSS) INCOME****FOR THE YEAR ENDED DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Item	Amount
Processing fee income	
Commission	\$ 316,290
Banks and issuance	42,984
Credit cards	1,093,183
Processing fee	80,773
Brokerage revenue	2,289,767
Bank fund	1,186,844
Granting of credit	505,530
Insurance	374,261
Others	<u>929,684</u>
	<u>6,819,316</u>
Processing fee expense	
Acquisition commission - allowance of representative	126,599
Acquisition commission	11,233,792
Commission	2,441
Reinsurance fee	1
Credit cards	811,581
Others	<u>1,176,806</u>
	<u>13,351,220</u>
	<u>\$ (6,531,904)</u>

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES**GAIN (LOSS) ON FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH PROFIT OR LOSS****FOR THE YEAR ENDED DECEMBER 31, 2019****(In Thousands of New Taiwan Dollars)**

Title	Description	Amount
Equity	Gain (loss) on changes in fair value	\$ 22,702,826
	Gain (loss) on disposal	22,169,758
	Dividend income	5,777,366
	Distributions from foreign investments	1,199,802
Debt	Gain (loss) on changes in fair value	793,483
	Gain (loss) on disposal	(389,500)
Derivative instruments	Gain (loss) on changes in fair value	15,948,734
	Gain (loss) on disposal	<u>(19,927,982)</u>
		<u>\$ 48,274,487</u>

SHIN KONG FINANCIAL HOLDING CO., LTD. AND SUBSIDIARIES

EMPLOYEE BENEFITS EXPENSE

DECEMBER 31, 2019

(In Thousands of New Taiwan Dollars)

Item	Employee Benefits	Net Income and Gains Other Than Interest Income	Other Selling and Administrative Expense	Total	Note
Employee benefits expense					
Salary	\$ 12,997,076	\$ 4,542,863	\$ -	\$ 17,539,939	
Labor and health insurance	1,306,924	-	-	1,306,924	
Termination benefits	741,692	-	-	741,692	
Remuneration of directors and supervisors	161,125	-	2,588	163,713	
Other employee benefits	579,886	-	29,552	609,438	
Share-based payment arrangements	<u>38,226</u>	<u>-</u>	<u>-</u>	<u>38,226</u>	
	<u>\$ 15,824,929</u>	<u>\$ 4,542,863</u>	<u>\$ 32,140</u>	<u>\$ 20,399,932</u>	

Note:

- As of December 31, 2019 and 2018, the number of employees in the Group was 17,470 and 17,063, respectively, including 59 and 69 directors who are not concurrently serving as employees, respectively.
- During 2019 and 2018, the average expense of employee benefits was \$1,161 thousand and \$1,161 thousand, respectively.
- During 2019 and 2018, the average salary was \$1,007.4 thousand and \$1,008 thousand, respectively.
- The change in average salary between 2019 and 2018 was (0.06%).
- Net income and gains other than interest income is mainly for the Group's commission fee.